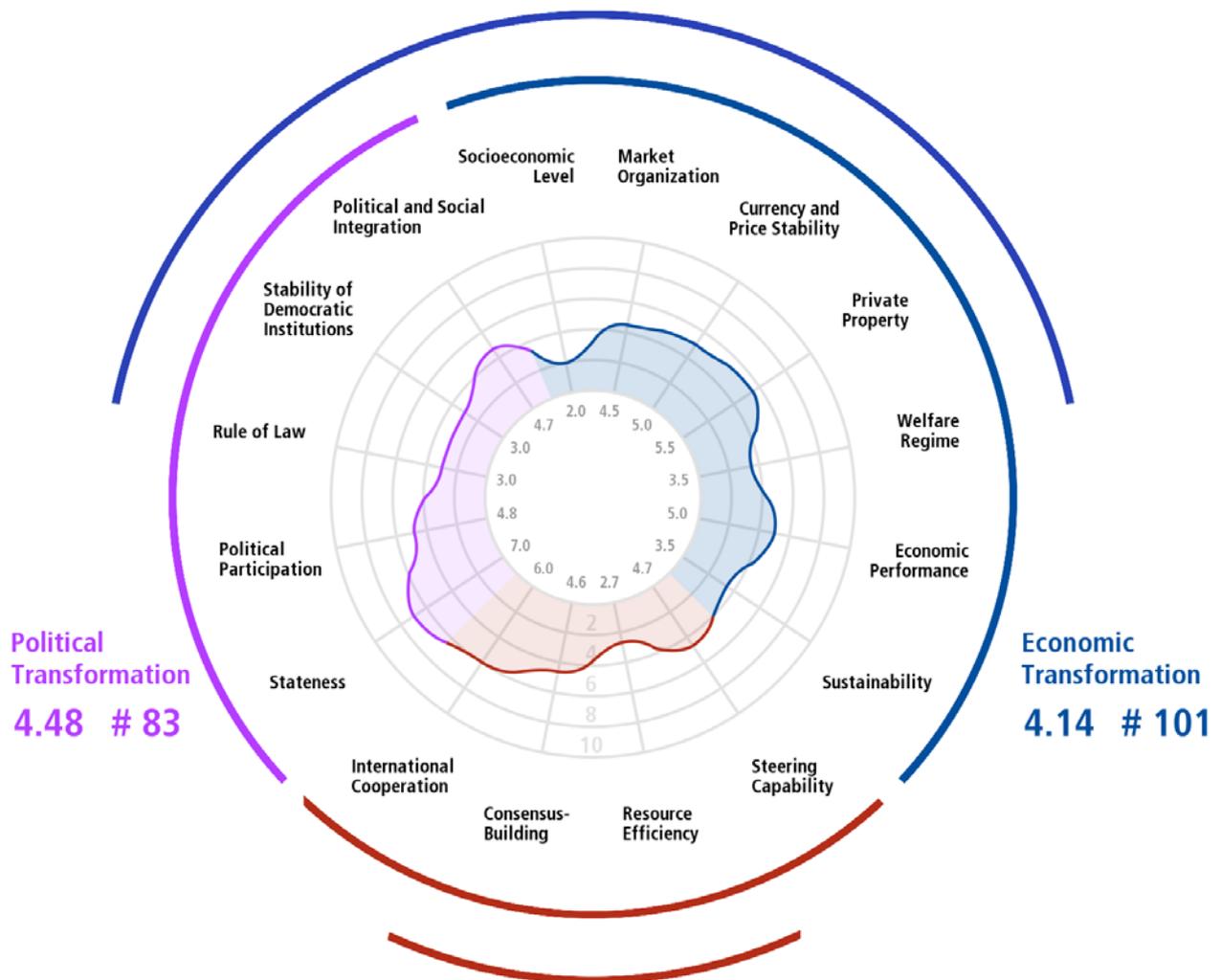


Mozambique

Status Index

4.31 # 95

on 1-10 scale out of 129



Governance Index

4.25 # 85

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	28.8	HDI	0.418	GDP p.c., PPP \$	1217
Pop. growth ¹	% p.a.	2.9	HDI rank of 188	181	Gini Index	45.6
Life expectancy	years	57.6	UN Education Index	0.399	Poverty ³	% 88.5
Urban population	%	32.5	Gender inequality ²	0.574	Aid per capita \$	64.8

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

After a decade in which Mozambique enjoyed the confidence of the international donor community, economic growth averaged 7% and abundant natural resources reserves were discovered, Mozambique now faces its most severe political and fiscal crisis since the end of the civil war.

Economic growth has slowed due to a decrease in foreign direct investments, reduced public spending and decreasing exports. Prospective natural gas projects have not started as quickly as expected and government revenue from these projects has been lower than expected. The depreciation of the metical, the national currency, against the U.S. dollar as well as a rise in the inflation rate put additional pressure on economic development. The crisis has been further exacerbated by the disclosure of high levels of sovereign-guaranteed debts, which increased debt service obligations to over 100% of Mozambique's GDP. The country is facing default, and only emergency assistance from the IMF and the restructuring of debt through sovereign bonds provided the government some time before the next challenge. How the international donor community will position itself with regards to further assistance to Mozambique following the revelation of these hidden debts and the government's subsequent dishonesty, depends on the findings of an independent audit commissioned by the IMF (expected to be published in March 2017).

The government had to introduce an austerity budget, substantially reducing public expenditure, which has affected economic and social development in the country. The high rate of economic growth has not translated into sustainable human development. With the decrease in the economic growth rate, Mozambique's position in the Human Development Index fell further and Mozambique now ranks among the worst performing countries (180 out of 187 countries).

In addition to economic and fiscal problems, the political and security situation in Mozambique remains fragile. The main opposition party - RENAMO - continues to reject the results of the 2014

general elections, and maintains a paramilitary force in order to retain a certain leverage and bargaining power. The government initiated attacks on RENAMO convoys to ensure security, which resulted in the assassination of RENAMO party figures. The state's widespread violence in RENAMO-influenced regions has increased tensions and further jeopardized peace talks.

The internationally mediated peace negotiations came to a standstill in December 2016. Whether the current truce will hold, cannot be judged at the time of writing this report.

History and Characteristics of Transformation

The presidency of Filipe Nyusi started with two major challenges. First, the almost impossible task of coming to terms with RENAMO, and re-establishing peace, stability and investor confidence. Second, the challenge of sorting out the state finances. In addition, for Nyusi as well as for FRELIMO, the main aim is to re-establish the confidence of the population in the government and the party. An increasing mistrust had already been manifested in a decline in electoral support from 75% in 2009 to 57% in 2014.

Guebuza's legacy is one of political and economic mess, with a country that had substantial potential on the brink of collapse.

It is increasingly apparent that Nyusi cannot free himself from the entrenched political culture of patronage and self-preservation that reigns within FRELIMO. If he would challenge the culture too strongly he might be overthrown. In the meantime, his own credibility dissolves day-by-day. At the time of writing, Mozambique's known level of dubious debt amounts was approximately \$2 billion. In contrast, the country's GDP was \$14.81 billion in 2015, and its overall debt level was \$12.13 billion in 2015. The recently disclosed additional loans brought the debt-to-GDP ratio up to 100%.

After Guebuza was forced to step down as party president, Nyusi did not manage to consolidate his own power to fill the void. To the contrary, even from the outside, Guebuza has used his influence to place many cadres loyal to him in the FRELIMO party secretariat, which was appointed by a Central Committee meeting on February 5, 2016. The person nominally in charge of the country and the party does not have much of control. Thus, it would come as a surprise if Nyusi would run again for election in 2019. But even before the election, an important party congress will be held that may force a vote of no-confidence. This will be dependent on how the current crisis evolves and how his government handles it. However, those responsible for the crisis are pretending that it does not exist.

On the RENAMO front, and irrespective of the official silence, a de facto low intensity war has further developed. The official line by the president is one of dialog, but the attacks of government forces on party representatives and on communities suspected of supporting the opposition have changed the power constellations since 2014. Opposition leader Afonso Dhlakama claimed after the 2014 elections that he had won and that his party wanted to govern the six provinces where

they had a majority, despite allegations of electoral fraud. In March 2016, he dropped this precondition for negotiations and also agreed to external mediators, including South African President Jacob Zuma, the Catholic Church and the European Union. In mid-December 2016, the externally mediated negotiations between the government and RENAMO stopped as no agreement could be reached on the issue of decentralization. Further items that remain on the agenda include the depoliticization of the military and the security forces, and the disarmament and re-integration into civil life of RENAMO troops.

The mediating group, consisting of representatives from the European Union, Sant' Egidio, South Africa, as well as individuals such as Chester Crocker, Tony Blair and former presidents Masire (Botswana) and Kikwete (Tanzania), will only take up peace talks again once they are called in by the two adversaries.

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

Transformation Status

I. Political Transformation

1 | Stateness

Since RENAMO took up arms again in 2013, over 100 meetings have taken place aiming to negotiate peace and bring back stability to the country. RENAMO still refuses to hand in their arms. Although the relations between Nyusi and Dhlakama are not as acrimonious as they were between Dhlakama and Guebuza, the latter's influence still torpedoes much of the advances mediators have been able to achieve. Both sides have warned that the truce of the previous weeks could soon end.

During the political conflict, the center and northern regions were conditionally accessed. The national road, which links the southern and northern regions, was blocked. RENAMO forces previously attacked cars near the River Save, where the road from the south splits toward the center and northern regions of Mozambique. The government deployed the army along in this area to enable safe passage. The army column accompanied the cars daily. This situation only ended toward the end of December 2016.

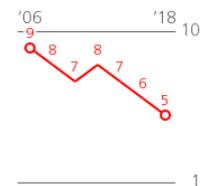
In early 2016, there were rumors about the operations of a possible death squad. It was not clear whose political force (FRELIMO or RENAMO) the squad belonged for. Party members of both RENAMO and FRELIMO, including district delegates in rural areas, were kidnapped and were either killed or disappeared. The government dismissed these rumors, although reports of people disappearing or being found dead continued for some time. These events ended toward the end of November 2016.

Kidnapping for ransom has become increasingly common in Mozambique. Kidnappings can occur in daylight and the hijackers are often armed with guns. In addition to businessmen of Pakistani and Indian descent, victims are typically foreign nationals from Portugal, China, Vietnam or, in February 2017, from Kenya. The way abductions are carried indicates the involvement of highly sophisticated organized-crime networks, and highlights the ineffectiveness or even complicity of the Mozambican state security. The overall crime rate increased by 10% in 2014.

Question
Score

Monopoly on the
use of force

5



Nation-building in Mozambique is largely shaped by the decolonization process and the approach taken by the liberation movement FRELIMO. Whereas the Portuguese colonial regime had provided the delimitations of the territory, it was mainly FRELIMO that, by negating ethnicity in its social construct, created Mozambique as a nation and adopted Portuguese as a unifying language. As liberation also implied the objective to modernize, it forced upon society an introspection about questions such as what constitutes a Mozambican, what does it mean to be Mozambican? Or, as the famous Mozambican author Mia Couto has phrased it, “a moçambicanidade não é uma essência, mas sim um processo” (being Mozambican signifies more of a process than a state of being).

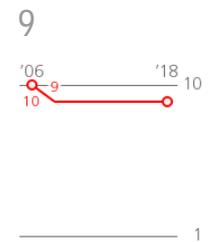
However, this does not mean that questions of ethnic identity and ethnic cleavages do not exist or do not have any significance. Particularly within elite and academic circles, vivid discussions take place on the topic. Politically, FRELIMO aims to prevent the emergence of ethno-regional parties. The Mozambican constitution explicitly prohibits parties with an ethnic or regional character. Any party that wants to register has to present a certain number of signatures from all 11 provinces.

But closer analysis indicates that the leadership of parties founded under the multiparty framework often originate from the region north of the River Save. Some political leaders even advocate for a federal system, which would allow for a more equal distribution of wealth and resources within the country. Regional and ethnic lobby groups, such as the Movimento Cívico de Solidariedade para Apoio da Zambézia (MOCIZA), have been founded in reaction to a domination within FRELIMO by cadres from the southern Mozambique.

Recourse to ethnicity also has to be understood as a reaction to the rhetoric of a ruling party that states “Em Moçambique só há moçambicanos” while at the same time acting in the interests of a small almost ethnically homogenous elite.

As this elite is now widely seen as responsible for Mozambique’s dire economic and political situation, people’s close identification with the state, FRELIMO party and national identity might dissolve in the years to come. Taking into account Max Weber’s definition of statehood in relation to the monopoly over the use of violence, it can even be argued that it is not only elite self-enrichment that provokes a reorientation within society in relation to the proclaimed nation-state. It is this elite itself that jeopardizes or even rejects the sovereign order of the state by positioning themselves above this order, and by installing a regime of patronage, self-enrichment and impunity.

State identity



Article 54 of the Mozambican constitution guarantees the freedom of religion and underlines the laic character of the state. Historically and due to its communist roots, FRELIMO governments would maintain a distance to religious communities and keep religion out of public life while at the same time tolerating their socio-political engagement. Building a strictly secular state also kept religious influence at bay.

Nevertheless, the Catholic Church plays an important role as a mediator in the conflict between FRELIMO and RENAMO, drawing on their positive influence in the 1990s, when peace talks were facilitated by the Catholic lay community of Saint Egidio.

Interfaith cooperation in Mozambique is high. For example, the Council of Christian Churches, the Catholic Church and the Islamic Council cooperate within the Observatório Eleitoral, a body that has been monitoring and accompanying the electoral processes in Mozambique intensely since 2003.

Sound interfaith relations characterized by high levels of tolerance might also relate to the syncretic character of religious practices in Mozambique. Islam co-exists with Christianity and traditional African rites. So far, Mozambique has not experienced a resurgence of orthodox Islamism demanding for example the introduction of Islamic law as an element of the judicial system. But it can be noted as well that more and more Mozambican clerics seek training in Egypt, Kuwait or Saudi Arabia and return with a more fundamentalist concept of Islam than the Sufi-inspired, Swahili-based traditional Islam which they practiced before.

As in other African countries, the influence of evangelical churches is also on the rise in Mozambique. Approximately 10% of the population adhere to evangelical churches, such as the Brazilian Igreja Universal do Reino de Deus which is considered to be one of the most influential.

Basic administrative structures do exist in Mozambique and the country has made in some areas enormous strides in improving service delivery. Since 1990, the coverage for sanitation has increased by 21% but the urban (44%) and rural (11%) divide is striking. A similar ratio can be found in relation to drinkable water. Still only 49% of the population have access to safe drinking water. In the countryside, only 35% of Mozambicans enjoy safe drinking water, whereas in urban areas 80% do. The situation in smaller cities needs to be improved as here major development dividends could be harvested.

Civil society has widely criticized the implementation of Plano Economico e Social 2010-2014. On the one hand, while figures for basic services were slightly increased, the quality of service delivery has remained poor overall. On the other hand, and particularly in the subsequent Planos Economicos e Sociais 2015 and 2016, defense spending and debt service ate up large chunks of the state budget, cutting into welfare expenditure in the mid-term as well.

No interference of religious dogmas

9



1

Basic administration

5



1

Due to reduced economic growth rates, the government had to revisit its 2016 Plano Economic e Social targets. In all, 69 out of 151 targets across 118 projects had to be canceled entirely in the light of economic regression.

For about 15 years, the Mozambican government has intended to reform the public sector and has recently introduced the *Estratégia Global de Reforma do Sector Público (EGRSP)*. The reforms aim to enhance efficiency, effectiveness, public participation, control and accountability in fostering good governance in the public sector. In this context, the government has developed an e-government strategy that includes an electronic government network, government portal, capacity-building, state financial administration system, Mozambique e-government communication infrastructure project, national system of civil registration, biometric driving license and motor registration systems, biometric ID card and passport, and criminal registration system.

Despite its ambition to digitalize government processes, Mozambique still faces public sector problems typical for developing countries. An evaluation of the *Sistema de Gestão de Desempenho na Administração Pública (SIGEDAP)*, a mechanism of the Ministry for Public Administration, identified that a certain number of public employees are not able to present the necessary documents for holding their positions (nomination, CV, criminal records, IDs).

But even when people present these documents, the checking system is still very poor. Most people present false documents and the government system has not yet provided a safe system of checking their validity, especially in rural areas.

A considerable number of new-born infants are not registered in time. Most children are only registered after 6 years old - the age required to go to primary school. Those who do not have access to education mostly remain unregistered.

In addition, civil registration in Mozambique remains vulnerable. Most foreigners easily get Mozambican national ID cards before they complete the required time. This is due to corruption and lack of a safe control system.

2 | Political Participation

The constitution of Mozambique of 2004 guarantees fundamental rights and civil liberties for all its citizens. The constitution protects the right of Mozambicans to choose leaders through universal, direct, secret and periodic suffrage, through referenda on major national issues and through permanent democratic participation in government affairs. The right to vote is also extended to the diaspora, provided that they are registered voters and that they fulfill all other legal requirements. The constitution safeguards a two-term presidential limit.

Free and fair elections

6



Since its peace accord in 1992, Mozambique has regularly organized presidential, parliamentary and provincial elections as well as elections in the independent municipalities (autarquias). However, it can be noted that over the years the quality has deteriorated. Violent clashes, infringements on the right of assembly for all parties and a continuously imbalanced playing-field have become characteristic of the country's electoral processes.

During the period under review, no electoral process took place on national or local level. The next local government elections (autarquias) will take place in 2018. Lately, the opposition party RENAMO that abstained in 2013 proclaimed that they will take part in the forthcoming autarquias.

Although there was no election in the review period, the last general elections that took place in 2014 were much contested. During the election campaign, there were clashes between parties. While the FRELIMO party could easily move all over the country, other opposition parties have many difficulties accessing some regions that are known to be FRELIMO regions. This was the case in Gaza province, where RENAMO and MDM parties could not easily campaign because the local population did not allow them to do so. Government authorities did not intervene to sort out the problems that the opposition parties were facing.

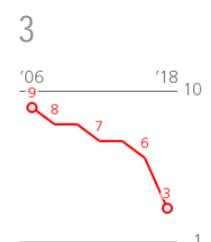
The voting process was considered free and fair, but problems emerged regarding vote counting. Although the electoral body was established according to parity - all three parts with assent in the parliament were represented - it did not seem effective and impartial. Because many members belonged to the FRELIMO party, most claims from the opposition were rejected.

Therefore, election processes remain a challenge. Mozambique is still far from having a strong and impartial electoral body that can supervise free and fair elections.

In the 2014 elections, Filipe Nyusi was elected as the new president of Mozambique, securing 57.03% of votes. Without much political power of his own, he was chosen as a compromise candidate. His predecessor, Armando Guebuza, failed to amend the constitution to contest a third term. Evidently, Guebuza had hoped for a weak candidate, which he could influence. However, the announcement of the new cabinet in January 2017 indicated a break with the former regime. Nyusi brought into his cabinet FRELIMO cadres which had last served as ministers under Chissano. Furthermore, the new president brought into his administration more technocrats and fewer party cadres aligned with Guebuza or former liberation fighters.

Nevertheless, Guebuza tried to maintain his influence and control of debates within the party. His support continued among the group of the so-called G-40 within FRELIMO, the FRELIMO parliamentary group and most evidently also within the police. The G-40 comprises several academics and people with higher education qualifications, and undertake political analysis and spread ideas favoring the

Effective power to govern

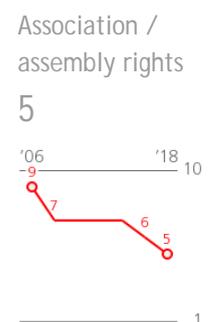


FRELIMO party. Guebuza was particularly adamant about FRELIMO's concessions toward RENAMO's claim to govern in provinces where RENAMO had won a majority in the general elections. Nyusi's willingness to enter into negotiations with RENAMO was seen as a sign of weakness. Guebuza openly accused the new president of dividing the country by taking up the debate on further devolution of powers. As the incumbent party president, Guebuza tried to mobilize the party against Nyusi and Nyusi's politics, but encountered much more resistance and backing for Nyusi than he had expected. During a FRELIMO Central Committee meeting in April 2015, Guebuza's position as party president was challenged and he was forced to step down. Nevertheless, the influence of the former president did not vanish. In fact, Nyusi consistently struggles to control the state and the party. Nyusi's efforts to find a compromise with RENAMO were undermined by Guebuza loyalists and the orthodox wing of FRELIMO, both of them represented in the Political Commission of FRELIMO. This second center of power – next to the moderate government of Nyusi, seems to control the security forces. This radical wing even called for a "Savimbi solution" to the ongoing conflict with RENAMO and did not hesitate to advocate for this in pro-government media. In September 2015 three major attacks were launched against RENAMO-leader Afonso Dhlakama. Ahead of the elections in 2014, Dhlakama had signed a peace accord ending RENAMO's violent up-rising, although Dhlakama had kept his own men under arms until his conditions would be met by the government.

On two occasions, several hours of fighting was reported between RENAMO forces and state security forces (most likely the paramilitary Força de Intervenção Rápida). In one instance, Dhlakama's convoy came under attack in Sofala Province, leaving about 40 persons dead. A third incident took place when police surrounded Dhlakama's residence in Beira after he had agreed to a face-to-face meeting with President Nyusi and safe passage had been granted to him. In all cases, Nyusi was either not in the country or seemed to have been unaware of the operations underway. This strongly suggests that President Nyusi tries to govern but the real power particularly on security issues is in the FRELIMO Political Commission and its hardliners. Consequently, shortly after the September 2015 attacks, the government of President Nyusi left its conciliatory approach and joined the rhetoric that RENAMO would have to be disarmed by all means.

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

The freedom of assembly has recently been infringed by the police (Polícia da República de Moçambique-PRM) on several occasions. In one instance, when civil



society organizations wanted to protest in 2016 against the political instability and high debt level, the police asked the organizers to abstain from their right, as there were groups wanting to disturb the demonstration. Any occurrence would then be the responsibility of the organizers and they would be held responsible. In another incidence, the police refused to sign the authorization documents which had already been issued by the municipal council. Without the police signature the demonstration would have become illegal and accordingly dealt with by the security services.

In the ambit of two subsequent election periods starting in mid-2013 and leading up to the inauguration of the new government under President Nyusi in January 2015, the space for opposition forces to operate and assemble freely diminished. The Mozambican government generally respects the right of freedom of association, but has failed in certain instances. Regular infringements of political rights occur, despite the fact that civic and political rights are guaranteed by the constitution. Acts of violence and political intolerance during the electoral campaign, underline the necessity of important improvements for the future electoral processes in Mozambique.

Looking at Mozambique's civil society one can identify by and large three main categories. In the urban sphere and mainly in Maputo, there is a group of elite-based, academically oriented organizations. They are interlocutors for many donors and enjoy international support. They do not represent a specific community but respond to the demand of public participation in policy dialogs. A second group can be characterized as issue-based (e.g., health, climate change, poverty reduction) and is mainly service oriented. The third and probably largest group are community-based organizations which in general have weak organizational capacities and a constant lack of funding. Particularly the last two groups provide essential services in places where state structures remain absent or lack capacity.

Recent analysis of Mozambique's civil society has highlighted its limited engagement in policy dialogs. They also criticized the absence of dynamics but also a vision that would allow Mozambique's civil society to be a vibrant counterforce against an overwhelmingly dominant government. Civil society has been characterized as "domesticada" (domesticized) in a framework of politically accorded parameters which camouflage the lack of civic participation.

This is because most of these civil society organizations favor the FRELIMO party campaign during elections. Those who stand against FRELIMO or criticize the government risk disappearing. Not because they are burned by the government, but because they will face difficulty accessing funding.

In December 2014, parliament finally passed the long-awaited Access to Information bill (ATI) that obliges public bodies and private bodies invested with public powers to release information on request. Looking back at the last two years, it is evident that the dissemination of information bill remains crucial. This applies for journalists, the public service as well as ordinary citizens.

In general, Mozambique's revised 2004 constitution guarantees freedom of the press. The Supreme Mass Media Council is tasked with guaranteeing this freedom and the public's right to information. The constitution explicitly protects journalists and grants them the right not to reveal their sources. However, criminal libel and defamation laws deter journalists from writing freely. In recent years, surveillance by intelligence services has become more sophisticated. Widespread intimidation, harassment and death threats against journalists have become common. In 2015, the journalist Paulo Machava was killed in a targeted drive-by shooting. Though other critical voices are also increasingly at risk.

The murder of Gilles Cistac and the attack on José Macuane gained international attention, both were influential academics who did not hesitate to criticize the government. Gilles Cistac, a lawyer and expert on decentralization policies, was murdered in a street café in March 2015. This happened after he had expressed in an interview that further decentralization and the transfer of powers to the provinces would not necessitate a constitutional change. Cistac had been a fierce critic of Guebuza, and had highlighted in an interview shortly before his assassination that President Nyusi should decouple himself from the party and particularly from the influence of Guebuza. José Macuane was shot in his legs at the door of his home in a Maputo suburb. Evidently a warning regarding his weekly commentary on the private channel format "pontos de vista."

Independent media organizations have been targeted. The station of Dom Bosco radio was broken into in 2016. Also, the editor and director of the independent newspaper Zambeze were detained on allegations of defamation after they had reported on the criminal activities of the police.

It is worth noting that many journalists - particularly public newspaper and TV journalists, but also some private media journalists - self-censor. Publicly available information is infiltrated and only what is considered politically correct can be published.

Freedom of
expression

5

'06 '18 10



1

3 | Rule of Law

Although the Mozambican constitution in Article 134 provides for a separation of powers, the executive, legislative and the judiciary are all subjugated to the dominant party FRELIMO. Formally office holders are independent but as they are at the same time high-ranking party members, party influence remains supreme.

One feature of the presidency of Armando Guebuza has been the enhanced centralization of power within the executive and the enhanced dominance of the party in all state structures. It appears that FRELIMO is the state and the state is FRELIMO. With a powerful executive dominating the legislative and the judiciary in combination with a strong discipline and ties of loyalty within the ruling party, any formal institutional checks and balances become ineffectual. This situation has persisted under the presidency of Filipe Nyusi.

The situation is worse within the judiciary, with the courts being an institution of last resort for many citizens. However, due to its financial and material dependence on the government, the judiciary remains weak, and does not provide the necessary checks and balances.

As the Ministry for Public Affairs is mandated by the constitution to safeguard the legality of any state activity, it is also exposed to a conundrum enshrined in the constitution. It is designed to decide the legality of state actions, but also to defend the state against any allegations that it has acted illegally.

Equally the Attorney-of-State remains a weak position in the overall judicial structure, as the candidate is nominated and sacked directly by the president without the involvement of the National Assembly.

The independence of the judiciary in Mozambique is mainly tainted by the lack of separation of powers and political interference in the form of undue influences, inducements, pressures, threats or interferences, which occur directly or indirectly. Membership of the ruling party is a de facto prerequisite for access to the public administration and any career in the justice system.

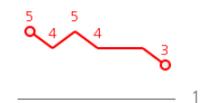
The way investigations into politically motivated crimes are handled indicates that neither the prosecuting agencies, including the Attorney General, nor the judiciary are independent and free from political influence. Particularly the Ministry of the Interior has a reputation for interfering in the course of justice.

Two years after a change in government, the murky deals of Guebuza's regime and the embezzlement of state funds are known to the public and the international community – albeit further cases may still come to light. So far, no prosecution has been initiated and within the ruling party opinions differ. Some seek prosecution in order to set an example, others at least aim for sanctions against the former president

Separation of powers

3

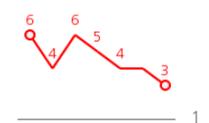
'06 '18 10



Independent judiciary

3

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Prosecution of office abuse

3

and want to see compensation for abuses under his rule. However, a third faction considers that the political price the party would have to pay for prosecuting Guebuza would be far too high.

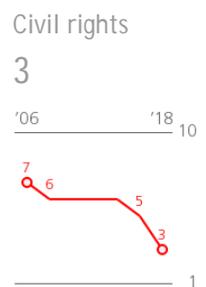
Considering that President Nyusi was Minister of Defense when the deal with the state-owned fishing company EMATUM was brokered, it seems highly unlikely that he remained totally unaware of an operation of such magnitude. This might also explain his reluctance when it comes to prosecution, which has led to months of secretive and dishonest statements to the IMF and other international donors. Without much political power, Nyusi is too weak to go after Guebuza and his allies.

Even the international community seems to be divided about the necessary steps to be taken. While several European countries have taken a hardline on accountability (Belgium, Netherlands, Norway and Spain stopped their budget support to Mozambique in response to the EMATUM scandal), others (mainly France and Italy) are more pragmatic while considering the potential of future resource contracts and the fierce competition from China.

Irrespective of the fact that the Universal Periodical Revision Mechanism on Human Rights by the United Nations came in 2016 to the conclusion that the situation in Mozambique is still positive, even the president admitted that the violence between RENAMO and government forces contributes to human rights violations on a large scale. In 2016, violence extended to Tete province where villagers were forced to flee to neighboring Malawi. Crops and homesteads were burned by government security forces in their search for RENAMO supporters. An estimated 11,000 refugees fled from Tete province to Malawi (April 2016) where refugee camps previously operated during Mozambique's civil war were reopened.

Security forces promote a climate of fear in order to suppress urban dissent and to intimidate the intelligentsia. The assassinations of French lawyer Gilles Cistac and State Prosecutor Marcelino Vilankulo, who had investigated the networks behind kidnappings, the attack on academic and TV analyst José Macuane, and the murder of Jeremias Pondeca, a senior member of RENAMO involved in the peace talks with FRELIMO, contributed to this climate of intimidation that has rapidly spread to social media. Demonstrations, when allowed at all, are now controlled by the military. Most crimes have so far not been properly investigated or prosecuted.

Anyone who investigates and reports on the causes of Mozambique's economic crisis faces a state security apparatus that has successively increased its role and influence in the country. The state's electronic surveillance capacity (interception and recording of calls, mails, and encrypted messages) has been substantially enhanced with Chinese assistance.



4 | Stability of Democratic Institutions

The existing democratic institutions have produced over the last years an adequate legal framework. However, the implementation of most regulations falls short of expectations. This is due to a lack of executive capacity or worse a lack of political will.

The National Assembly is dominated the ruling party, and could not act as a counterbalance to an overwhelmingly dominant executive. Particularly in the scrutiny of the implementation of laws, the National Assembly has an important role to play.

However, as the recent public debt scandals show, the National Assembly has been continuously bypassed and even administrative processes in the respective ministries were ignored by individuals who positioned themselves above the democratic institutions.

As many academic studies have highlighted over the last couple of years, in order to make Mozambique's democratic institutions more efficient one would have to embark on a revision of the institutional setting. The presidential system should be abolished in favor of a parliamentary system with a prime minister accountable to parliament. The currently pattern of ruling by presidential decrees would have to be relinquished, while public sector appointments will have to approved by parliament.

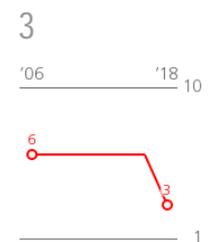
To enhance the accountability of members of parliament to the electorate, the proportional system based on party lists would also need to be reformed. Currently, members of parliament mainly interact with their constituencies during an election campaign every five years but remain absent for the rest of the time.

In this regard, one way to empower constituents would be to enable voters should elect a member of parliament rather than a political party. This means that the member of the parliament would be directly elected by a specific constituency. This would enable ordinary people to know about and monitor their respective member of parliament.

In order to render local governance more effective, Mozambique needs an overall strategy of decentralization that sets out the responsibilities on each level and provides the necessary resources for the ascribed tasks. Particularly fiscal decentralization remains an issue that needs to be addressed.

FRELIMO as the ruling party since independence has used the democratic framework, established after 1994, to foster its own interests. Democratic institutions are dominated and usurped by the party nomenklatura leaving little room for others. While power was previously vested and diluted in various party factions, under the presidency of Guebuza power became increasingly concentrated in a small circle. The influence of this circle extends into business activities and the state security

Performance of democratic institutions



Commitment to democratic institutions

3

services, which enables the circle to exert significant influence over the government. Consequently, the president may have the political will to reform, but he lacks the political power to re-install democratic accountability. The capture of the state by FRELIMO led to the opposition RENAMO party's rejection of democratic institutions, as RENAMO considered the institutions the instruments of FRELIMO's power. RENAMO has often boycotted local elections. It was only after two rounds of negotiations between Dhlakama and the newly elected President Nyusi that RENAMO members of parliament finally took their seats in the National Assembly in February 2015. Also, the suspension of the Rome Peace Accords in 2013 could be seen as an act of revolt by RENAMO against FRELIMO's capture of the state.

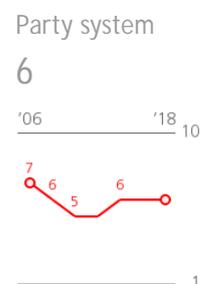
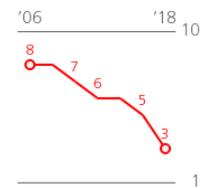
The latest electoral reforms, however, have produced institutions that are totally politicized from the top to the bottom. This calls into question the independence and efficiency of institutions such as the National Election Commission (CNE) and the Constitutional Council.

Despite this politicization, opposition parties typically have not recognized election results. This means that although everybody accepts that there is a need for democratic institutions, the manner in which they operate is not accepted by all.

5 | Political and Social Integration

Mozambique introduced in 1992 a presidential, multiparty system to replace the one-party system that had prevailed since independence. Until 2009, the main characteristic of the party system has been its bipolar nature, with FRELIMO and RENAMO opposing each other. Between 1999 and 2009, the system was increasingly dominated by FRELIMO. In the 2009, presidential and parliamentary elections FRELIMO secured landslide victories. In the parliamentary election, FRELIMO won 75.06% of the vote and 191 seats. It seemed that RENAMO due its own auto-destructive attitudes had become increasingly marginalized. It was only able to win 17.88% of the vote and 51 seats in the 2009 parliamentary election.

However, the party landscape changed with the emergence of Democratic Movement of Mozambique (MDM) in 2009. MDM won eight parliamentary seats in the National Assembly in 2009. This was due to MDM's good performance in the municipalities that it was governing, such as Beira or Quelimane. In these cities municipalities, MDM had demonstrated that it was able to deliver services to the people effectively, strengthening its potential. Therefore, it did not come as a surprise that MDM succeeded in the November 2013 local elections and benefited in addition from the boycott by RENAMO of the municipal elections. MDM is now present in 51 out of 53 municipal councils and holds the position of mayor in Beira, Nampula and Quelimane cities. MDM even managed to win a substantial number of seats in the



municipal assembly of Maputo city, a well-established FRELIMO stronghold. In total, FRELIMO won 50 cities and MDM won 3 cities out of 53.

In the October 2014 general elections, RENAMO re-emerged as the second most important party, as MDM was unable to substantially benefit from a widespread public disillusionment with FRELIMO's politics. Filipe Nyusi the FRELIMO presidential candidate won the elections with 57% of the votes, and 144 seats in the National Assembly. Afonso Dhlakama secured 37% of the votes as the presidential candidate for RENAMO and the party won 89 seats. MDM managed to increase the number of parliamentary seats it held from 8 to 17 and Daviz Simango won 6% of the presidential vote. In total, 26 other political parties also contested the parliamentary elections, but only managed to win a combine 3% of votes and remained outside parliament.

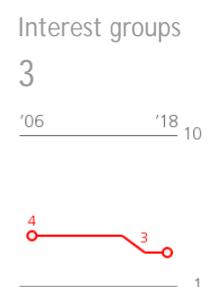
When comparing the 2014 election results with the results of the first post-war elections - and taking into account the ongoing violent conflict between RENAMO and FRELIMO - it is evident that the same cleavages exist today as in 1994 (FRELIMO: 44.03%, 129 seats; RENAMO: 37.8%, 112 seats; the Democratic Union coalition (UD): 9 seats).

In 2016, MDM leader Daviz Simango started to support the demands of RENAMO to enhance provincial autonomy and to directly elect the governors of the provinces (and not to have them installed by the central government). Whether MDM will be able to profit from widespread public disillusionment with the self-enriching FRELIMO elite will have to be seen. In the next local elections in 2018 MDM will face competition from RENAMO and will particularly in those communities where they are governing been measured against their achievements.

The features of Mozambique's political economy are deeply entrenched. Rent-seeking, corruption and patrimonialism have become recurrent themes. FRELIMO elite interest groups have taken on the functions of gatekeeper for foreign companies seeking to invest in specific sectors in Mozambique. And with their own private companies the political elite profits from contracts in the booming economy alongside their respective mandates.

In this context, it is extremely difficult for civil society and interest groups to establish themselves and to become accepted mediators for both sides.

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



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

The political role of CSOs is hampered by an outdated legislative framework that in its 1991 version does not differentiate between the diverse range of civil society organizations. Although CSOs are involved in the drafting of a new law, the process is currently stalled. Any new legal framework would have to establish mechanisms for CSOs to enter into a dialog with the government. So far, formal and informal spaces for interaction are inadequate and limit the role civil society can play in the formulation and monitoring of policies.

According to 2015 Afrobarometer data on Mozambique, Mozambicans have become totally disillusioned with democracy. Whereas in 2012/2013, 25% of those interviewed preferred democracy to an autocratic regime, only 9% of those interviewed in 2014/2015 preferred democracy. Overall, support to democracy has fallen from 63% in 2012/2013 to 45%.

The benefits of a multiparty system have become steadily more acknowledged by Mozambicans between 2002 (43%) and 2012 (60%). Though, in the last round of the Afrobarometer survey, support for multiparty democracy fell to 57%. The 2015 round of the Afrobarometer survey was conducted during the recent violent conflict between RENAMO and FRELIMO, which increased instability in the country.

Nevertheless, Mozambicans increasingly see the role of opposition parties as a watchdog on the ruling party (36%). But in relation to the impact of elections on the ruling of their country, Mozambicans have become more and more disillusioned. Only 32% of those interviewed believe that elections can lead to a change in government.

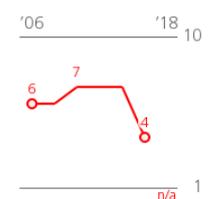
However, opposition parties today enjoy much greater public support and more citizens feel inclined to affiliate with opposition parties than they did over ten years ago. Whereas only 5% of Mozambicans felt close to an opposition party in 2002, by 2015 the percentage had increased to 20%.

In the face of reduced social assistance for children, the elderly, disabled people and families living in extreme poverty in the state budget of 2017, informal self-help networks have gained tremendous importance. In the wake of the current economic crisis, more and more households will fall below the poverty line. Today approximately 15 million Mozambicans live in extreme poverty, on less than \$2 per day. Of those only 500,000 had access to a government assistance program, a number that will further decrease.

Remittances, credit and savings clubs, and mutual assistance will gain significance. Today for many Mozambicans, self-help organizations have become an important

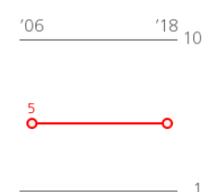
Approval of
democracy

n/a



Social capital

5



instrument in coping with challenges, such as natural disasters, HIV/Aids, orphanage and rural to urban migration.

The most important social relationships remain the extended family, and friends and neighbors. Particularly in urban contexts, reciprocity is increasingly essential in defining relationships, putting a strain on those who remain without employment or wealth.

II. Economic Transformation

6 | Level of Socioeconomic Development

Mozambique's economic growth rate, which has averaged around 7% over the last decade, has mainly been driven by the exploration of natural resources and foreign intensive capital investment. The boost in economic growth has not contributed to economic diversification, the creation of employment opportunities or the development of the agricultural sector - the second strongest pillar of Mozambique's economy.

Mozambique's period of 7% economic growth ended in 2015. In 2016, the rate of economic growth decreased to 3.6%. However, it is expected that the economy will receive a boost in 2017 and the growth rate will slowly increase again. The expected rate of economic growth for 2017 is 4.4%. However, the government expects that the economy will grow by 5.5%.

Poverty and inequality remain high, and with the severe economic crisis and cuts in the state budget the vulnerability of large segments of society has increased. (About 15% of the population are already at risk of poverty). Today, 82% of Mozambicans live on less than \$2 a day and 60% on less than \$1 a day. According to national data, inequality has doubled since 2010 and the Africa Progress Panel of Kofi Annan noticed that the richest 10% of the population spend 19 times more than the poorest 10%. Mozambique's Gini Index score remained at 0.47 in 2015. In the Human Development Index, Mozambique fell to 180 out of 188 countries with a score of 0.59, albeit the country had the reputation of being the most economically dynamic country in Africa. Most rural families around the country live on fruits and roots harvested from the forest.

With a national currency in free fall against the U.S. dollar since 2015 and the need to import the most basic goods, the daily living costs bring many families into social distress.

Question
Score

Socioeconomic
barriers

2

'06 _____ '18 10



Access to formal education remains high in primary education. However, despite this advance in primary education enrollment, there are serious problems. While enrollment in primary enrollment has reached 100%, the completion rate for primary education remains low at (47.6%). About 58.9% of the population do not have a formal education and, overall, only 29.8% of Mozambicans have completed primary education. However, the skills of those who have completed primary education remain low. Many people have serious difficulties reading, writing and doing simple calculations.

The number of people entering the labor market each year is higher than the number of job opportunities available in the market. Recent job opportunities created by foreign investment are not enough for the existing workforce. There is still a mismatch between the qualifications offered in formal education and those demanded in the market. This might be related to a lack of vocational training. Thus, the majority of the population continues to work as unskilled labor mainly in the agricultural and informal sectors.

Despite an adequate policy framework, the implementation of gender equality legislation is poor. Women comprise 30% of members of parliament. Women can also be found in ministerial positions or occupying high positions in public administration and the judiciary. But the emancipation of women is mainly limited to the capital and central government levels. In provincial and particularly local politics, the traditional role of women still predominates. Women constitute approximately 83% of the agricultural workforce. Mozambique ranked 138 out of 154 countries for gender equality in the 2015 HDI.

However, the traditional role of women continues in both urban and rural areas. Even women who occupy high positions or sit in the National Assembly still perform traditional roles. Moreover, the action of women within the parliament to fight against gender inequality and women empowerment is very limited. Women's actions are passive with regards to the empowerment of poor women.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	16018.8	16961.1	14798.4	11014.9
GDP growth	%	7.1	7.4	6.6	3.8
Inflation (CPI)	%	4.3	2.6	3.6	19.9
Unemployment	%	23.3	25.3	24.7	24.4

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	41.8	29.5	26.1	28.4
Export growth	%	2.2	15.7	-1.2	1.2
Import growth	%	28.8	14.6	-6.7	8.3
Current account balance	\$ M	-6253.4	-5797.1	-5833.0	-
Public debt	% of GDP	53.1	62.4	88.1	113.6
External debt	\$ M	7895.4	8677.9	9996.1	10293.9
Total debt service	\$ M	160.3	213.8	406.3	488.8
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	23.1	-	-	-
Government consumption	% of GDP	23.9	26.1	26.7	28.2
Public education spending	% of GDP	6.5	-	-	-
Public health spending	% of GDP	3.1	3.9	-	-
R&D expenditure	% of GDP	-	-	0.3	-
Military expenditure	% of GDP	1.0	1.0	1.0	1.0

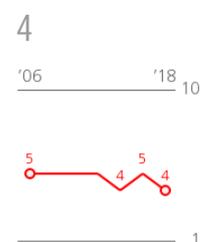
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market based competition is enshrined in Art. 97 of the Mozambican constitution (Constituição de República de Moçambique/CRM 2004). The constitution allows for foreign investments except for those sectors that the state outlines as falling under its jurisdiction (Article 108 CRM). During the transformation from a centralized to a market economy, the Mozambican government adopted a number of initiatives to improve the environment for investment and promote competition. Significant progress has been made but substantial work remains to be done. The state still plays a major role in the regulated sectors through public enterprises or through direct intervention in selected economic sectors, hampering the regulatory mechanisms of free-market forces.

In the resource, and particularly the gas and oil sector, the Mozambican government on the made major concessions to exploiting oil companies (ENI/Italy and Anadarko/United States). The companies were granted exemptions on some labor regulations as well as on foreign exchange rules. Despite initial resistance to the use

Market-based competition



of new technologies (a floating platform instead of pipelines) to overcome bottlenecks in infrastructure development, the government gave in under the threat that without concessions no extraction would take place for the next five years. Yet, the government had introduced through an August 2014 law on petroleum a 25% quota for national gas consumption provoking critics to speak of indirect resource nationalism, especially given that consumption in Mozambique is well below this level. In addition, Empresa Nacional de Hidrocarbonetos (ENH) owns 15% of the attributed exploration blocks, forcing extraction companies to buy shares.

In general, economic sectors have increasingly become accessible to private investment, both local and foreign.

Mozambique's external trade policy has radically changed over the last decade. The government has abandoned the system of managed trade and has moved toward a liberal regime, with imports subject to ad-valorem tariffs. The abandonment of commercial tariff barriers has improved Mozambique's ranking in the Global Competitive Index (World Economic Forum), climbing from 91 out of 144 countries in 2014 to 56 out of 144 countries in 2015.

The informal sector remains dominant in Mozambique. Approximately 65% of GNP is generated by informal businesses. The formal sector accounts for only 32% of employment opportunities. Most people are self-employed (93%). Even the numbers for micro-enterprises (1-4 employees) and small enterprises (5-49 employees) remain very low at 6.6% and 0.7% respectively.

In the World Bank 2016 Doing Business Report, Mozambique fell from rank 127 to 133 out of 189 countries. This decrease was due to high levels of corruption, and a lack of improvements to the trade and investment climate. Most investors still face extrajudicial barriers, limiting competition and impacting investments. Other barriers include the average three-month delay to be connected to the electricity grid, limited access to credit, complex or almost non-existent judicial protection, and lack of land access and rights of property. This includes a lack of land registration. In addition, litigation costs are very high. These barriers undermine investor confidence.

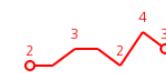
By the end of 2013, the Mozambican government had finally passed a competition law (Law No. 10/2013) and established a Competition Regulation Authority (ARC). The law, based on laws in Portugal and other EU member states, provides Mozambique with a modern competition enforcement system. Though some loopholes and exceptions remain. The law as such only became operative with its implementing regulation (Regulamento da Lei da Concorrência, aprovado pelo Decreto n.º 97/2014, de 31 de Dezembro).

The ARC has been de jure established as an independent authority, endowed with administrative and financial autonomy, with broad supervisory, regulatory,

Anti-monopoly
policy

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investigatory and sanctioning powers. It took over two years to set up and start operations.

The new competition law applies to both private companies and state-owned enterprises, and covers all productive economic activities in Mozambican territory. It prohibits agreements and practices which restrict competition horizontally (cartel building) and vertically (between companies and suppliers of customers). The law also prohibits abusive practices by dominant market actors. This includes, for example, the refusal to grant access to essential infrastructure and the unjustified termination of a business relationship.

The law provides, as mentioned, certain exceptions. For example, prohibited practices may be allowed if they increase economic efficiency, promote the competitiveness of small and medium enterprises or consolidate the national economy. Consolidation of the national economy can be broadly defined, undermining the law.

The new law introduces merger control in Mozambique. Concentrations subject to prior notification (as well as others on which the ARC decides to request information) should be blocked if they are likely to create or strengthen a dominant position which may significantly impede effective competition in the relevant markets.

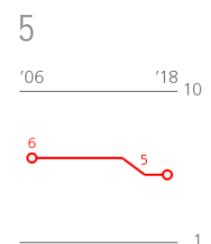
Due to its slow implementation, no serious assessment of the impact of the law can be made. This relates particularly to the loopholes that are defined as being in the public interest or which go beyond the protection of competitive practices (e.g., the promotion of national products and services, the increased competitiveness of SMEs or the consolidation of the national economy). These are all objectives that can justify restrictive agreements.

The environment for foreign trade has not improved. In the World Economic Forum's Global Enabling Trade Report 2016, Mozambique ranked 104 out of 136 economies (2012: 97 out of 132 economies; and 2014: 110 out of 138 economies)

Mozambique is a member of the SADC Free Trade area, which aims to progressively reduce the tariffs on intra-SADC commerce. But the signature on the Tripartite Free Trade Area (TFTA) that was supposed to take place in 2016 was rejected by the Mozambican government. The reason given was that the government was still not sure about the impact of the agreement on Mozambique's vulnerable economy. The TFTA would have created a free trade deal among the 26 member countries of SADC, COMESA and EAC.

In its relations with the European Union, Mozambique has so far benefited from the "everything but arms" regime. Thus, the country enjoyed foreign market access. However, the benefits out of it were limited as the quality and quantity requirements of European buyers are difficult to meet, production technology and skills are not sufficiently developed and access to trade finance remains difficult. Therefore, the

Liberalization of
foreign trade



Economic Partnership Agreement that the European Union signed with Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland in October 2016 will also not bring more benefits as the conditions in the country remain the largest impediment. High cost or delays caused by domestic transportation, difficulties in meeting quality and quantity requirements of buyers, and access to trade finance are the most problematic factors restricting Mozambique's export trade. Even when tariff barriers fall, the amount of non-tariff barriers, burdensome import procedures as well as border corruption hamper foreign trade with Mozambique.

With the introduction of an electronic customs and trade facilitation system (Janela Única Electrónica/JUE) much hope was placed in reducing corruption. However, several difficulties in the introduction of the system caused even longer delays. In general, the heavy import procedures could not be reduced significantly. Customs legislation and procedures are enshrined in about 45 legislative acts that would also need more harmonization.

The banking sector in Mozambique remains underdeveloped. The availability of financial services beyond the capital remains low, and local capital financing as well as the availability of risk capital limit economic initiatives. Approximately 20% of Mozambicans are able to use the formal banking system, 60% of Mozambicans remain excluded and 16% use informal financial alternatives. By now, 19 banks are registered in Mozambique, the latest newcomers to the market were Nedbank, Ecobank, Credit Suisse and Banco BIG in 2015.

Due to the high interest rates, introduced in response to growing inflation and slow economic growth following the fiscal crisis of the Mozambican government, the environment for the banking sector remains challenging. Debtors are struggling to repay their loans. The non-performing loan ratio rose from 2.3% of total loans in 2013 to 4.3% in 2015. But further increases for 2016 are expected due to rising interest rates and weak economic growth.

After the Mozambican central bank, Banco de Moçambique (BM), had to liquidate in 2016 "Nosso Banco" due to mismanagement and inadequate capitalization, the trust of the population in the banking sector declined and with it deposits declined. Individual savers only have deposits of up to 20,000 MZN secured by BM, corporate clients are not covered at all. Due to increasing servicing costs on public debt, the government's ability to prop any failing banks is almost nonexistent. Against the wider context of debt scandals, the government public debt-to-GDP ratio is expected to reach an unsustainable 110.2% in 2017. Though the Sovereign Support Capacity is low, the ownership structure of Mozambique's banking sector is an advantage. 90% of the sector are owned by six large foreign banks: Millennium BIM, BCI, Standard Bank, Barclays and Banco Unico. These banks might have more means to mitigate risks in times of crisis. Also, the funding structure can be described as robust as the loan-to-deposit ratio was 79% in October 2016.

Banking system

6

'06 '18 10



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Bank capital to assets ratio in Mozambique was last measured at 9.30% in 2015, according to the World Bank. The solvency rate of the banking sector remains at 15% according to BM which would mean that it is almost double the rate of 7% that is required according to international standards (Basel III).

8 | Currency and Price Stability

The central bank, Banco de Moçambique, has in the wake of the current crisis also come under heavy criticism in relation to its foreign exchange policy.

After the Guebuza regime had kept the exchange rate between the metical and the U.S. dollar artificially low, the metical depreciated by 64.5% to the U.S. dollar and by 28% to the South African rand in 2015.

In an attempt to stop the free fall of the metical, the government used its international currency reserves, lowering them considerably in 2015. However, the government only has foreign currency reserves now to finance another three months of imports. The depreciation of the currency was mainly stopped by the first tranche of the IMF emergency assistance package that kicked in December 2015.

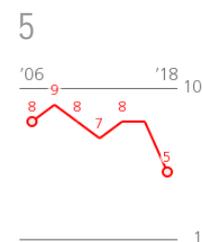
According to the National Statistical Institute (Instituto Nacional de Estatística/INE), the inflation rate was at 25.26% in 2016, up from 10.25% in 2015 and 3.9% in 2014. As the rise was mainly related to the cost of food and beverages it had a direct impact on the daily life of people. In October 2015, the price of bread increased by between 25% and 50%. In November 2015, electricity costs rose by 20%. The price of petrol also increased.

Additional price increases for bread were stopped by the government in 2016, as rising bread prices had provoked large scale demonstrations in the streets of Maputo in 2010.

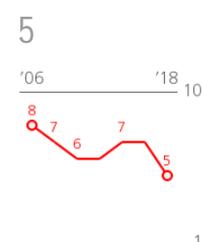
The recent fiscal scandal, the extensive hidden borrowing by the previous government of President Guebuza and the incompetent communication strategy of President Nyusi (who for a long time covered up additional debts while already in negotiations with the IMF and bilateral donors) contributed to causing Mozambique's most severe economic crisis since the civil war.

After Mozambique had had the privilege of benefiting from the HIPC-Initiative in the early 2000s, official debt ratios remained moderate. By mid-2014, the public debt-to-GDP ratio was 41.7%. However, between 2012 and 2015 undisclosed external borrowing via private companies with governmental stakeholder involvement took place, amounting to approximately \$1.37 billion. For 2017, an unsustainable public debt-GDP ratio of 110.2% is to be expected. In January 2017, the government failed to pay its creditors on one of the sovereign backed bonds, which had been issued and called for additional debt re-structuring. Debt service in 2017 will amount to 35% of

Anti-inflation /
forex policy



Macrostability



the country's tax revenues, approximately \$800 million. Mozambique's net international reserves fell from just under \$2 billion at the end of 2015 to \$1.676 billion in October 2016, but rose slightly to \$1.76 billion in December 2016.

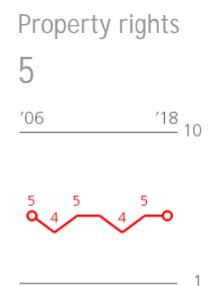
The lackluster approach of the government to cleaning up the mess and increasing transparency in government borrowing, which would have improved investor and donor confidence, has made the situation even worse.

9 | Private Property

In Article 82, the Mozambican constitution guarantees property rights and their protection by the state. For reasons of national or public interest, expropriation of property is allowed when deemed absolutely necessary. No significant cases of nationalization have been reported but lately the government bought land and property for the development of a new circular road around Maputo and Catembe. In general, the government recognizes and enforces the protection of private property. In December 2015, a new Industrial Property Code was approved by decree 47/2015. An exemption includes intellectual property rights whose enforcement is inconsistent and often lacking. Fake goods and pirated DVDs are commonly sold in the streets.

In recent years, Mozambique's land and other natural resources have come under substantial pressure from foreign and domestic private investors. Particularly for agro-investors Mozambique provides ideal conditions as a result of relatively low population density, good land availability and accessibility, as well as high potential agricultural productivity. Ownership of land remains the exclusive right of the state (Lei de Terras, 19/1997), but land-use concessions are given for periods of up to 50 years with the option to renew. Irrespective of the question of ownership, Mozambique's land governance system is sound. This allows for strong protection of community-based land rights, community consultation with respect to partnerships with investors, and secure rights to land for investors.

However, the situation on the ground is different. Only about 10% of the communities have registered property rights. Moreover, state agencies involved in land administration and management lack sufficient powers to provide appropriate and accessible services to both communities and investors. Due to the weak capacity of state actors, the implementation of legislation has been slow. Consequently, relations between a government, which is keen on promoting foreign investment and agro-industry, and a rural population, which is insufficiently aware of and not always able to exercise their legal rights, remains asymmetric. As a result, conflicts between government, investors and communities are frequent. The latest stir has been caused by a joint-venture project of Mozambique, Brazil and Japan called ProSavana, which looks into agro-industry potential in the Nacala corridor. This project would affect



over 4 million people in the area. No consultation took place and legal requirements for the mega-project, such as an environmental study, have not been conducted.

Thus, the government promotes investment in agriculture, but has done little to ensure both land security to foreigners and local communities. On occasions, the government just decided to attribute the land without consulting the community. This practice often leads to clashes between investors and communities.

The privatization of former state-owned enterprises, which had been progressing slowly, seems to be gaining momentum in the face of the economic crisis. According to the institute for state enterprises, Instituto de Gestão das Participações do Estado (Igepe), about 50% of companies in the hand of the state or with state participation could be subject to privatization.

The restructuring of parastatals by bringing in private sector investors seems to be another attractive way. In June 2016, President Nyusi announced that Aeroportos de Moçambique, the airport company that had accumulated \$500 million in state-backed debt, would be one of the examples for restructuring.

From the 117 enterprises that IGEPE holds, half of these enterprises are subject to an evaluation. The evaluation must also consider the right of majority stakeholders to have the first option, in cases where the state has a minor role.

As the example of the national telecommunications company Mcel and the national airline LAM show, state companies can lose their dominant position and will have to find ways to adapt to the new competitive environment.

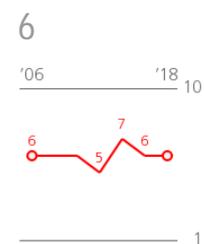
10 | Welfare Regime

In the area of social safety nets, as in many other governance areas, a broad and comprehensive legal statutory framework exists and is composed of two key legal components: the Social Protection Law (Law 4/2007) and the Basic Social Security Regulation (Decree no. 85/2009). The Social Protection Law organizes the social protection system into three pillars: basic (for elected households classifying as vulnerable), obligatory (financial contributions from employees and employers in both the private and public sectors) and complementary social security.

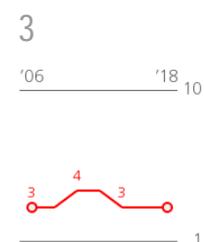
In the period 2010 to 2014, substantial advances in basic social security took place in Mozambique. The number of beneficiaries rose from 254,000 in 2010 to 427,000 in 2014, bringing public expenditure on social welfare programs up to 0.51% of GDP in 2014.

The number of beneficiaries has not increased so much since 2014. In 2016, there were 433,000 beneficiaries, an increase of only 6,000 in two years.

Private enterprise



Social safety nets



The National Basic Social Security Strategy (ENSSB) 2016-2024 seeks to achieve the government's five-year program for 2015-2019, and to reach 3,352,515 direct beneficiaries and 8,274,789 indirect beneficiaries. While drafting the ENSBB in 2015, the government envisaged that by 2024 a budget equivalent to 2.23% of GDP should be allocated to basic social security. However, the overall economic parameters have changed since the ENSBB has been formulated. It will be extremely difficult to hold on to these objectives if the parameters for economic growth and employment creation do not develop positively. The reactive nature and low level of coverage provided for assistance, the size of the target groups and the character of those transfers are unsustainable systemic weaknesses.

Despite economic growth, limited job opportunities have been created over recent year. Thus, the number of pensioners benefiting from the contribution-based social protection system is extremely low (12%).

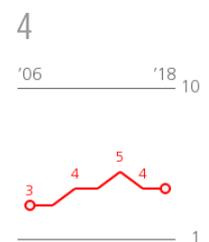
A significant barrier to social safety is the lack of a sufficient social security budget. The budget allocated to the Ministry of Women and Social Welfare increased marginally from 0.17% in 2014 to 0.20% in 2015. The largest proportion of the government budget has always been allocated to the military and security ministries.

Mozambique remains a predominantly rural country, despite recent urbanization. About 68.1% of the population still live in rural areas. Living in rural Mozambique reduces the constitutional aspiration to provide equal opportunities for all Mozambicans, as access to basic services remains limited. Although rural poverty has been reduced over the last decade, still 53% of the rural population remain below the poverty line.

The latest five-year development plan of the government has emphasized the fight against discrimination and social exclusion of women in the economic, social, political and cultural sphere. Particularly with regards to primary school enrollment of girls, Mozambique has made substantial progress with 95.1% of girls enrolled. However, the numbers are misleading as the quality and continuity of schooling is poor. Mozambique still has an illiteracy rate of 44.9% (2016 government data). Of the proportion that are illiterate, five million are between 15 and 19 years of age and another three million elderly people, while more women than men are illiterate. According to UNESCO, only 45.4% of the female population are literate compared to 73.3% of men.

As basic education is crucial for women's empowerment, the lack of basic education for women reduces equal opportunities for Mozambican women. Access to finance remains a critical issue and hampers business opportunities for many women. Women are mainly seen as micro-entrepreneurs fostering the subsistence of their families rather than the successful business managers of SMEs. Access to and ownership of

Equal opportunity



land remains problematic, and limits the chances for women to move beyond subsistence farming.

Political participation among women in rural areas (e.g., being a member of a water management committee) remains low when compared to those areas of political engagement where a quota of 30% has been introduced. About 22% of women hold the position of Administrador and 15% the position of Chefe de Posto Administrativo, while 35.6% are members of the Provincial Assemblies and about 26% serve in a District Council.

On central level, the results of the government's commitments are evident. Currently, 100 women are members of parliament, out of a total of 250 members of parliament. In previous legislature, 96 members of parliament were women. Four out of the 11 provincial governors are women, an increase from only two after the 2009 elections.

Within SADC, Mozambique has one of the highest rates of forced and early marriages. 14% of girls under 15 are married. They are not only deprived of the opportunity to continue their education, but are often exposed to violence and health risks as well. One third of Mozambican girls are victims of physical violence after the age of 15. And the HIV infection rate for women is currently 13.1% (9.2% for men).

A new criminal code that was presented to parliament in 2014 and later ratified demonstrated that gender equality, despite the improving statistics, does not exist in the mindset of the majority of (male) decision-makers.

In an initial draft, it was proposed that criminal charges against a person accused of sexual assault could be suspended if that person marries the victim. This would have deprived survivors of sexual abuse any justice.

Whereas no reports indicated ethnic or religious discrimination during the reporting period, the opposition regularly claims that the government marginalizes public servants aligned with the opposition, and non-card holders of FRELIMO were not recruited into the public service. Sociological research at Universidade Eduardo Mondlane has further highlighted that RENAMO members do not disclose their political affiliation in unknown environments for fear of repression.

11 | Economic Performance

The main priority of the incoming government in 2015 had been to prevent the economic crisis getting out of control but to little avail as the latest figures show. Economic growth fell from 7.4% in 2014 to 6.3% in 2015 and 5.8% in 2016, the lowest rate since 2000. For 2017, the IMF predicts growth of only 3.4%. The projected slowdown reflects the continued decline in commodity prices for key exports, effects of the ongoing drought on agricultural production and further fiscal

Output strength
5

tightening. If mega-projects particularly in gas exploration are further delayed, this downward trend will be further exacerbated. Although currency depreciation came to a halt in the last quarter of 2016, inflationary pressures remain.

Investor confidence experienced a sharp downturn due to the debt crisis that also provided a rocky start to 2017. When the country defaulted on a \$60 million payment to its creditors, the country's credit rating was further downgraded by Standard & Poor's. Between 2015 and 2016, foreign investment dropped by 75% and this might be further aggravated when donors suspend their assistance.

The government mainly blames external factors for the crisis such as the commodity price crash, a strong U.S. dollar, adverse weather conditions and reduced budget support from donors. The government denies that most of the problems are self-inflicted and date back to the Guebuza regime, the previous government.

At the beginning of 2016, the IMF came to the rescue of Nyusi's government with an emergency loan of \$286 million. The loan was conditional on austerity measures, such as budget cuts, drastic reductions on foreign outflows of hard currency and the phasing out of subsidies (fuel, bread). In its assistance package, the IMF stressed the need for thorough fiscal reform, economic diversification, major import reductions as well as sound public investment planning, including the abstention from ostentatious mega-projects. However, this loan was suspended later in the year when new hidden debts were revealed.

The government, already running an austerity budget, was expected to slash expenses by a further 40% in 2016 in order to keep up with its debt service in foreign currency. Spending scarce foreign exchange resources on debt service increased inflation (25% in November 2016) and a plunge in the value of the local currency.

In 2015, the metical depreciated against the U.S. dollar by 50%, and toward the end of 2015 the Mozambican central bank ran out of U.S. dollars with which to support the currency. By February 2017, \$1 equaled 70 MZN. In December 2015, \$1 equaled 59 MZN. The sharp fall in the exchange rate has been attributed to the habit of the Guebuza regime of keeping the exchange rate before the elections in 2014 artificially low, at 32 MZN to \$1. In addition to propping up the currency, the government had also started to sell its U.S. dollar reserves at a discounted exchange rate to the benefit of companies belonging to Guebuza and his cronies. In this way, hundreds of millions of U.S. dollars might have been drained from the central bank's reserves.

In order to cover the shortfall, the government started to issue large amounts of domestic debt and forced domestic banks to lend to the government. State-owned companies, even such viable enterprises as the national cellphone company Mcel, have had to revert to borrowing for the payment of salaries. As the electricity company Electricidade de Moçambique (EDM) was forced under Guebuza to invest in remote areas, it failed to invest in the upkeep of its infrastructure. Thus, entire



provinces were left in the dark for several weeks in 2015, as maintenance was not financeable. This reduced the productivity of local businesses, leading also a reduction in tax revenue for the state.

In October 2016, the government had to declare that its debt levels were no longer sustainable. The likelihood of a sovereign default is increasing and the country is considered the highest risk issuer of debt globally.

Donors have frozen their budget support, the IMF and World Bank have suspended their financial assistance, and are awaiting the outcome of an independent audit by the risk advisory company Kroll due to be released in March 2017.

Against all current odds, the medium-term prospects for economic development remain sound. Large investment flows from the gas sector are expected between 2017 and 2020. These flows will mitigate the widening current account deficit and boost economic growth. Gas exports are expected to start by 2022 contributing to the shrinking of the current account deficit.

12 | Sustainability

Mozambique is among the most the disaster-prone countries in the world and the second most geographically exposed in Africa. 25% of the population face a high mortality risk from the occurrence of natural disasters, such as floods, cyclones and drought.

Climate change effects have the potential to increase this risk, and can easily undermine development efforts and increase vulnerability of poor people, who depend disproportionately on the environment for their livelihoods.

This dependency also highlights the necessity of considering the sustainability of resource use and environmental conservation in poverty alleviation interventions, irrespective of climate change concerns.

The government recognizes in its five-year plan for 2015 to 2019 the need for the sustainable and transparent management of the country's environment and natural resources. It has developed over the years a set of policies (e.g., Action plan for a Green Economy; regulation on carbon emissions and deforestation, REDD+; national climate adaptation and mitigation strategy) and has taken action in order to generate revenues for environmental protection. The petrol tax as well as other environmentally related contributions brought in 2014 about \$31.6 million into the state coffers. However, severe challenges remain in the area of revenue collection, monitoring and control of funds generated or the inefficient use of natural resources. The latter as well as the environmental degradation cost the economy the equivalent of 17% of GDP annually, and the government would need to invest 9% of GDP in order to prevent these losses. The current government just does not have money due

Environmental
policy

4

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to its debt obligations, and loss of donor support and foreign investments. Moreover, there is a lack of investment in productive areas, which could boost the economy of the country.

Education remains one of the key sectors for development and poverty alleviation of the government. So far, an official evaluation of the last strategic plan “Plano Estratégico da Educação (PEE) 2012-2016” has not been published but certain developments in the sector have become evident over the last years. With \$1.2 million and 18.6% of the 2015 state budget attributed to education, Mozambique spends more than many other African countries on education. (The average public expenditure on education among African countries is 15.5% of the total state budget). Expenses have mainly increased in relation to the number of staff in the education sector, which has improved the teacher-pupil ratio. Investments in infrastructure reduced over the years. The main focus is on primary education which receives 43% of all R&D investment, while secondary education receives 21%, technical training 8%, and administration and institutional development 26%. Only 1% of the education budget is spent on training basic reading and writing irrespective of the fact that half of Mozambique’s population is illiterate.

In the area of primary education, the quality of education has become, along with enrollment and competition rates, a key government objective. In order to bring better qualified teachers into schools, the training period for teachers has been increased from one year to two years.

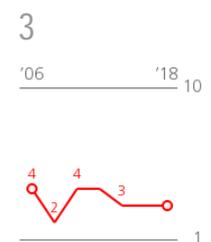
Despite these efforts enrollment rates have stagnated since 2008 and the completion rates have even gone down by 10%. The primary school dropout rate is at 68.4%. These negative developments relate to the high level of pupil abstentions (up to 56% in a class) and teachers (45%), and the mediocre capacities of teachers. Some of teachers are not able to conduct basic calculations themselves or do not recognize mistakes in spelling and grammar.

The teacher-pupil ratio has improved but still remains low at one teacher per 54 pupils. On average, 12,000 teachers are trained per year in order to comply with a demand of around 10,000. However, due to budgetary constraints fewer teachers than are trained can be integrated into the public education system.

In its tertiary educational sector, Mozambique has experienced a tremendous increase in the number of institutions. Currently, it has 27 public and 21 private higher education institutes.

Despite this increase, there is still slow and poor production of scientific knowledge. Research has not been considered as a backbone of economic development.

Education policy /
R&D



Governance

I. Level of Difficulty

Despite its favorable geographical location and a long coastline with existing port facilities in the south (Maputo) and center (Beira and Nacala), Mozambique lacks a qualified workforce. This is mainly due to the country's underdeveloped infrastructure that prevents integration into global value chains. With an efficient infrastructure and logistics network Mozambique could easily transform into an entry point for landlocked neighboring countries such as Botswana, Malawi, Zambia and Zimbabwe. But so far, Mozambique does not even benefit from a free-trade zone due to its lack of competitiveness.

Adverse weather events again and again reverse Mozambique's developmental gains. Recurrent floods almost on an annual basis impact on and destroy significant parts of the country's infrastructure. Whereas previously mainly southern provinces such as Inhambane and Gaza were affected by floods, the northern province of Pemba was hit by floods in three consecutive years (2014, 2015 and 2016). In 2016, drought hit several central and southern regions of Mozambique, leaving millions of people unable to support themselves through subsistence agriculture, their source of subsistence.

In early 2017, cyclone Dineo destroyed a substantial number of buildings, and electricity infrastructure in Inhambane, Sofala and Manica. On the other hand, Maputo city and Maputo province are facing drought-related problems which has led to the problem of lack of water for agriculture in Maputo province, and lack of potable water in Maputo and Matola cities.

HIV/Aids prevalence in 2015 was estimated at 10.5%, with a slight decrease in the age group of 15 to 49. Women are still the most affected and despite various information campaigns, only about half of the population has comprehensive knowledge about the disease. Traditional customs in rural areas still provide an obstacle, as relevant issues are taboo.

But it is interesting to note that it is within rural areas where fewer people are infected with HIV. Maputo city, for example, is the second city with the highest number of people living with HIV after Gaza province.

Structural constraints

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However, rural areas are still disadvantaged regarding infrastructure and early marriage. More girls are married below 15 years old in rural than urban areas.

Civil society participation was limited in Mozambique under the one-party state between 1975 and 1990. Given that the FRELIMO party's dominance continues, few genuinely independent civil society organizations (CSOs) exist. Many existing NGOs either trace their descent directly from the erstwhile socialist mass organizations or are satellites of the party. The latter have been established in order to generate government-loyal CSOs that compete for foreign funding with independent groups. Quite often these independent CSOs are criticized for following the donor agenda.

Particularly in Maputo, some re-known organizations have been established over the past decade, such as for example the Center for Public Integrity (CPI), Liga dos Direitos Humanos (LDH) and the Institute for Economic and Social Studies (IESE). It has also been very common in the face of state pressure that CSOs form their own issue-based networks and cooperation frameworks (e.g., Forum de Monitoria do Orçamento, Observatório Eleitoral).

Many community-based organizations or regional associations (typically calling themselves friends of a certain province or region) have been established as well, but these groups have often become substitute providers for services typically offered by states in more developed countries.

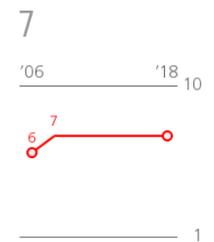
The last statistical data regarding the number of CSOs registered dates back to 2004. It is estimated that there were 4,853 CSOs in the country. In 2015, the European Union initiated a thorough mapping of civil society in Mozambique that provided the first comprehensive overview of the sector.

The economic and fiscal crisis, increased exploitation of natural resources as well as the shrinking space for civil society have enhanced the solidarity among civil society and have strengthened their voices. However, these voices have been silenced by political environment.

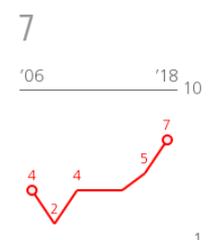
Conflict and violence in Mozambique have intensified during the review period. The recurring clashes between RENAMO and FRELIMO can be characterized as a low-intensity warfare about which the government does not speak publicly. The clashes increase migration, with refugees fleeing to neighboring Malawi, and human rights violations. The political conflict that exists between RENAMO and FRELIMO is not based on ethnic or religious groups.

According to independent reports, government forces seem to be the chief aggressors, contradicting the prevailing narrative that RENAMO rebels are the ones to blame. In stark contrast to the earlier civil war, the victims of violence over the last three years (which has included the looting and burning of towns and villages, and rape and murder of civilians) attribute it exclusively to government forces.

Civil society traditions



Conflict intensity



The violence spans central Mozambique and mediation efforts have been to no avail so far.

Today, more than ever before, opposition leader Afonso Dhlakama can mobilize large parts of the population by arguing that Mozambique's economic development has benefited only the political elites of FRELIMO rather than the common citizen.

II. Governance Performance

14 | Steering Capability

In the recent frenzied natural resource boom, the Mozambican government not only disregarded sounder models for revenue management but went on a spending spree. The government financed the spending spree with secret loans hoping that the loans could be repaid with billions of U.S. dollars that would be pouring into state coffers once exploitation had started. The government mortgaged the country's natural wealth and heavily indebted future generations.

Analyzing the debt crisis, the country's economic stability has been thoroughly undermined by an irresponsible political elite. It also becomes evident that the current president's overall steering capability is lacking due to the weakness of Nyusi's regime. Though, in the past, this was due to a lack of transparency among those in power. Ministries and the security sector took out bilateral loans without reporting it to the Ministry of Finance, and violated the budget law. State agencies set up private sector companies in order to channel and deviate public funds.

As various law projects over the last couple of years have shown, the government often lacks a coherent approach to harmonize new laws with existing ones. Although two key priorities of the government have been economic diversification and job creation, the approach to local policies necessary for promoting resource extraction remains weak. For example, in the context of the recent petroleum law, the only condition introduced was that a company be Mozambican-owned. This established the company's front offices, but did not promote economic diversification.

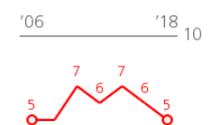
In general, Mozambique's legal and regulatory framework for economic development is considered adequate. The macroeconomic policies of the Mozambican government are sound and have been complemented by some structural reforms (e.g., exchange and trade liberalization, and the reduction of the state in the economy).

But overall implementation in many sectors is weak due to a lack of formal compliance mechanisms, the critical absence of sector specific expertise and

Question
Score

Prioritization

5



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Implementation

5



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technical knowledge, and centralized and bureaucratic decision-making structures that lead in many cases to institutional paralysis. In many policy areas, coordination remains ineffective or ad hoc political interference leads to reprioritization.

The most serious impediment for effective policy implementation is the interference of the ruling party and high-ranking individuals in their drive to pursue their own agenda. Informal policy influence in combination with state capture by the ruling party jeopardize any progress that could be achieved on the formal policy implementation level.

In addition, the government did not succeed in assessing priorities and trade-offs in the composition of investment. For example, government investment in infrastructure needed to balance investment in natural resources against investment in agricultural productivity (agricultural productivity would be more supportive of inclusive economic growth) and broader social infrastructure (e.g., water, health care facilities and schools).

The current government lacks independence due to interference of the previous government members. Recent scandals implicating the new government limits the government's flexibility. However, like previous governments, the new government has not learned from past experiences and is unable to address the main issues hampering development. Instead of cultivating a new culture of transparency, President Nyusi continued with the secretive attitude and non-disclosure of vital information.

At times, when sound exchange policies would have been crucial for fiscal stability, the central bank continued with preferential arrangements of foreign exchange acquisition for companies owned by FRELIMO cadres.

With regards to the conflict settlement with RENAMO, the government follows a hardline, and is unwilling to make concessions for the sake of peace and stability.

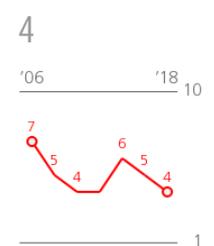
15 | Resource Efficiency

Apart from wasting resources on unrealistic development projects, no persecution is taken against the political leaders that devastate state resources.

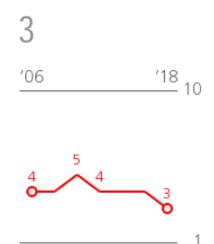
There is lack of efficiency in public human resource management. Most people who occupy high positions are appointed according to political alliance rather than competence.

Although, at the beginning of his presidency, Nyusi intended to break from the networks of his predecessor, Nyusi is not free from buying support in order to assert his authority. Some personal decisions might have been led by political motives. Particularly those cadres originating from resource-rich Cabo Delgado province feel

Policy learning



Efficient use of assets



entitled to their share of the prospective natural resource boom and need to be accommodated. This takes place either via appointments, or plays out in shareholdings or concessions of extractive projects.

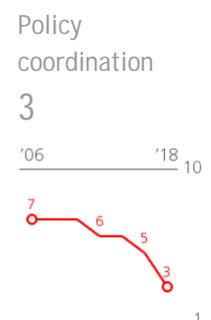
In the midst of financial distress, the government needs to tighten its belt. However, the Mozambican government today more than before relies on the loyalty of its public servants. Thus, cutting government salaries and privileges appears devious for those in power when no real social progress can be demonstrated, and instead the house of cards starts to collapse due to financial embezzlements and corruption.

For the last years, the Mozambican government spent money on dubious projects. Moody's downgraded the Mozambican government's rating to CAA3 (substantial risks and little prospect for recovery) as the agency sees an increased risk for creditors. Under-reporting of government debt, currency depreciation, shrinking foreign exchange reserves, a low commitment to service debt and a lack of transparency regarding public finances underpinned the assessment by Moody's.

In addition to the EMATUM debts (see "anti-corruption policy") additional state-backed loans to dubious companies (Proindicus; MAM) came to the light in April 2016. Just after EMATUM bondholders had agreed to restructure the debt, it was revealed that more than \$1 billion of debts were left undisclosed while the IMF had already tried to find ways to manage the known debt. In fury, the IMF stopped all subsequent payments of its emergency loan. In addition to the \$850 million EMATUM bond, a loan of \$622 million had been taken out for a maritime security project of Proindicus (which has the same security services (SISE) officer and CEO as EMATUM does). In order to beef up the Pemba Logistics Base project (the home province of President Nyusi and his main ally Alberto Chipande) an additional loan of \$550 million had been taken and backed by state guarantees. These sovereign guarantees have in fact been contravening Mozambican budget law, and went against the public probity law as well as the constitution. But nobody cared.

President Nyusi proclaimed at the beginning of his term that agriculture and rural development would be his government's budget priorities. However, as figures for various sectors show, the 9.6% allocated to agriculture and rural development are almost as much as the 8.5% for defense. The latter is mainly related to the repayment of the bonds taken out by the national fishing company, EMATUM, which covered the purchase of overpriced military equipment of dubious utility.

Fuel subsidies, a popular instrument for keeping the middle classes content, were part of a scheme that generated cash for the party illicitly rather than an effective policy instrument. According to an IMF report (January 2016), the amount of fuel imported was lower than the amount invoiced for, highlighting the tricks that allowed for self-enrichment of those in power.



In addition, the fuel price has now started to rise. The government maintained subsidies to public and private transport. However, transport systems are inefficient and do not provide limited services to cities. This punished the lower middle classes, because the government continued to give fuel for free to all senior members of the government and public administration.

As the previous government had been part of the problem, and political office bearers the main beneficiaries of highly corrupt and fraudulent activities, government efforts to contain corruption were superficial. When the Nyusi government took office, it was faced with a government expenditure gap of approximately \$900 million. It is assumed that in official reports anticipated tax revenues from oil companies were accounted for but never materialized. In addition, massive kickbacks for infrastructure projects were the order of the day during Guebuza's reign. The final estimated cost of \$785 million for the bridge linking Maputo over the Bay with Catembe was double initial estimates. The project financed through a credit line at the Export Import Bank of China also contributed to the indebtedness of the state.

In addition to the \$900 million that vanished from state coffers, the EMATUM scandal added another \$600 million that disappeared.

The worst example of how Mozambique's kleptocratic elite is able to abuse its powers, however, is the EMATUM scandal. In 2013 (see BTI 2016), EMATUM, a tuna fishing company, issued a \$850 million bond guaranteed by the government. The bond aimed to finance a fleet of 24 fishing vessels and six coastal patrol boats. It is now known that the tuna fleet concealed a massive maritime protection and security deal which would allow senior FRELIMO figures and the security establishment to secure vast kickbacks. Overpriced fishing vessels and high-speed trimarans not suitable for the stormy Indian ocean were part of the package that the previous Finance Minister, Manuel Chang, signed in secret without going through the proper channels or even consulting parliament. The money was spent in total and upfront, and no provision was made for recurrent expenditure such as training and salaries. The Chief Executive Officer of EMATUM, António Carlos do Rosário, is also an officer in the intelligence service, Serviço de Informação e Segurança do Estado (SISE), and a close confidant of former President Guebuza.

Inertia by the judicial authorities, in the face of large-scale corruption scandals, create the impression of a country that is not willing or able to deal with corruption, and cultivates a culture of impunity.

Anti-corruption
policy

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'06 '18 10



16 | Consensus-Building

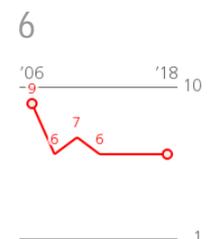
Although President Nyusi started off with a reformist aura and had gained substantial support in the first months of his presidency, now trust and confidence in his democratic disposition and capacity to pursue democratic reforms have vanished. Democracy is part of the donor canon and therefore will continue to be part of the government's rhetoric. However, the increased influence of state security services and the prevailing impression that even the president is not in control of security agents, paints a sober picture for the future of democracy in Mozambique. Impunity for high-level corruption, and politically motivated assassinations and violence call into question whether the main political actors still agree on a political system based on democratic values. However, all main political actors agree that democracy is the best way to develop. It seems that all agree - mainly the opposition parties - that the country must not become an authoritarianism regime. This might be the reason why some people agree that Dhlakama - the opposition leader - should remain alive to safeguard some democracy. This is because some people believe that FRELIMO can only be confronted by RENAMO rather than other opposition parties.

The focus of the governing elite remains on promoting the interests of Mozambican businesses, many of which are in the hands of the FRELIMO nomenklatura. Market-economic principles are endorsed by all political actors, including the opposition, but used to their own advantage.

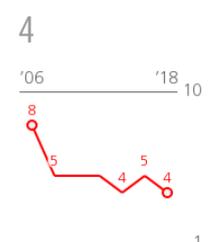
Reformers within the ruling party have so far failed to reign in anti-democratic actors. FRELIMO has a highly secretive and centralized organizational culture. Considerable importance is placed on following the instructions of the hierarchy, as repeated purges of party members who have failed to follow orders have demonstrated in the past. Governmental positions are no guarantee against marginalization within the party and, without party support, those in power cannot last. Party discipline serves as the primary guide to behavior. What has changed under President Nyusi is the fact that the last word does not seem to remain with the president. The system Guebuza established for the re-distribution of rent-seeking opportunities and intimidation extends beyond his official position of power. The "with us or against us" mindset has created a tendency to use inclusion (to party and economic benefits) or exclusion as strategies for control. It has closed the ranks of the party in the midst of the recent debt scandals and impacts profoundly on the political culture of the country.

Nyusi did not manage to build a solid power base of his own that could provide him with sufficient independence for fostering a democratic agenda.

Consensus on goals



Anti-democratic actors



It does not appear that any reformist group promoting good governance, transparency in the extractive industry sector or accountability will be able to establish itself as a rival power within the party in the short term.

On the opposition side, the democratic disposition of Afonso Dhlakama equally has to be questioned. For him, the prime motive is access to resources and not a further democratization of the country's political system. When demanding a de-politicization of the public administration, which if done in the proper sense would enhance efficiency and professionalism in the public sector, he has in mind a further politicization of the state by bringing in his own party cadres.

FRELIMO was initially created as a national liberation movement. RENAMO drew its support mainly from the social and political cleavages within FRELIMO during the struggle for independence, while following some nationalist framework. After the war, these war-induced cleavages became a driving force behind the development of Mozambique's two-party system, manifesting as south versus center, the ethnic Shangaan versus the Ndaou, and the centralized socialist state versus traditional rural authorities. Yet though these cleavages played out in the party system, they were never institutionalized in the post-war political structure. When Mozambique started its fast economic growth, and an internal power transfer within FRELIMO resulted in a president from the north, the regional cleavage gave way to more socioeconomically defined cleavages within society. In addition, by granting traditional authorities official status and by engaging in a decentralization process, the government has also managed to come to grips with the center vs. periphery, traditional-rural vs. modern-urban divide.

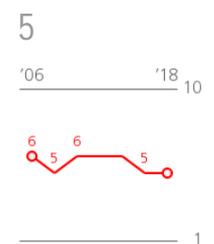
For two decades, the ruling FRELIMO party and its political leadership were able to draw their legitimacy from their history as a liberation movement, and as the figures that brought peace to the country after decades of civil war. Still, in the 2009 elections FRELIMO was able to mobilize large segments of society from left to right, making it difficult for the opposition to exploit existing and newly developing cleavages.

Following the two mandates of President Guebuza, cleavages within society have deepened. Those who previously would not have openly aligned themselves with opposition parties feel inclined to do so today. The abuses of the ruling elite alienate large segments of society and bring opposition parties as well as civil society actors closer to each other.

Although an ongoing dialog between policymakers and civil society does exist, it cannot be considered strong, frank or open.

By invitation from the government the following formats have been established: the Open and Inclusive Presidency (PAI), which was a presidential initiative of Guebuza promoting the evaluation and consultation on the performance of district governmental institutions; Development Observatory (OD) for the process of drafting

Cleavage /
conflict
management



Civil society
participation

4

and monitoring the poverty reduction strategy papers; as well as institutions for community participation and consultation (IPCCs), which are community participation mechanisms at district level composed of local councils, local committees and local forums.

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

In general, the efficacy and viability of consultative councils and development observatories remains limited. Also, the engagement of civil society with parliament, and provincial and municipal assemblies is weak. Access to information, untimely notification of meetings, politicization of the dialog, and the weak representation of communities in consultative councils are striking weaknesses of the consultative structures.

After the Rome peace accords, Mozambique missed the opportunity to develop a culture of reconciliation. No official structure such as a Truth, Justice and Reconciliation Commission had been created nor were war atrocities addressed through other channels. Even RENAMO militants integrated in the defense forces or police had to face discrimination and encountered various obstacles along their career paths.

In addition, the political attitude of President Guebuza also impeded any dialog with political leaders of the opposition. Whereas Joaquim Chissano had entertained regular meetings with Afonso Dhlakama, this habit stopped under his successor.

These omissions certainly fostered a political culture characterized by the increasing dominance of FRELIMO and marginalization of the opposition. Meanwhile, new and old feelings of vengeance developed among political actors and sympathizers in society.

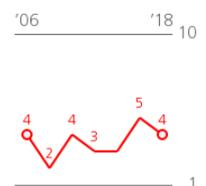
It was only under the pressure of RENAMO violence that the Council of Ministers in November 2014 approved the law to establish the Fund for Peace and National Reconciliation (Fundo de Paz e Reconciliação Nacional). This fund provides \$10 million per year to finance socioeconomic projects targeting demobilized soldiers, antigos combatentes and veterans of the armed struggle.

With the new atrocities carried out by government forces, the process of reconciliation has been stopped and resolving the root causes of the conflict becomes even more important. However, reconciliation and reconstruction of society along



Reconciliation

4



democratic values also has to address the question of impunity with regards to violence as well as to corruption and self-enrichment.

17 | International Cooperation

Due to the economic and fiscal situation, the government had to revert to the support of ad hoc emergency measures. Mozambique continues to rely heavily on foreign aid which amounts to approximately 25% of its \$4.92 billion state budget.

Besides of the IMF, China remains an important partner in international cooperation. In 2015, the Chinese government in the light of Mozambique's crisis canceled interest due on a loan of \$886 million on condition that the government would continue to borrow from the Chinese government. However, when President Nyusi traveled to China in May 2016, he failed to mobilize more funds for his empty treasury.

The way Nyusi's government handles the economic crisis and the secret loans scandal has totally discredited his presidency and government, although they might even not be responsible for the mess. By mid-2016, when the scale of deception could no longer be denied, the IMF increased pressure on the government to set up an independent audit, but Nyusi refused with many within FRELIMO aiming to cover-up the scandal.

Mozambique, once the donor darling in the region, has lost international credibility, and international donors and the IMF are becoming increasingly assertive.

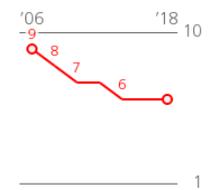
For Mozambique sound and cooperative relations with neighboring countries are essential in order to unlock its own developmental potential. Particularly the corridors linking Mozambique's landlocked neighbors to the seaports intensify relations and cross-border trade.

A special relationship exists between Mozambique and its economically dominant neighbor, South Africa. Here Mozambique has to safeguard cautiously its own national interests while at the same time taking advantage of the benefits of close cooperation in areas such as energy, railways, seaports and tourism. Mega-projects related to the energy sector (such as the Mphanda Nkwa Dam, Cahora Bassa and the establishment of a high voltage line between Tete and South Africa) all depend on the commitment of and demand from South Africa. Recently South Africa seems to aim for reduced dependencies on regional solutions and likes to prefer national solutions such as expansion of nuclear power.

Besides these mega-projects, Mozambique also relies on South African investors in the commercial field. Over 300 South African enterprises currently operate in Mozambique generating employment opportunities and revenues for the state.

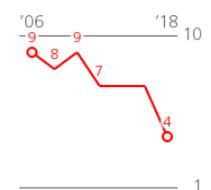
Effective use of support

6



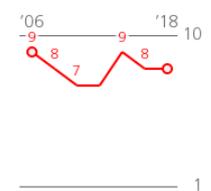
Credibility

4



Regional cooperation

8



Despite an economic crisis on both sides, Mozambique and Zimbabwe have intensified trade relations. Mozambique has become Zimbabwe's second largest regional trading partner in southern Africa. Approximately 18% of the Zimbabwe's exports, mainly mining equipment, agricultural products, as well as building and construction material entered Mozambique.

Mozambique, Zimbabwe and South Africa also intensified their cooperation on border security during the review period, enhancing their joint operations against illegal migrants and smuggling.

With Tanzania the long-standing close relations further intensified with the abolition of visa obligations for citizens of both countries in 2015. As head of the AU Election Observer Mission to Tanzania in October 2015, former Mozambican President Guebuza ensured that no critical remarks on the integrity of the electoral process in the neighboring country appeared in the election observation report.

Mozambique shares its longest border with Malawi, although relations between the two countries have not always been conflict-free. The navigation of the rivers Zambeze and Chire had been at the center of bilateral disputes. However, since 2012 relations have improved and deeper bilateral cooperation can be noted. Even the flow of Mozambican refugees into Malawi during the last years has not impacted on bilateral relations, yet.

Strategic Outlook

The main challenges for Mozambique over the forthcoming months will be:

- restoring donor confidence. This will involve adopting the findings of the IMF-backed audit into the debt scandal and investigating key actors (e.g., senior FRELIMO figures) implicated in the scandal. This will be the biggest stress-test for Nyusi's presidency.
- restoring public confidence in the government. This will require the president to reign in the security services, and address the climate of fear and intimidation that some within the security services are promoting.
- ending the culture of impunity and corruption endemic in politics, which will necessitate the strengthening the judiciary's independence and capacities.
- re-establishing peace and reconciliation negotiations between the government and RENAMO. Therefore, the ruling party, FRELIMO, will have to abstain from further violence and avoid the temptation to improve its bargaining position through violence.
- establishing an inclusive political process, which would include opposition political parties (e.g., MDM), and promoting further decentralization.
- preparing for transparent and fair local government elections to improve public trust in and enhance the legitimacy of the currently discredited electoral process.
- enhancing investor confidence in and attractiveness of the economy. This will involve reducing bureaucratic requirements for establishing and managing a business, while finding a balance between promoting a conducive investment environment and generating government revenue.
- seeking international assistance for the re-structuring of government debt, while establishing open and transparent accountability mechanisms, and strengthening the role of civil society in policy-making.
- developing viable economic policies that promote economic diversification, realistic local policies and above all the creation of formal employment opportunities.
- reducing the inflation rate and managing the impact of high commodity prices on vulnerable sections of the population, while supporting new policies to boost agricultural production and reduce poverty.