

BTI 2016 | Mozambique Country Report

	scale	score	rank	trend
Status Index	1-10	5.23	# 74 of 129	
Political Transformation	1-10	5.60	# 66 of 129	↘
Economic Transformation	1-10	4.86	# 83 of 129	→
Management Index	1-10	5.00	# 64 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	27.2	HDI	0.393	GDP p.c., PPP \$	1137.1
Pop. growth ¹	% p.a.	2.8	HDI rank of 187	178	Gini Index	45.6
Life expectancy	years	50.2	UN Education Index	0.372	Poverty ³	% 87.5
Urban population	%	31.9	Gender inequality ²	0.657	Aid per capita \$	87.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Mozambique's fifth general election, held on 15 October 2014, marked the end of Armando Guebuza's presidency. While President Guebuza's government presided over strong economic growth based on natural resource extraction, it also restricted the political space for opposition. In addition, the executive consolidated its power over the parliament and judiciary, while strong party discipline made institutional checks and balances ineffectual. Under President Guebuza, senior party members extended their control over strategic economic sectors.

The 2014 elections also signified a generational change from a generation of veteran freedom fighters to a generation socialized within the liberation movement of FRELIMO. During the period under review, the MDM, which had emerged as a third force in politics in 2009, demonstrated its popular support during the local elections in November 2013, which has broken Mozambique's two-party system for good.

However, during the period under review, Mozambique experienced its worst level of violence since the end of the civil war. The main opposition, RENAMO, reacted with violence to the increasing politicization of public administration and the economy by FRELIMO. Elections in 2013 and 2014 were characterized by inter-party tensions and public distrust in state institutions.

The economy maintained robust GDP growth rates. Although the economic growth was lower than expected due to severe flooding in 2013, the rate of GDP growth was 8.4% in 2014 and is projected to be 8.2% in 2015. This has been driven by an increase in coal production and government expenditure, and a series of megaprojects in the aluminum sector, extractive industries and energy sector. The capital-intensive nature of economic growth has had a limited effect on poverty reduction, as economic growth has not created enough jobs to match the rate of growth in the labor force. Mozambique remains one of the least developed countries in the world. A lack of human capital and poor physical infrastructure restrict economic and social development, with private investors often required to invest in their own infrastructure.

An increase in the fiscal deficit was driven by government expenditure on physical infrastructure projects and higher public sector pay. Meanwhile, the tax base remains narrow, which limits growth in government revenue and increases dependency on international aid.

History and Characteristics of Transformation

During the long and extremely brutal civil war, lasting from 1977 to 1992, both parties had received external support in the context of the Cold War and through the neighboring white minority regimes in Rhodesia and South Africa. Before the war ended, FRELIMO had already started the transition process before the end of the civil war with a new constitution establishing a multiparty system and free market economy (1990). Like transitions in other lusophone countries, it was led from above, steered by the ruling political elite and adapted to their needs. This feature remains the dominant characteristic of Mozambique's transition process today. Neither civil society nor opposition parties have played a decisive role in shaping the country's democratization process. As a result, FRELIMO has won all presidential and parliamentary elections by increasing margins over time. The ruling party consolidated its grip on power over the last two decades by presenting itself as a credible partner for the international donor community. By fostering a free-market economy and establishing a favorable tax regime, it opened the country to foreign direct investment, which provided the country with macroeconomic growth rates well above other countries in the region. The discoveries of coal deposits in the northern province of Tete, gas in Inhambane province and petroleum offshore have not only attracted international mineral-resources companies, but have also linked business interests, party and that state much more tightly together.

On the political front, the bipartisan character of the party system started to dissolve with the emergence of the Democratic Movement of Mozambique (Movimento Democrático de Moçambique, MDM) in the 2009 elections. An offspring of RENAMO, MDM managed to establish itself as a credible political alternative within local politics.

Whereas political and economic liberalization progressed under President Joaquim Chissano, the assumption of the presidency by Armando Emilio Guebuza, the former minister of the interior and a well-established businessman, has brought a change in style. Regressive tendencies became a dominant feature of Mozambique's democratization process. A self-absorbed and business-oriented political elite received a wake-up call in the form of riots in 2008 and 2010, demonstrating the government's growing distance from its own population. The alienation of the regime also manifested itself in declining voter turnout. RENAMO adopted non-democratic methods to counter the self-righteous style of the ruling party. This was an *ultima ratio regum* and, in challenging the ruling party, won the opposition public support.

Twenty-three years after the Rome Peace Accords of 1992, the power balance between the former belligerent parties seems to have been re-established, which has undermined democratization. Currently, the conflict between the two parties is a major concern for Mozambicans and the international community.

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

The state's monopoly on the use of force has been severely challenged during the last two years.

First, RENAMO leader Afonso Dhlakama withdrew with hundreds of former RENAMO fighters to his wartime headquarter in the Gorongosa national park. His aim was to pressure the government into negotiating the creation a government of national unity, the integration of former combatants into the national army, a de-politicization of the National Electoral Commission and a separation of party and state. In addition, it is suspected that RENAMO also aims for a repartition of income generated from Mozambique's natural resources.

In April 2013, the police's rapid reaction force (FIR) finally entered occupied territory and arrested a number of combatants. However, this triggered a counterattack on the local police station. Sporadic clashes between RENAMO fighters and state security forces persisted for months afterwards. In October 2013, the RENAMO base and HQ of RENAMO leader Afonso Dhlakama Satungira was captured by the army (FARDM). This forced Dhlakama to flee and the escalated the scale of the conflict.

In early 2014, observers described the hostilities as an undeclared war. Within a year, clashes between government and RENAMO forces spilled from the Manica and Sofala provinces into the touristic, southern province of Inhambane.

Although elections were held across Mozambique, Afonso Dhlakama has since declared an autonomous state. This separatist state encompasses those provinces where RENAMO won the elections, which are in central and northern Mozambique, excluding Cabo Delgado. This declaration demonstrates that RENAMO is challenging the national government militarily and politically.

Question
Score

Monopoly on the
use of force

6

Crime is increasing, especially kidnappings. In Maputo alone, there have been more than 100 kidnappings over the last two years, mainly of Indo-Pakistani or Portuguese citizens. The purpose of the kidnappings is to extort a ransom from the victim's family. Police are overstretched and do not have the capacity to investigate this new form of organized crime.

Nation building in Mozambique has largely been shaped by decolonization and the liberation movement FRELIMO. Whereas the Portuguese colonial regime provided the delimitations of the territory, it was mainly FRELIMO that, by marginalizing ethnic distinctions, created the modern nation. For example, Portuguese was adopted as a unifying language. Liberation also implied modernization and asked introspective questions, such as what makes someone Mozambican? What does it imply to be Mozambican? Or, as the 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 of a state of being).

However, this does not mean that questions of ethnic identity and ethnic cleavages do not have any significance. Particularly among elites and academics, vivid discussions take place on the topic. However, FRELIMO aims to prevent the emergence of ethno-regional parties. The Mozambican Constitution explicitly prohibits parties with an ethnic or regional character.

This approach to issues of ethnicity is a reaction to the rhetoric of the ruling party, which stated “*Em Moçambique só há moçambicanos*” while also acting in favor of an ethnically homogenous elite.

National unity as such has never been an issue of controversy until recently. Whether the demands of RENAMO leader Afonso Dhlakama for an autonomous state encompassing the central and northern provinces will perpetuate ethnic cleavages remains to be seen. Already, an increased regionalism can be observed.

Article 54 of the constitution guarantees the freedom of religion and underlines the laic character of the state. Due to its communist history, FRELIMO governments would keep religion out of public life, while tolerating their socio-political engagement. However, during election periods the ruling party used religious gatherings to mobilize people.

A new law has recently been passed, which allows primary and secondary schools to be managed by religious organizations. However, as with the Catholic or Islamic universities, these schools are not allowed to teach religious issues.

Building a strictly secular state also kept religious influence at bay. Nevertheless, in the 1990s, peace talks were facilitated by the Catholic lay community of Saint Egidio,

State identity

9

No interference of religious dogmas

9

who was an interlocutor accepted by both sides. He came into play again by mid-2014 when peace talks between the government and RENAMO stalled.

Interfaith cooperation in Mozambique is high. For example, the Council of Christian Churches, the Catholic Church and the Islamic Council cooperate together within the Observatório Eleitoral, a body that has monitored electoral processes 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. However, increasing numbers of Mozambican clerics are seeking training in Egypt, Kuwait or Saudi Arabia. As a result, these clerics will probably return with a more fundamentalist concept of Islam than the Sufi inspired, Swahili-based Islam previously practiced.

Speaking about public administration in Mozambique one has to take into account the various layers of governance, including central, provincial, municipal (autarquias) and district. The decentralized state administration is supposed to enhance administrative service delivery and contribute to poverty reduction.

Basic
administration
6

Basic administrative structures exist and the country has made enormous strides in improving service delivery.

However, as sanitation services in urban areas demonstrate, the system remains underfunded. Basic administrative services need adequate funding. Therefore, revenue generating and an efficient tax system are essential for good governance.

For the last 15 years, the Mozambican government has intended to reform the public sector and introduce the Estratégia Global de Reforma do Setor Público (EGRSP). These reforms aim to foster good governance through enhancing the efficiency, effectiveness, control and accountability of government and public participation in governance. In this context, the government has developed an eGovernment Strategy. This strategy incorporates other ICT projects, such as Provincial Digital Resource Centers, Multimedia Community Centers Program. Although these projects catapult parts of Mozambique into a different world, they also reveal the bipolar nature of the country's development process.

2 | Political Participation

Universal, direct, secret and periodic elections are protected as a constitutional right that equally applies to the diaspora community. The presidential term is limited to two terms by the constitution.

Free and fair
elections

7

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, the quality of elections has deteriorated. Violent clashes, infringements on the right of assembly and an imbalanced playing field have become characteristic of elections.

During the period under review, Mozambique had two election periods. In November 2013, the autarquias elections were held. In October 2014, presidential, parliamentary and provincial elections were held. These elections took place in a climate of high political tensions and within a new legal framework. The 2004 constitution guarantees fundamental rights and civil liberties for all citizens. Since the previous elections in 2009, a number of reforms have been introduced to harmonize the electoral framework.

These changes increased the representation of political parties at all levels of politics. They also shortened the appeals process and introduced a complaints process for the most local level (polling station). They introduced a requirement that the electoral roll be shared electronically with all political parties 45 days before an election. Despite its good intentions, several serious challenges remain. For example, political parties are not able to provide sufficiently trained staff to man all polling stations. Meanwhile, voters and political parties are inadequately informed about the new complaints procedures. Some valid complaints have been rejected, for example, because a first complaint had not been submitted at the polling station (MDM complaint regarding incident in Gurué during 2013 autarquias).

For the autarquias elections, the number of new municipalities was increased to 53. RENAMO boycotted the local elections. RENAMO's leader Afonso Dhlakama has positioned armed combatants around Gorongosa Park. RENAMO boycotted the elections because the electoral reforms introduced had not been sufficient. Due to this pressure during the autarquias elections, the management of future elections was made more inclusive from 2014.

Following an agreement to end hostilities between the government and RENAMO, the 2014 presidential, legislative and provincial assembly elections were tense, but peaceful.

Although the election campaign began peacefully, it did not take long for the first isolated incidents of violence and intimidation to emerge. These incidents first occurred in the Gaza and Nampula provinces, before spreading to the Sofala, Manica

and Tete provinces. Election campaign materials were damaged and in isolated cases, property was vandalized.

Although proceedings were more or less orderly on election day, a series of irregularities occurred in four provinces, including restrictions on the movements and access to information of election observers and political party representatives.

In addition, the role of the police and its relationship with opposition parties became more contentious. Distrust of the police within RENAMO and MDM increased. Both parties claimed that the police were not protecting their rallies against disruptive attacks.

As in previous elections, the ruling party's use of state resources for its campaign was an issue. This also included campaign airtime on public media for the government. As in previous elections, public campaign funds arrived only seven days before the official start of the election campaign period, not the 21 days legally required.

Democratically elected representatives have the power to govern, except in areas controlled by RENAMO. Yet, RENAMO cannot be regarded as a veto power, because the party has no substantial influence over government decision-making.

Effective power to govern

6

Besides the influential party cadres of FRELIMO and the supremacy of the party itself, no other potential veto players exist in Mozambique.

Article 52 of the constitution guarantees every citizen the right to associate freely. Although organizations promoting xenophobia, racism or violence 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 8/91, which details the right to free association, as well as by the relevant articles in the Civil Code (Arts. 167/184).

Association / assembly rights

6

The right to assemble is subject to notification and timing restrictions. In practice, it is also subject to government discretion. In several instances, campaign rallies had been violently disrupted by rival party activists, though most campaign events are peaceful. Security forces have at times broken up protests using a disproportionate level of force.

The constitution guarantees workers the freedom to join independent trade unions, participate in strikes and collectively bargain. Public sector workers require a special government permission to join a trade union, which are rarely granted. Employee associations exist, which represent the grievances and interests of their members.

During recent elections, the space for opposition forces to operate and assemble freely diminished. Regular infringements of political rights occurred, despite the fact that civic and political rights are guaranteed by the constitution. Acts of violence and political intolerance, during election campaigns, underline the necessity of further electoral reform.

There are three main categories of civil society. In urban areas, particularly Maputo, academically orientated organizations, largely dominated by the elites, operate as interlocutors for many international donors. A second group is single issue-based organizations (e.g. health, climate change, poverty reduction) and mainly service orientated. The third group is community-based organizations. This is the largest group. However, this group generally has limited organizational capacity and lacks resources. The last two groups provide essential services to peripheral communities. As freedom of speech and freedom of press are similar, but will be differentiated in this assessment.

During the period under review, infringements on the freedom of speech have been reported. To a certain extent critical comments about the government remained without reprisal. However, national intelligence agencies are allegedly monitoring the e-mail correspondence of opposition party members.

Freedom of the press also deteriorated, despite progress on a legal framework. Physical attacks against journalists were reported, which involved the security services.

The 2004 constitution guarantees freedom of the press. The Supreme Mass Media Council is supposed to guarantee freedom of the press and the right to information. The constitution explicitly protects journalists and their sources. However, criminal libel and defamation laws deter journalists from writing freely. Online bloggers and community radio journalists remain particularly vulnerable. To protect themselves, independent media often release sensitive stories at the same time.

In December 2014, parliament finally passed the long awaited Access to Information Bill (ATI). This bill obliges public and private bodies invested with public powers to release information upon request.

According to the Media Institute of Southern Africa, radio stations continue to face numerous bureaucratic procedures to obtain operating licenses.

The media sector as such is still dominated by state-owned media. Televisão de Moçambique (TVM) is the only domestic television channel broadcasting nationwide. Government funding accounts for 70% of its budget. TVM shows a strong bias towards government and provides limited space for opposition parties. Particularly in rural areas, radio continues to be a key source of information. State-run Radio Moçambique is the most influential broadcaster and broadcasts in 18 local languages. Private FM frequency radio stations operate in rural areas, but with limited reach. Relying on volunteers and international funding, the sustainability of these local FM radio stations is uncertain. With print-runs only in Portuguese, the outreach of print media remains limited beyond Maputo and the provincial capitals.

Internet access has so far been unrestricted, but penetration is extremely low and limited to urban areas. In 2012, less than 5% of the population had access to the internet.

Freedom of
expression

6

3 | Rule of Law

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

Separation of
powers
4

One feature of the presidency of Armando Guebuza has been the centralization of power within the executive and the enhanced dominance of the ruling party over all state institutions. It appears that Frelimo is the state and the state is Frelimo. With a powerful executive dominating the legislature and judiciary, combined with strong intra-party discipline, formal checks and balances become ineffectual.

The worst situation remains within the judiciary. The courts are the institution of last resort for most citizens. However, due to the courts dependence on government, it remains weak and incapable of providing the necessary checks and balances.

Equally, the Attorney-of-State remains a weak position within the judicial system. The Attorney-of-State is nominated directly by the president, without the involvement of the National Assembly.

The opposition requires one-third of MPs, which it did not have until after the last elections, to petition the Constitutional Council. Notably, the government continuously referred to the principle of separation of powers during negotiations with RENAMO. The government argued that it did not have the power to instruct the National Assembly.

The independence of the judiciary in Mozambique is mainly tainted by the lack of a separation of powers and political interference. Membership of the ruling party is a de facto prerequisite for access to positions within the public administration or judiciary.

Independent
judiciary
4

The independence of judges and enforcement of law are also marred by widespread corruption. Corruption in the justice system has become endemic. The Attorney General was forced to call for the removal of all corrupt judges, attorneys and judicial staff. Underpayment has been a major reason for this situation.

The newly established Justice Centers (Palacios da Justiça) aim to facilitate the flow of information within the justice system and speed up legal proceedings. Access to justice for poor people has been improved by the creation of the Institute for Legal Assistance and Representation (IPAJ).

Despite the efforts of the government to address the problem of corruption, it remains a serious problem in the public as well as in the private sector.

In reaction to the past scandals and mounting pressure from international donors, new anti-corruption bills were introduced in August 2012, though loopholes still exist. For instance, the Anti-Corruption Law defines only passive and active bribery. It does not address forms of corruption, such as embezzlement. The Central Office for Combating Corruption (Gabinete Central de Combate à Corrupção- GCCC) passed its green guidelines and expanded its institutional structure to the provincial level (Gabinetes Provinciais de Combate à Corrupção). However, no senior public official has yet been investigated by the GCCC.

Having been heavily criticized by international donors for a lack of strategic action, the government also announced it would restore a culture of accountability

During the period under review, a Central Commission for Public Ethics (Comissão Central de Ética Pública) was created. Its main objective is to institutionalize a new ethics of public service. Public service providers have to declare their international and domestic assets.

Whistleblowers still do not enjoy any particular protection in Mozambique. To the contrary, it seems that those within the system who do not adhere to the rules of the game will be sidelined immediately.

After the October 2014 elections, a leading intellectual of the ruling party, Sergio Vieira, argued that FRELIMO's worst election results since 1999 was directly linked to the incompetency, abuse and corruption within the public administration. Vieira criticized specific FRELIMO parliamentary candidates and party practices that contradict internal party directives.

The Mozambican constitution's Chapter III protects the basic rights of all citizens. During the period under review, the most severe civil rights infringements included the failure to guarantee political rights and freedom of assembly during the elections, politically motivated killings and abuses as well as domestic violence.

Lengthy pretrial detention, harsh prison conditions and political constraints on press freedom remain serious problems in Mozambique.

Although discrimination against homosexuals and persons with HIV/AIDS is common, former President Joaquim Chissano called on African leaders to protect sexual rights in an open letter to African leaders. His call followed the introduction of anti-LGBT laws in Uganda and Nigeria.

Religious freedom is well respected in Mozambique. There are about 810 religious groups and 190 religious organizations registered with the Directorate for Religious Affairs, which is part of the Ministry for Justice. There has been an increase in the influence of neo-evangelical churches.

Prosecution of
office abuse

4

Civil rights

5

4 | Stability of Democratic Institutions

The existing democratic institutions have produced an adequate legal framework. However, the implementation of most regulations is limited. This is due to the lack of executive capacity and political will. The executive and Frelimo dominate the other state institutions.

Performance of
democratic
institutions
6

As evidenced by many academic studies, structural reform of state institutions is required to increase their efficiency. These studies recommend that the presidential system should be abolished in favor of a parliamentary system with a prime minister responsible to parliament.

The latest electoral reforms, however, have produced highly politicized state institutions. This also calls into the question the independence of state institutions like, for example, the National Election Commission or the Constitutional Council.

The National Assembly is dominated by the ruling party, which prevents it from providing an adequate check and balance on the executive. In particular, parliament has failed to scrutinize legislation. With a stronger opposition after the last election, parliamentary debates may become more dynamic.

The judiciary not only lacks independence, but also resources. Public administration lacks transparency, but also lacks neutrality due to the dominance of FRELIMO cadres within.

FRELIMO, the ruling party since independence, has used the democratic framework to further its own interests. Democratic institutions and the military are dominated by FRELIMO. RENAMO, under the leadership of Afonso Dhlakama, has repeatedly declined to participate in democratic institutions, including parliament, local councils or elections. Moreover, since returning to arms in 2013, RENAMO and Dhlakama have contradicted the Rome Peace Accords, concluded 20 years ago. Dhlakama announced that RENAMO would establish its own government in provinces where RENAMO had won a majority in the last election. This demonstrates a perception that democratic institutions have been captured by FRELIMO. It was only after two rounds of negotiations between Dhlakama and President Nyusi that RENAMO MPs took their seats in the National Assembly in February 2015.

Commitment to
democratic
institutions
5

Associations and civil society organizations repeatedly criticize state institutions for their ineffectiveness and the limitations they place on citizens' rights.

5 | Political and Social Integration

In 1992, a presidential, multiparty system replaced the one-party system that had prevailed since independence. In 2009, with the emergence of the MDM, the party landscape in Mozambique started to change substantially. Despite the MDM only standing in nine out of 13 parliamentary constituencies, the party won eight seats in the National Assembly. The MDM had a good record of delivering services in autonomous municipalities, such as Beira and Quelimane, which strengthened its potential. This laid the foundation for the MDM successes in the November 2013 local elections, in which it also benefited from the boycott of RENAMO. The MDM is now represented in 51 out of 53 municipal councils and holds the mayoralty in Beira, Nampula and Quelimane. It even managed to win a substantial number of seats in the municipal assembly of Maputo, which has long been a stronghold of FRELIMO.

Party system
6

In the October 2014 elections, RENAMO re-emerged as the second most important party, while the MDM was unable to substantially benefit from public disillusionment in FRELIMO. Filipe Nyusi, the FRELIMO presidential candidate, won the presidential election with 57% of the vote. FRELIMO also won 144 seats in the National Assembly. In contrast, Afonso Dhlakama, the RENAMO presidential candidate, won 37% of the vote, while RENAMO won 89 seats. Meanwhile, the MDM increased its seats in the National Assembly from 8 to 17. Daviz Simango, the MDM presidential candidate, won 6% of the vote. There were a further 26 political parties that contested the elections. These parties won a combined 3% of the vote and failed to secure any seats in the National Assembly.

An evaluation of the 2014 elections and the recent violence between RENAMO and FRELIMO demonstrates that the same cleavages exist today as in 1994. In 1994, FRELIMO won 44.03% in the presidential election and 129 seats in the National Assembly, RENAMO won 37.8% and 112 seats, while the UD coalition won 9 seats. The widespread fatigue with the war that existed in 1994 has been replaced by the widespread fatigue with FRELIMO politics today.

President Guebuza gave much power to former mass organizations, such as youth, women's or teacher's organizations, created after independence. These organizations were also linked to the ruling party. Their strong presence in public life marginalizes other interest groups.

Interest groups
3

The features of Mozambique's political economy are deeply entrenched. Rent seeking, corruption and patrimonialism are common themes. Frelimo's elite interest groups are the gatekeepers for foreign investment. With their own private companies, the political elite profit from the booming economy.

In this context, it is extremely difficult for civil society and interest groups. Labor organizations in particular remain weak in terms of articulation of their members' interests. Especially in the current context of excessive natural resource exploitation, in which labor plays a strong role, one might have expected to find much stronger organizations mediating between the interests of citizens, businesses and the state.

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

Civil society organizations have demonstrated a desire to participate in the country's governance, but their overall impact has been limited. For example, the Council of Churches attempted to mediate the political conflict, but with little impact.

The Afrobarometer survey has highlighted some interesting trends between 2002 and 2012. Overall, commitment to democracy is low, but slowly increased. In 2012, 63% of respondents in Mozambique stated a commitment to democracy, compared the African average of 75%. Only in Mali and Lesotho was commitment to democracy lower than in Mozambique. Of particular concern is the high level of public alienation. In 2012, 25% of respondents stated that they did not care about the political system or do not know which system they preferred.

Approval of
democracy
4

Interestingly, the proportion of respondents that rejected a presidential autocracy increased from 42% in 2008 to 58% in 2012. Meanwhile, in 2012, 57% of respondents rejected a one-party system, compared to 50% in 2008.

The low public level of identification with democracy reflects the low level of commitment among the political elite to democratization.

The perceived state of democracy in Mozambique has deteriorated between the presidencies of Chissano and Guebuza. In 2002, 16% of respondents stated that there were substantial democracy deficits. This increased to 23% of respondents in 2012. Nowadays, there are more infringements on civil and political liberties, and people are cautious about openly expressing political opinions. In 2012, 64% of respondents stated that they did not feel free to criticize the government openly. This was an increase on 44% of respondents in 2002.

Increased public distrust in the political system is also evident in declining voter turnout. In 1994, voter turnout was 87.87%. However, subsequent elections have been characterized by an increasing indifference and apathy. In 2009, the abstention rate was 55.27%. Although voter turnout was 48.64% in 2014, this was only a slight increase.

The state of self-organization and social capital in Mozambique strongly depends on the regional context. Particularly in the south, where communities are traditionally open to migration, remittances have improved community coherence and solidarity.

Social capital
5

Decades of war had destroyed traditional structures of informal cooperation and rural solidarity. However, new forms of reciprocal exchange and insurance have since emerged at the community level. For example, Xtique offers credit and saving services. Similarly, people often engage in mutual assistance or exchange labor, money or food. International donors are emphasizing social capital to support development, with the number of formal community cooperatives increasing.

For many Mozambicans self-help organizations have become an important instrument to cope with challenges, such as natural disasters, HIV/Aids, orphanage and rural to urban migration.

With the economic success of a small urban middle class increasingly visible, social exclusion also becomes more pronounced.

The most important social relationships remain the extended family and other personal connections to friends and neighbors. Particularly in the urban context, reciprocity is becoming increasingly essential in defining relationships, putting a strain on those who remain without employment and income.

A large segment of the population relies on informal saving clubs and associations of mutual assistance. With urban poverty on the increase, marginalization in the main urban centers is becoming more severe, particularly in the capital Maputo.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Mozambique continues to be one of the most economically dynamic countries in Africa. The GDP growth rate was around 7% in 2013 and 8.4% in 2014. However, the country remains one of the poorest in Africa.

Socioeconomic
barriers
2

Economic growth has been driven largely by megaprojects in the energy and natural resources sectors. Due to their capital-intensive nature, these projects are not generating enough employment opportunities for Mozambique's young and rapidly growing population. About 370,000 people enter the labor force each year, but the private sector creates only 18,000 new workplaces each year. A recent UNCTAD

study stated that, between 1992 and 2010, 30% of FDI in SMEs has produced nineteen times more workplaces than investment into megaprojects.

In 2014, a survey on national poverty rates was launched, though the findings are yet to be published. Nevertheless, it is evident that there are high levels of poverty. Government estimates indicate that 55% of the population live on less than \$0.60 per day. The persistence of poverty, despite government and international donor efforts, indicates the structural weaknesses in policy approaches towards rural areas and the time scale required. However, income poverty is only one facet of the multidimensional problem of poverty. In Mozambique, 70.2% of the population are considered multi-dimensionally poor, meaning that despite living above the poverty line they suffer deprivations in, among other things, education and health care. For example, the adult literacy rate is 50.6%, while 60% of women are illiterate. Primary school enrollment is increasing and 83% of primary school aged children are enrolled. However, this does not infer anything about the quality of education. For example, there is an average of one teacher for every 74 students in primary education. In addition, only 58% of teachers have received teacher training.

Mozambique ranked 144 out of 149 countries for gender equality in the 2013 HDI, despite a comparatively high proportion of women in the National Assembly. In the last legislative period, 39.2% of MPs were women. However, prospects for women are bleaker in the wider society. Only 1.5% of women have a secondary level education, compared to 6% of men. Similarly, only 26.3% of women participate in the labor market, compared to 75.8% of men. Women in single-headed households are the most vulnerable group.

The deeply entrenched structural poverty and the evidence that economic growth over the last decades has only benefitted a small elite is reflected in a constant Gini coefficient of 45.7.

Despite an increase in urban poverty, the main divide within society remains between rural and urban areas. In 2012, the national Institute for Statistics estimated that 68.8% of the population live in rural areas. Approximately, 75% of the population are engaged in subsistence agriculture or fishing.

The insufficient progress in social and human development is reflected in the Human Development Indicator. In the 2014 HDI report, Mozambique ranked 178 out of 187 countries with a score of 0.393. In the group of countries with low human development, it remains below the global average of 0.493 and sub-Saharan Africa average of 0.502.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	6578.5	10119.2	15457.2	16385.6
GDP growth	%	8.7	6.8	7.3	7.4
Inflation (CPI)	%	7.2	12.7	4.3	2.6
Unemployment	%	8.3	8.3	8.3	-
Foreign direct investment	% of GDP	1.9	12.4	43.3	-
Export growth	%	6.3	2.7	5.0	5.8
Import growth	%	5.5	-2.1	3.9	6.8
Current account balance	\$ M	-760.6	-1450.1	-5892.4	-
Public debt	% of GDP	70.1	43.1	52.2	57.5
External debt	\$ M	4393.1	3746.9	6890.1	-
Total debt service	\$ M	70.9	86.6	142.7	-
Cash surplus or deficit	% of GDP	-	-3.5	-	-
Tax revenue	% of GDP	-	16.2	-	-
Government consumption	% of GDP	10.4	19.0	22.2	23.8
Public expnd. on education	% of GDP	5.2	-	6.6	-
Public expnd. on health	% of GDP	4.3	3.3	3.1	-
R&D expenditure	% of GDP	-	0.46	-	-
Military expenditure	% of GDP	0.9	1.0	1.0	1.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market based competition is enshrined in Article 97 of the constitution (Constituição de República de Moçambique/CRM 2004). The constitution allows for FDI, except in sectors that the state outlines as falling under its jurisdiction (Art. 108 CRM). During the transformation from a centralized to a market economy, the government adopted a number of initiatives to improve the investment environment and promote competition. Significant progress has been made, but substantial work remains to be done. The state still plays a major role in regulated sectors through state-owned enterprises. However, the economy is increasingly accessible to local and foreign private investment.

Market-based
competition
5

There has been a radical change in the country's external trade policy over the last decade. The government has abandoned a system of managed trade and has moved towards a liberal regime, with imports subject to ad-valorem tariffs.

Access to high-profile political and economic functions and resources are limited to some circles of the society. The transformation of the political and economic systems towards an open access system is only likely when it becomes more profitable for government to include the wider population rather than to exclude it.

Currently, 75% of the labor force are engaged in the informal sector. Despite government attempts to formalize economic activities, many people lack the knowledge, skills or interest to do so.

In the World Bank's Doing Business Report 2015, Mozambique ranked 127 out of 189 countries for ease of doing business. Although some bureaucracy could be lowered, access to credit and difficulties in enforcing contracts are the main challenges in starting-up and operating a business.

The employment law enacted in 2007 significantly increased restrictions on hiring foreign employees. According to Article 31 of Law No. 23/2007, only 5% of all workers in companies of more than 100 employees may be expatriate staff, 8% in medium firms and 10% in firms with up to 10 employees. Given that many workers are semi-skilled, this undermines economic development, especially in the manufacturing and industrial sectors.

Price regulation has been reduced, and applies mainly to utility prices and taxi fares. Nevertheless, the government continues to play a major role in defining fuel and sugar prices.

Mozambique's sugar industry is inefficient, but survives due to a protected domestic market and subsidized export markets, such as the Everything but Arms initiative of the European Commission. Although the sugar sector is largely privately owned, the government plays a coordinating role and lowers the level of competition. Although the government understands the need for liberalization in the sugar sector, it continues

to claim that this should be gradual. The government argues that a sudden reduction in prices, due to an increase in foreign competition, would not make the sector competitive immediately.

While government price controls on utility prices and taxi fares may be justified for socioeconomic reasons, price controls on other commodities, including fuel and sugar, hamper competition.

The electricity sector is state owned. While the government intends to maintain a state monopoly over distribution, through the Electricidade de Moçambique (EDM), it has begun to privatize electricity generation (e.g. Hidroelectrica de Cahora Bassa). Mozambique was among the first in the region to enhance competition and open up access to its infrastructure in the telecommunications sector.

Competition policy is a concern of the government. The Council of Minister's Resolution No. 37/2007, 12 November 2007, established the need for a competition policy and the establishment of a competition authority.

Anti-monopoly
policy
4

This followed a government acknowledged of the prevalence of anti-competitive practices, including excessive pricing, predatory pricing, price discrimination, cartel-like behavior and excessive concentration among firms. The government's strategy for 2010 to 2014 also established the need to define and implement competition rules in sectors such as air transportation and telecommunications.

However, it was only in 2013 that the government finally passed a competition law (Law No. 10/2013) and established a Competition Regulation Authority (ARC). The law drew on precedents from Portugal and other EU member states, and provides for a modern competition enforcement system in which. However, some loopholes and exemptions remain.

The ARC has been established as an independent authority. It enjoys administrative and financial autonomy and has broad supervisory, regulatory, investigatory and sanctioning powers.

The law applies to private and state-owned companies, and covers all economic activities. It prohibits cartels and practices that might limit vertical competition. The law also introduces controls on mergers and prohibits abusive practices, such as refusing a competitor access to essential infrastructure or arbitrary termination of a business relationship.

However, certain exceptions may, due to their broad interpretation, undermine the law. For example, prohibited practices may be justified if they contribute to enhanced economic efficiency, consolidate the national economy or promote the competitiveness of SMEs.

The law came into effect in October 2013, but it is too early to assess the impact of the law or the performance of the ARC given the law's gradual implementation.

Mozambique is a member of the SADC Free Trade Area, which aims to reduce tariffs on intra-SADC commerce by 2015. In addition, Mozambique benefits from the Tripartite agreement between COMESA, EAC and SADC. This agreement provides access to a much wider trading region. In 2013, the government also concluded the Program for Accelerated Economic Integration (APEI) with Malawi, Zambia, Mauritius and the Seychelles. Mozambique benefits from the “everything but arms” program with the EU, which opens up access to foreign markets. Quality and quantity requirements of buyers are difficult to meet, production technology and skills are not sufficiently developed and access to trade finance remains difficult.

Liberalization of
foreign trade
5

In contrast, there are substantial obstacles to accessing domestic markets, including tariffs, corruption and burdensome import procedures. In addition, poor transport infrastructure hampers trade significantly. Although tariffs have been gradually reduced under the SADC and other international arrangements, prices for imported goods remain high and are, in some cases, increasing due to non-tariff barriers.

The introduction of an electronic customs and trade facilitation system (Janela Única Electrónica/JUE) promised to reduce corruption. However, there have been severe difficulties in introducing the system. In general, the burdensome import procedures have not been reduced. Customs procedures are enshrined in about 45 different legislative acts, which require harmonization. In the World Economic Forum’s Global Enabling Trade Report, Mozambique ranked 110 out of 138 economies in 2014, compared to 97 out of 132 in 2012.

The banking sector remains underdeveloped. Only 10% of the population have access to the formal banking system and only 3% qualify for credits. The absence of a formal banking sector in rural areas is partly compensated for by micro-finance institutions. Of approximately 166 registered micro-finance entities, 65 are active. There is a high level of concentration in the formal banking sector, with 85% of the market dominated by three banks. Two of the banks are Portuguese, the other is South African.

Banking system
6

In 2012, the bank capital adequacy ratios averaged 17.9%. Meanwhile, the reserve ratio averaged 9.5%, exceeding the regulatory minimum reserve ratio of 8%. In 2013, the first stress tests of the system were conducted. The tests confirmed that the banking system was sound and profitable, and insulated from the international financial crisis, especially with regards to liquidity. However, in a 2013 report, the Bank of Mozambique identified that the majority of banks remain vulnerable. The report stated that large capital concentrations and higher than recommendable diversification undermine the banking system’s resilience. Non-performing loans remained below 4% in 2013, in accordance with local criteria. The regulation on non-performing loans is currently being revised in line with international standards. In 2013, the government approved its Strategy for the Development of the Financial Sector for 2013 to 2022. The strategy’s main aim is to promote the development of a

solid, diversified, competitive and inclusive financial sector. Furthermore, the Bank of Mozambique's National Strategy for Financial Inclusivity proposed the establishment of a national inter-banking network for electronic payments (SIMO).

In addition, the government also proposed the establishment of a central credit registry and legislation to tackle money laundering and the financing of terrorism. The Bank of Mozambique has regulatory and supervision powers, according to Central Bank Law (Law No. 1/92). The central bank is also in charge of the regulation and supervision of non-bank financial institutions, and the capital market. Overall, the regulatory framework of the banking sector is in line with the principles of the Basel Committee. In the last compliance assessment, conducted by the IMF and the World Bank, Mozambique demonstrated compliance with 17 of the 25 Basel Core Principles. The main challenge for the central bank remains the shortage of qualified staff.

8 | Currency and Price Stability

The central bank, Banco de Mocambique, is an autonomous body, which promotes a prudent monetary policy. Since 2012, inflation has been kept low. At the end of 2013, the inflation rate was 4.15%, below the projected rate of 7.5%. Inflation was contained by the quick recovery of the agricultural sector, following floods in 2013, and the appreciation of the Mozambican metical against the South African rand. The appreciation of the Mozambican metical against the South African rand had a positive effect particularly on consumer goods and food. However, the Mozambican metical has been depreciating against the US dollar since mid-2011. In 2013 and 2014, the Mozambican metical depreciated by about 1% against the US dollar. A low rate of inflation was also helped by favorable developments in international prices. However, the rapid credit expansion in the private sector continues to generate inflationary pressure. Contrary to developments in Europe, this was not due to extremely low credit rates. The annual average lending rate in 2013 was 20%. For many SMEs, this lending rate restricted access to credits. Consequently, growth in the credit sector is attributable to private consumption.

During the period under review, the government continued with a prudent macroeconomic policy. This was also reflected in the development of a new three-year program agreement with the IMF, the Policy Support Instrument (PSI). The PSI increased the government's ceiling for non-concessional borrowing from \$1.6 billion to \$2 billion.

In general, Mozambique still enjoys a favorable macroeconomic environment with strong GDP growth based on the mining and hydrocarbon sectors. However, the inflow of foreign exchange from these sectors is yet to be realized, as most projects are still in development or only at an early stage of production. The current account

Anti-inflation /
forex policy

8

Macrostability

7

balance deficit increased from 36% of GDP in 2012 to an estimated 43% of GDP in 2013.

Government expenditure climbed from 33.4% of GDP in 2012 to 34.6% in 2013, with the supplementary budget approved in August 2013. Government expenditure was projected to reach 36.7% of GDP by the end of 2014.

According to an integrated government investment plan, capital expenditure was projected to be 12.8% of GDP or 37.1% of the state budget in 2014. Meanwhile, operating costs accounted for 58.4% of state budget in 2014, due to a 13% increase in public sector pay.

Increased government expenditure was not covered by additional general revenue, though the sale of natural gas exploitation concessions did earn some public revenue. However, in the long run, increased government expenditure will not be balanced by an increase in revenues.

At the moment, the government is able to finance 64% of its expenditure through domestic revenue. International aid accounted for about 13.2% and credits for about 22.8% of government expenditure.

Mozambique's debt ratios remain moderate, but the country's debt situation is slowly deteriorating. By mid-2014, the debt-to-GDP ratio was 54.9% and the public debt-to-GDP was 41.7%. The debt service ratio is at 14.7% and the public debt service ratio (as percentage of revenue) is 4.3%.

The country's public debt is largely foreign. In 2013, the IMF and World Bank undertook a debt sustainability analysis. The analysis upgraded Mozambique's debt distress level from low to moderate due to increasing concessional and non-concessional debt, which increase the economy's exposure to exogenous shocks.

The government's recent ad hoc investment decisions and the rapidly increasing debt burden are particular concerns. Investments financed by the Export-Import Bank of China (China Exim Bank) total nearly \$1 billion and additional commitments total \$850 million, leading to concerns about the sustainability of public debt levels.

A major stir was caused in September 2013 when EMATUM, a limited liability tuna fishing company owned by three state bodies, issued an \$850 million bond. The bond, guaranteed by the government, was the first de facto international sovereign debt issued by the government. The bond aimed to finance a fleet of 24 fishing vessels and 6 coastal patrol boats. However, there are suggestions that the bond also financed the purchased rumors had it that also other large military equipment. In addition, the international donor community raised doubts over the government's investment priorities, which do not align with the government's poverty reduction strategy.

Institution development progressed and the debt management framework remains coherent. Key institutions include the Debt Management Unit of the Ministry of Finance and the Investment Management Unit of the Ministry of Planning and Development. The latter unit elaborates the Integrated Investment Plan, detailing all public investment programs and funding sources.

9 | Private Property

In its Article 82, the Mozambican constitution guarantees property rights and their protection by the state. For reasons of national or public interest, expropriation is allowed when deemed absolutely necessary.

Property rights
5

In recent years, land and other natural resources have come under pressure from foreign and domestic private investment. Conditions are particularly favorable for agro investors given the relatively low population density, land availability and accessibility, and 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 an option to renew. Irrespective of land ownership, Mozambique has a sound land governance system, which offers community-based land rights, promotes community consultation with investors and provides investor rights to acquire land.

However, in practice, the situation is different. No more than 10% of communities own property deeds to their land. Meanwhile, the implementation of legislation has been slow. Consequently, there is an asymmetrical balance of power between government attempts to promote FDI in the agro industry and a rural population that neither knows nor can exercise their legal rights. As a result, the number of conflicts between government, investors and communities has increased. The latest controversial project is a joint venture between Mozambique, Brasil and Japan, called ProSavana. The project is exploring agro potential in the Nacala corridor, which would affect over four million people. No public consultation process was undertaken nor were legal requirements, such as an environmental impact assessment, fulfilled.

To prevent potential conflicts, the community land fund initiative (iTC) was established in 2006. In those provinces where it is active (Niassa, Nampula and Zambézia) it has proven to be highly effective. The iTC provides financial, technical and planning services to rural communities to secure land and natural resource rights. At the same time, the iTC facilitates a supportive investment environment to stimulate local economic development.

Compared to other sub-Saharan African countries, Mozambique has entered into a vast number of bilateral investment treaties (BIT). The BITs offer investment

protection, repatriation of invested capital and profits generated. The BITs permit investors to bring claims against Mozambique should conflicts arise or losses occur.

To stimulate economic development and promote public interest activities, the government has introduced tax and customs incentives. Individuals and companies that make investments can benefit from tax exemptions or reductions, under the Investments Law.

Although by 2011 more than 1,200 smaller state-owned enterprises had been privatized, privatization remains slow and carefully controlled by government. Currently, privatizations are underway in the telecommunication, electricity, ports and railroad sectors. Furthermore, five segments of the national road network are pending privatization with the aim to form public-private partnerships. Regarding the latter, new regulations came into force in July 2012. Overall, there is a gap between privatization policy design and implementation. Several government departments remain committed to a regulated economy or lack the requisite technical capacity. UNCTAD in its 2011 review of the investment framework noted, “regulatory approaches akin to a planned economy continue to transpire in the investment framework, which leans towards giving a relatively heavy-handed and intrusive role to the regulator.”

The main regions experiencing economic growth are in the Maputo Corridor along the border with South Africa, the Nacala Corridor in central and northern Mozambique and the Beira Corridor in central Mozambique. The Nacala deep-water port with links to Tanzania, Zambia and Malawi as well as the Beira port with links to Zimbabwe are also nodes of economic growth.

Investment in physical infrastructure focus on projects in these areas and are mainly financed through FDI or Mozambique’s political elite. Much remains to be done to strengthen the linkages between large investment projects and SMEs. Due to a poor business environment, Mozambique’s private sector remains weak, poorly organized and largely informal. Private sector growth is hampered by urban-rural inequalities in accessing infrastructure and services.

Private enterprise

6

10 | Welfare Regime

As in many other policy areas, a comprehensive legal framework addresses social security. The framework has two key legal components, namely 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. The first pillar provides basic coverage for vulnerable households. The second pillar obliges employers and employees to make social security contributions, which amount for 38% of the social protection budget. The third pillar enables employees to make complementary social security contributions. In 2013, less than 5% of the labor force of 11.5 million people made voluntary contributions. However, there are practical obstacles to the effective implementation of this system. Despite constitutional guarantees and supporting legislation, the social security system does not guarantee universality, fairness, inclusiveness, efficiency, solidarity or transparency.

Economic growth over the last decade has translated into job creation. The labor market offers limited job opportunities and most households depend on subsistence farming. The economically active population is estimated to be around 11 million. More than 60% are self-employed, while around 25% are unpaid family workers and only 10% are salaried employees. Of these salaried employees, 4.1% are civil servants and 6.8% work in the private sector. Around 75% of the work force are engaged in the informal economy or in subsistence agriculture.

With 60% of the population living on less than \$1 per day and 80% living on less than \$2 per day, any effort to reduce the poverty is essential. However, one of the main challenges for social protection is the low coverage that the system offers as a whole. Only certain categories of economically active people enjoy some form of social security protection.

Additionally, gaps in the delivery of social security services further limit the level of social security protection. The scale of protection offered non-contributory programs for vulnerable people is utterly inadequate. The social security system is fragmented across a wide range of government departments and non-governmental institutions. This causes services to be duplicated and undermines coordination, which reduce the effectiveness and efficiency of service provision. The administrative costs of the National Institute of Social Action's (INAS) programs accounted for 20% of the total budget between 2008 and 2010.

The government budget has recently prioritized social protection, in alignment with the government's poverty reduction strategy, and annual social and economic plans. In 2013, government increased the social transfers by 2.5% and the INAS budget by

Social safety nets
3

3.4%. The number of beneficiaries qualifying for the Social Action Program increased from 267,000 to 360,000 in 2013 to 372,000 in 2014.

Pensions for the most vulnerable were increased to MZN 1,500 or about \$50, and the number of beneficiaries was increased. However, this increase remains a drop in the ocean. Mozambique has the second highest rate of older people in the workforce in the world. For them, there is no alternative to working until death, as, due to the informal nature of their work, they do not qualify for the benefits of the system.

The rural-urban divide is also reflected in equality of opportunities. Of the population, 69% live in rural areas, where traditions limit the enforcement of legal provisions, while

Equal opportunity
4

52% of Mozambicans are women. Despite recent government initiatives to create a legal framework for the protection of women (e.g. new family laws, laws against domestic violence and the ratification of SADC protocols), progress on gender equality remains slow.

Despite government efforts, even among the youth (15-24 years) discrepancies between male and female literacy persist. While 79.8% of young men are literate, only 56.6% of young women are literate. Whereas the enrollment ratio for men and women in primary and secondary education has become equal, the number of women finishing school remains lower. While 94% of primary school aged girls are enroll in primary education, more than 50% do not complete their fifth grade. Only 11% of women receive secondary education and just 1% of women to college.

Within SADC, Mozambique has one of the highest rates of forced and early marriages, 14% of girls under 15 years old are married. They are not only deprived of continuing their education, but are often exposed to violence and health risks.

Political participation of women in rural areas (e.g., being a member of a water management committee) remains low, compared to areas where a quota of 30% has been introduced. Women are underrepresented in public sector jobs. For example, about 22% of administrators, 15% of *Chefe de Posto Administrativo*, 35.6% of provincial assembly members and 26% of district councilors are women.

According to statistics of the Instituto Nacional do Emprego e Formação Profissional there has been an increase in the number of women enrolling in vocational training from 2.6% in 2011 to 36.6% in 2013.

Of public sector employees, about 30% of employees in the judicial sector and 24% in the diplomatic service are women. Fortunately, the number of women in parliament increased after the 2014 elections. At the time of writing, 98 out of 250 (39.2%) of MPs are women.

In 2014, a new criminal code that was presented to and ratified by parliament. The development of the code highlighted the lack of consideration afforded to issues of gender equality in the policy-making process.

During the period under review, there were no reports of ethnic or religious discrimination. The opposition regularly claimed that President Guebuza's regime marginalized public servants that were suspected of being loyal to the opposition, while non-Frelimo party members were even not recruited into the public service.

11 | Economic Performance

Economic development has been robust. In 2013, the GNP growth rate decreased from 8.5% to 7% due to flooding. However, economic growth remained sound. For example, the extractive sector, particularly the extraction of carbon, grew by 22%. Similarly, financial sector grew by 17.7%. The aluminum and energy sectors also performed strongly. Meanwhile, the economic growth in the agricultural sector, which employs 70% of the population, was 4.6%. The agricultural sector had been particularly affected by flooding during this period.

According to World Bank data, GDP per capita has increased to \$610. However, this increase is mainly associated with stronger economic performance in urban areas. The inflation rate, which had decreased to 2.02% in 2012, rose to 4.15%.

In a country where only a small percentage of the population are employed in the formal sector, the differentiation between informal employment and unemployment remains fluid. The latest INE statistics provide an unemployment rate of around 20%.

For 2014, the current account deficit is projected to be 46%. This is largely driven by FDI inflows into the extractive sector, including the coal and gas industries. This recent increase in the current account deficit will continue, as the construction of gas industries in the north will increase demand for imports.

By the end of 2013, total public debt was \$6.8 billion, which was comprised of \$5.8 billion foreign debt and \$994 million domestic debt. The ratio of debt service to government revenue was a healthy 4.3% in 2013, below the 30% threshold. The latest available figure for the ratio of government revenue to expenditure was -2.7% in 2012. Total government revenue (i.e. taxes and grants) started to decline in 2012. In 2012, total government revenue was equivalent to 30% of GDP. In 2013, total government revenue was 27.6% of GDP, while it is projected to be 24.9% of GDP for 2015. Considering the increase in government expenditure, this decline in government revenue is concerning. Fixed capital formation was equivalent to 17% of GDP in 2012, but it is projected to increase due to a proposed increase in government expenditure on physical infrastructure.

Output strength
7

12 | Sustainability

Environmental degradation and the inefficient use of natural resources costs the economy the equivalent of 17% of GDP annually. This is particularly affects vulnerable groups directly dependent on natural resources, such as crops, fish and forests. In 2013, the government announced that Mozambique would not achieve the seventh Millennium Development Goal of Environmental Sustainability. According to the Ministry of Environment (MICOA) in 2012, approximately 9% of GDP would need to be spent on environmental protection initiatives to address Mozambique's current problems. However, between 2007 and 2010, only 1.4% of GDP was spent on environmental protection initiatives. MICOA has since introduced an improved environmental and climate budgetary process. The government has also made progress in developing a responsive policy framework. In 2013, the proportion of total land under protection was increased from 11% to 16%. In addition, a biodiversity fund was established and the Action Plan for a Green Economy approved by government. Government support for renewable energy is also under discussion. The government has also approved regulation on carbon emissions and deforestation (REDD+). The government has shown a particular awareness of and political will to protect biodiversity and natural habitats. In November, the government introduced a national climate adaptation and mitigation strategy, which includes a system of monitoring and evaluation.

Among several new laws and policies, the government has introduced legislation to support local communities in profiting from the extraction of local natural resources. Companies extracting natural resources are now expected to pay a concession equal to 20% of their revenue to the local community. However, implementation of this policy has been very slow and also lacks compliance in some areas. Overall, the policy has mainly been applied to forestry and wildlife businesses. The number of community groups registered to receive a concession is highest in Zambézia.

The implementation of existing legislation has been undermined by the economic interests of state agents and a fear that recognizing community land rights will reduce private sector investment.

As in other policy areas, a sound legal framework for environmental protection has been established, but government efforts to establish an effective institutional structure have been ineffectual. Environment and climate change policy is coordinated by the Ministry of Coordination of Environmental Affairs (MICOA), but should be implemented at sector level. The institutional links between MICOA and the sector ministries remain weak. MICOA lacks political leverage as well as human, technical and financial resources. The National Council for Sustainable Development (CONDES) is responsible for promoting cross-sectorial dialogue and the monitoring of environmental policy implementation. However, CONDES has failed to adequately fulfill this responsibility.

Environmental
policy
4

Recent discoveries of natural gas and carbon reserves and the influx of FDI have propelled a profound transformation of the economy. This transformation will have repercussions for the labor market, while increasing demands on the education system. The demand for skilled labor is high, there is a shortage of skilled mechanics, engineers and electricians.

Education policy /
R&D
3

In line with the 2012 National Education Strategy, the government established two polytechnic colleges to promote technical training in 2013. In 2006, the government introduced an integrated reform program for the vocational training system. The program increased the number of vocational training centers from 50 to 180. The main objective of program was to match the training offered in the education sector with demand in the labor market by adapting the curriculum and methodology. Financing the program was a substantial challenge, as it required the development of laboratory and technical infrastructure. However, the availability of qualified teachers remains a concern. Currently, vocational training centers employ 2,442 teachers. However, recruitment is a problem with only 200 new teachers employed in 2012 and 120 employed in 2013. In other words, less than one new teacher per training center is recruited each year.

As in primary education, the quality of teaching in academic and vocational tertiary education is a challenge.

In primary education, government has prioritized teaching quality, enrollment and accomplishment rates. To increase the quality of teaching, the training period for new teachers has been increase from 12 months to two years.

The ratio of teachers to pupils remains low at one teacher per 75 pupils. On average, there are 12,000 teachers trained each year with a demand for around 10,000 new teachers. However, due to budgetary constraints, fewer than the total number of trained teachers can be integrated into the education system.

Government efforts are improving enrolment rates in primary education. Through the abolishment of school fees and provision of free learning materials, children can attend primary schools even in impoverished areas. The enrollment rate for girls in secondary education has steadily increased over the last five years to around 89%.

In primary and secondary education, the main objective of government continues to be school completion rates. The government has introduced free school meals and programs to reduce early marriages and teenage pregnancies.

The government has continued to develop a system for distance learning. Acknowledging the value of pre-school attendance, the government has also established a group of experts to investigate the mainly privately organized pre-school sector.

There has been a tremendous increase in the number of tertiary education institutions to 27 public and 21 private institutions.

However, the quality and subject matter of courses offered remains of concern. As an UNESCO study identified, about 60% of Africans tend to study social sciences and humanities. In other words, there is a discrepancy between the skills taught in tertiary education institutions and skills demanded in the labor market. This requires a cultural shift within the politics and the wider society.

The high demand for graduates has encouraged the Mozambique's oldest university, Universidade Eduardo Mondlane, to reduce the number of study years required to acquire a "licenciatura" from five to four. It plans to further reduce the number of study years to three. However, it is unclear whether this will reduce the quality of education provided.

Transformation Management

I. Level of Difficulty

Structural difficulties continue to hamper the management performance of government. Although these are not easy to overcome, much more could be done by the government.

Structural
constraints
8

Despite an impressive economic growth trajectory, Mozambique remains one of the poorest countries in the world. Although GNI per capita increased from \$384.4 in 2010 to \$557.6 in 2012, it is mainly the emerging urban middle class that has benefitted. Half of the population (55.2%) live in conditions of poverty.

Neither the development of megaprojects, such as the aluminum smelter MOZAL, nor growth in the extractive sectors are able to generate sufficient employment opportunities. In 2010, only 3,800 new jobs were created by the megaprojects. For approximately 370,000 young people entering the labor market each year, the private sector generates 18,000 new jobs. Furthermore, of all the labor market entrants, few have the technical skills demanded for these new jobs.

In response to the shortcomings in the educational sector, the government recruited 6,600 new teachers and established two polytechnic education institutions in 2013.

Despite its favorable geographical location, and existing port facilities in Maputo, Beira and Nacala, the inadequacy of existing physical infrastructure is a major obstacle to participation in global value chains. With adequate physical infrastructure, Mozambique could easily transform into a central trading hub between global markets and its landlocked neighboring countries, including Botswana, Malawi, Zambia and Zimbabwe. Yet, Mozambique does not even benefit from a free-trade zone. The economy continues to be constrained by a lack of competition, low productivity levels and an overvalued currency.

Annual floods damage substantial parts of the country's physical infrastructure. In 2013, the Gaza and Zambezia provinces were affected by heavy rain. The main railway line connecting the carbon mines in Tete province and the port of Nacala was disrupted for three weeks, because of flooding.

In 2012, the prevalence of HIV/Aids was estimated to be 11.1%. Women are still the most affected and, despite various information campaigns, only half the population is informed about the disease. Traditional rural customs are still an obstacle, as relevant issues remain taboo.

Traditionally, civil society participation was limited under the one-party state. Given the FRELIMO party's continued dominance, few genuinely independent civil society organizations exist. Many existing NGOs either trace their descent directly from the erstwhile socialist mass organizations or are satellites of the party. The latter have been established in order to generate government-loyal CSO voices that compete for foreign funding with independent groups. Quite often, these independent civil society organizations are criticized for following the agendas of international donors.

Civil society traditions

7

Particularly in Maputo, some important organizations have been established over the past decade, such as the Center for Public Integrity, Liga dos Direitos Humanos and the Institute for Economic and Social Studies.

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 of services typically offered by states in more developed countries.

There is a high level of religious tolerance, while relations between Christian churches and the Muslim council are cordial. Religious institutions have become increasingly concerned about the lack of a mature democratic culture, which promotes conflict resolution through dialogue rather than violence.

Conflict intensity

5

The main regional differences exist between the capital and southern provinces, and the central and northern provinces. During the civil war, the political cleavage between FRELIMO and RENAMO was ideological. However, today, it is defined more by a renewed regionalism and the marginalization of certain provinces in the redistribution of natural resource wealth.

At the community level, regionalism is driven by perceptions of cultural, linguistic, ethnic and economic inequalities. Historically, the central and northern provinces have been marginalized in the redistribution of economic benefits and in political decision-making.

RENAMO is benefiting from this perception and is using force to coerce the government into negotiations.

II. Management Performance

14 | Steering Capability

Question
Score

There has been a lack of structural transformation. The government's economic strategy has prioritized megaprojects in the aluminum, extractive industries and energy sectors.

Prioritization
6

In its previous five-year plan (Plano Quinquenal do Governo, 2010 to 2014), the government has prioritized poverty alleviation. The government has stated that a reduction in poverty is important for national unity, peace and democracy, a culture of work, good governance, decentralization, tackling corruption, accountability, national sovereignty and international cooperation. With increased public spending on physical infrastructure and public sector pay, the fiscal deficit widened without an equivalent increase in government revenue.

In February 2015, the new government presented its new five-year plan for the period 2015 to 2019. The plan proposes to implement the main points of President Filipe Nyusi's election campaign. Employment creation was identified as a key priority and the government aims to increase productivity in the agriculture, fisheries and tourism sectors.

In addition, physical infrastructure development (e.g. transport and energy) is a secondary priority for the new government. A third priority is natural resource and environmental management. The government will have to explore ways to balance the various trade-offs implied in the third priority.

Although this five-year plan seems to be more orientated towards the development of clear targets, the new government still has to demonstrate that it can deliver on its objectives.

The implementation of policies is weak due to a lack of formal compliance mechanisms. There is a critical absence of sector specific expertise and bureaucratic structures, which leads in many cases to institutional paralysis. In many policy areas, ineffective coordination and ad hoc political interference leads to confusion. Limited human capital and deficient physical infrastructure seriously cripple economic and social development.

Implementation
5

Meanwhile, the World Bank has started to criticize the lack of progress in poverty reduction.

The government has proven capable of policy learning in the area of climate adaptation. Responding to the recurring threat of flooding, the government introduced a national strategy for climate change adaptation and mitigation, which was approved in November 2012. The strategy establishes a monitoring and evaluation system. Furthermore, the government has also approved an Interim Decree on Reducing Emissions from Deforestation and Forest Degradation (REDD+), which establishes rules for the payment of concessions for deforestation. The government also introduced the Disaster Risk Management (DRM) bill, which obliges central and local governments to allocate funds for disaster risk management and climate change.

Policy learning
5

Despite some evidence of policy learning, it remains unclear whether a government that is beholden to one political party can demonstrate policy learning across a wide range of policy areas.

Mozambique continues to follow a factor-driven model of economic development, dependent on FDI in the extractive industries. Meanwhile, physical infrastructure, innovation and education remain underdeveloped. As such, the government demonstrates a low capacity for innovative governance. In particular, the government demonstrates a lack of political will to learn from experiences in other countries, which have faced a resource boom and the risk of Dutch Disease.

15 | Resource Efficiency

Despite some reform of public administration and governance structures, institutional and structural reforms must remain a government priority. Public administration remains particularly weak in providing quality economic analysis and policy formulation, implementation and monitoring. However, employment in the public sector depends primarily on party membership, rather than competency.

Efficient use of
assets
4

Although public administration is being decentralized, the process lacks funding. Participative budgeting and planning processes have been proposed. These processes would enable citizens to define the policy priorities for their own district. However, the allocation of public funds has not been restructured to accommodate such processes. Currently, the budget is allocated to government ministries and it is unclear how the ministries distribute these funds to the provinces.

There is often quite a lag between policy design and policy implementation. More reforms of the business sector certainly would benefit economic development. For example, more FDI needs to be attracted into smaller scale projects, which would create formal and informal employment opportunities for the rapidly growing labor force. As the largest sector by employment, agricultural productivity must increase.

In addition, the government has to continue to invest in human capital development to improve the health and education attainment of the population. This will be crucial to strengthening skill levels in the labor force, which will drive a reduction in poverty.

Policy coordination, both at the senior and technical levels, remains inefficient. While the government is producing many strategy documents, these are poorly coordinated and slowly implemented.

As the economy becomes increasingly dependent on natural resources, the role of prudent policies in managing these resources becomes more important. Key among these is designing an appropriate fiscal framework for natural resource management to protect against volatility in government revenue. In addition, physical infrastructure and social investment demands must be better considered.

Conflicting objectives are particularly visible on the macroeconomic level, where the government has sought to attract FDI while at the same time aiming to expand and consolidate its tax-revenue base. In this realm, the government has to strike a balance between revenue generation and the need to provide a stable investment climate. Despite sound economic growth rates for more than a decade, the government has not managed to establish an employment policy that would increase employment opportunities.

Policy
coordination
5

The economy is increasingly focused on the primary sector and natural resource exploitation, which is leading to distributional inequalities.

There is some coordination of government activities, but it is highly ineffective. While legislation defines the structure of horizontal coordination within government, horizontal coordination remains confusing in practice.

There is a lack of coordination between different economic sectors, such as extractive industries and agricultural sector.

In recent years, the government has introduced reforms in order to contain corruption. President Guebuza started its presidency with the objective to tackle the previous government's culture of "deixa-andar." In 2006, public administration reform introduced an anti-corruption strategy. Nevertheless, the legal and institutional framework remains insufficient. For example, the Central Office for Combating Corruption lacks technical capacity, financial resources and is subject to political interference.

Anti-corruption
policy
3

International donors and the public are concerned about the level of corruption within Mozambique. Cases of corruption range from petty bribes to grand political schemes, but they also encompass the embezzlement of public funds and are symptomatic of a deeply embedded patronage system. The influence of the executive is strong, while checks and balances on the executive are weak. For example, civil society and the

media do not possess the resources to hold the executive accountable. Corruption remains deeply entrenched in various public sectors, such as the police, public administration, judiciary and public financial management. With new opportunities arising through growth in the extractive industry sector, transparency and accountability become ever more important.

16 | Consensus-Building

Democracy is part of the donor canon and therefore forms part of the government's rhetoric. However, the consolidation of democracy is not a priority. Following the increase of support for opposition parties in the last elections, FRELIMO will likely re-assert its control over the next elections and rebuild its power base. Internal party structures vary in their adherence to democratic values. Of the three main political parties, FRELIMO has the most advanced system. RENAMO is dominated by the autocratic leadership of Afonso Dhlakama, while MDM has adopted a family-based structure. Although party congresses are rather secretive and decision-making processes are not clear, FRELIMO party congresses are at least held regularly, and the party has shown that it exercises influence independent of its leadership (e.g., in the discussion of a third term for President Chissano in 2001).

Consensus on goals
6

The current leadership is focused on establishing a political framework that is both conducive to socioeconomic development and business interests. Many business are controlled by FRELIMO party members. Market-economic principles are endorsed by all political actors, including the opposition.

The country's reform agenda under the presidencies of Armando Guebuza have been dominated by socioeconomic objectives rather than by any desire to enhance the country's democratic structures and processes. The FRELIMO party congress in Pemba in 2012 provided an illuminating look at party-personality dynamics as they relate to political reform.

Anti-democratic
actors
5

Firstly, FRELIMO as a party has a tradition of a highly secretive and centralized organizational culture. Party discipline serves as the primary guide to behavior, and the last word remains with the president.

President Guebuza redistributed political and economic positions, which offered rent-seeking opportunities, to key party factions. This enabled him to maintain control over the party and state. Newly elected President Filipe Nyusi was selected by his predecessor. He does not have a power base within the party of his own. As former President Guebuza continues to serve as FRELIMO's party president, he maintains substantial influence over party politics.

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

For RENAMO and its leader Afonso Dhlakama, the primary drive for more power is access to resources, not a desire for democratization.

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 Ndau, 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.

However, the self-righteous style of President Guebuza in his last term and the continued marginalization of opposition parties led to political instability in 2012. Politically motivated violence erupted, which forced the government to negotiate with the opposition. These incidents demonstrate that the strength FRELIMO party-state is not as strong as has been assumed.

Although an ongoing dialogue between policymakers and civil society does exist, it cannot be considered strong, frank or open. Only as a result of international-community support has civil society recently been able to engage in the political process on two levels: in drafting and monitoring the poverty reduction programs, and in the revision of the electoral law. However, the recent legislative changes and the further politicization of Electoral Management Bodies has undermined the integrity of the electoral management process. In particular, the role of civil society has been reduced to the position of a passive observer.

In addition, the Poverty Reduction Action Plan (PARP 2011 – 2014) was a government-led process. To support monitoring, the government established the Observatório do Desenvolvimento (OD), which allows CSOs to present independent reports. Civil society groups may also participate in the annual joint evaluation conducted by the government and supporting international donors. In these evaluations, CSOs are allowed to observe, but may only intervene through an international donor.

Civil society rarely influences legislative drafts and, where they do, it is due to external pressure.

Cleavage /
conflict
management

5

Civil society
participation

4

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. Moreover, neither were war atrocities addressed through other channels.

Reconciliation
5

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

In November 2014, under the pressure of RENAMO violence, the Council of Ministers established the Fund for Peace and National Reconciliation (Fundo de Paz e Reconciliação Nacional). The fund provides \$10 million per year to finance socioeconomic projects that support the demobilization of soldiers, antigos combatentes and other veterans.

17 | International Cooperation

In Mozambique, there are three groups of international partners, namely the traditional international donor community (e.g. bilateral and multilateral international institutions), development agencies promoting south-south cooperation (i.e. development agencies largely from BRICS countries) and the private sector.

Effective use of
support
6

The government has recently sought to diversify its external relations and reduce its dependence on the traditional international donor community. Although the European Union remains Mozambique's largest trading partner, accounting for 36.6% of Mozambique's exports, trade with the BRICS countries is growing. Currently, South Africa accounts for 30.5% of exports and 26.4% of imports, China accounts for 9.4% of exports and 12.7% of imports, and India accounts for 5.1% of exports and 14.1% of imports. Mozambique's trading relationships have particularly shifted towards south-south cooperation over the last five years.

With increased economic growth, traditional development assistance will be further reduced over the next couple of years. This will not only affect social development, particularly health care, education and food security, but will also affect the quality of governance and democratization. Development assistance from OECD countries introduced accountability mechanisms and conditional requirements. However, many other international partners have not adopted these standards and do not work strategically with the government. The government of President Guebuza attempted to imitate the autocratic development model of China, which would allow the government to pursue its own interests.

The agricultural sector has been neglected by international donors, compared to other economic sectors, despite the high proportion of the labor force working in agriculture. The main agricultural development program, PROAGRI, received weak

support. In contrast, international donors and private sector investors focused on areas with strategic relevance for the extractive industries.

As in other African countries, China has become a key partner for the government. Its assistance has so far mainly focused on construction projects, such as the new parliament building and the new Conference Centre Joaquim Chissano.

The government and its relevant international partners are yet to develop a strategic model for south-south cooperation. In most cases, the south-south cooperation has facilitated investment in extractive industries. While these investments have generated government revenue, they neither create a large number of employment opportunities nor benefit the local communities. In fact, the investment models facilitated by south-south cooperation reflect a colonial model of extracting raw materials to strengthen the domestic economy of the international partner.

Mozambique has established itself as a reliable partner for the international community and international donors. Despite recent instabilities, Mozambique still enjoys a certain prestige in the international community and is hailed a success story of post-conflict reconstruction. The extreme dependency on international aid that followed the civil war has led to a pragmatic foreign policy approach. In 1992, international aid accounted for 70% of GDP. It is only in recent years that the government seeks not only to reduce aid dependency but also aims to diversify its partners.

Credibility
7

During the period under review, the G-19 donor group has expressed concerns about the political instability, widespread corruption and bad governance in Mozambique. The G-19 donor provides budget support to the government, which accounts for 40% of the government budget. The group considered to suspending one-third of the annual contribution due to a controversial Eurobond that the government issued. The government intended to use the funds raised by the Eurobond to finance the purchase of several ships, including tuna fishing vessels and coastal patrol boats.

Cooperative relationships with neighboring countries are essential for development. In particular, Mozambique has a strategic advantage in cross-border trade, as Mozambique's ports offer landlocked neighboring countries access to international markets. Mozambique has built a moral authority within the region due to its reputation as a favorite of international donors.

Regional
cooperation
8

Mozambique has a special relationship with the regional economic power, South Africa. However, Mozambique has to cautiously protect its national interests, while at the same time trying to take advantage of its special relationship with South Africa. In particular, Mozambique may benefit in the areas of energy, transportation and tourism. Many megaprojects in the energy sector are dependent on the commitment and demand of South Africa, including the Mphanda Nkuwa and Cahora Bassa dams, and the high voltage electrical power line between Tete and South Africa. However,

South Africa has recently indicated that it will seek to increase its energy security through, for example, nuclear power. The Malawi-Mozambique border, Mozambique's longest border, is not always free of disputes. In particular, the Zambeze and Chire rivers have been the center of bilateral disputes. However, since 2012, relations have recovered and deeper bilateral cooperation has been achieved.

Strategic Outlook

President Filipe Nyusi faces two substantial, interdependent economic and political challenges. The autocratic leadership style of former President Guebuza reduced the confidence of international donors in the government. This needs to be reestablished. International donors have become increasingly impatient with the lack of governance reform, particularly in accountability, transparency and efficiency. This loss of confidence and increasing impatience has led some international donors to suspend their direct budgetary support. In addition, the domestic financial constraints experienced by other international donors may lead them to cancel support for a country that has an average GDP growth rate of 7% for the last decade. To keep international donors engaged, the government will need to demonstrate its political will to implementing political reforms and reducing poverty.

Reducing poverty will require a more equitable and inclusive distribution of the benefits of economic growth. In turn, this will necessitate a renegotiation of existing investment contracts. In addition, the government will have to attract more FDI, which will require addressing the excessive, inefficient and weak bureaucracy that makes the business environment less appealing.

If the megaprojects are to benefit the wider the population, they need to create more employment opportunities, especially in the formal economy. However, a lack of education and skills means that the quality of labor supply is low. To address this supply problem, the government needs to substantially increase investment in vocational training programs.

As 75% of the population is dependent on agriculture for their livelihood, agricultural development will be central to further economic growth. Improved productivity among smallholder farmers is paramount, as smallholdings account for 95% of the agricultural sector. Mozambique has the potential to become an agricultural exporter in the region.

The natural resource-based model of economic growth adopted by the government is increasing economic inequalities. The political elite has demonstrated a narrow self-interest, pursuing its own self-enrichment, while the wider population is increasing economically marginalized. The political elite has even demonstrated a disinterest in ensuring that local people are adequately compensated for the loss their livelihoods due to the expansion of the extractive industries.

The political economy is deeply entrenched and captured by the ruling party, FRELIMO. It is unlikely that this situation will change in the short term. However, in the medium to long term, political accountability may increase, as a new generation of political leaders assume power. However, as most of the next generation of political leaders have been socialized within the existing system, the level of change is likely to be modest. Furthermore, while horizontal accountability is non-existent in practice, strengthening civil society, academia and the media will improve vertical accountability. President Nyusi must distance his government from the policies of the previous government, build a constructive dialogue with opposition parties, and promote national reconciliation and social inclusiveness. If President Nyusi can achieve this, democratization can be reinvigorated.