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**PROMOTING STABILITY AND DEVELOPMENT IN AFRICA:  
FOSTERING COOPERATION BETWEEN PUBLIC AND PRIVATE  
SECTORS**

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**PROMOTING STABILITY AND DEVELOPMENT IN AFRICA: FOSTERING  
COOPERATION BETWEEN PUBLIC AND PRIVATE SECTORS**

**A Case Study of Mozambique**

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## Acronyms

ACPS	Annual Conference of the Private Sector
BEIS	Business Environment Improvement Strategy
CMEA	Council for Mutual Economic Assistance
CTA	Confederation of Economic Associations
ERP	Economic Rehabilitation Program
ESRP	Economic and Social Rehabilitation Program
<i>FRELIMO</i>	<i>Frente de Libertação de Moçambique</i>
GDP	Gross Domestic Product
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
<i>PARP</i>	<i>Plano de Acção para a Redução da Pobreza</i>
<i>PARPA</i>	<i>Plano de Acção para a Redução da Pobreza Absoluta</i>
PSWG	Private Sector Working Group's
<i>RENAMO</i>	<i>Resistência Nacional de Moçambique</i>
SADC	Southern Africa Development Community
SOEs	State Owned Enterprises
UK	United Kingdom
USA	United States of America
USSR	Union of Soviet Socialist Republics
ZANU–PF	Zimbabwe African National Union – Patriotic Front
SWAPO	South West Africa People's Organization
ANC	African National Congress
MPLA	<i>Movimento Popular de Libertação de Angola</i>
FDI	Foreign Direct Investment

## Introduction

Public-private<sup>1</sup> relations in Mozambique in the fields of social and economic development, governance and democracy, peace and security are complex because they are deeply rooted in the history of the country. Several reasons make Mozambique as a case study worthy of investigation. They are: (i) the fact that Mozambique has been growing continuously over twenty years, with the last ten years registering an average growth of 7.5%, (ii) the fact that Mozambique has maintained peace for over twenty years, despite some localized pockets of instability, (iii) the fact that it is a country with great potential in terms of strategic energy resources such as coal, natural gas and oil, (iv) In addition, Mozambique is a country that is increasingly attracting foreign direct investment and (v) where public-private relationships are steadily consolidating.

The study is divided into four sections. The first section presents a historical summary of Mozambique ideological trajectory, from socialism to capitalism. It is followed by a description of the evolution of public-private relations since 1975, divided into three periods: the period of the predominance of the public sector over the private sector; the transition period which marked the beginning of coordination between public and private sectors; and the period of consolidation of public-private coordination. The third section analyzes the relationship between private sector and democratic governance using the indicators of good governance as presented by Kaufmann-Kraay-Mastruzzi (2010:4). The fourth section discusses the relationship between private sector and security. The study summarizes its findings in form conclusion.

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<sup>1</sup> Public sectors is composed by all entities controlled or owned by the government. It includes non-market oriented institutions that offer public service (Ministries, Municipalities) and market oriented entities such public companies, municipal companies other economic units where the government is the owner or major shareholder. Private sector refers to market oriented entities that are not owned or controlled by the government (owned by individuals or group of people), such as companies, business or other activity that produces economic or financial profits.

## **Historical Overview: From Socialism to Capitalism**

Mozambique became independent from the Portuguese colonial regime on 25 June 1975. At that time, the ruling government led by the *Frente de Libertação de Moçambique* (FRELIMO)<sup>2</sup> adopted socialism as a governance system. The socialist approach became consolidated in 1977, when FRELIMO met in the third Congress. The choice for socialism as the state's ideology was motivated by several factors linked to the international system, the southern Africa region and domestic considerations.

Internationally, when Mozambique became independent, the world was dominated by the Cold War which saw the West led by the United States of America (USA) and the East led by the Union of Soviet Socialist Republics (USSR) intensely opposed. During the colonial period Portugal, as a member of the North Atlantic Treaty Organization (NATO), had prevented FRELIMO from getting substantial support from the West during the liberation struggle (1964-1974). Only a few countries such as the Nordic states and especially Sweden did not align with this policy. In contrast socialists and socialist-oriented countries especially the USSR, China and independent African countries, notably Tanzania, supported effectively the Struggle for Liberation of Mozambique.

Socialist support to the countries that were fighting for independence from colonial powers was crucial both in Africa and in Asia. It was a key factor in the independence of many sub-Saharan Africa countries in the 1960s. As a result, a significant number of them adopted socialism as State ideology. Several African socialist countries supported the liberation of other African people, which remained under colonial rule, for instance: Tanzania, Zambia, and Algeria were decisive in the struggle for independence of Mozambique. Therefore, the international system dominated by the Cold War created the conditions for Mozambique's decision to adopt socialism as the dominant ideology of the newly independent State.

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<sup>2</sup> Liberation Front of Mozambique

Angola and Mozambique became independent in a difficult regional political context. Malawi was governed by President Hastings Kamuzu Banda, who undermined the political and military struggle for independence in Zimbabwe and Mozambique. Zimbabwe was under the rule of Ian Douglas Smith and South Africa was under the apartheid regime, which also ruled in Namibia. Both Malawian and South African regimes had good relations with the West while many Liberation movements such as the Zimbabwe African National Union – Patriotic Front (ZANU–PF), South West Africa People's Organization (SWAPO), The African National Congress (ANC), the *Movimento Popular de Libertação de Angola* (MPLA)<sup>3</sup> were socialist. As a result FRELIMO<sup>4</sup> chose socialism in order to cooperate with other regional liberation movements.

At domestic level, during the armed struggle (1964-1974), FRELIMO was able to test the socialist model in the liberated areas. This gave confidence to its leaders to implement socialism in the post independent People's Republic of Mozambique. This choice was also determined by a willingness to mark a clear cut with the capitalist/imperialist severe colonial experience. However, the destabilization war (1976-1992) carried out by *Resistencia Nacional de Moçambique* (RENAMO)<sup>5</sup> with support from Ian Douglas Smith and the Apartheid regime of South Africa (Mosca, 2005: 146) created challenges for FRELIMO's socialist Government. This was made worse by the waning of USSR's support from the inception of 1980s, which began to slow down due to domestic and international political and military pressure. The need to get financial assistance prompted FRELIMO to rethink the Mozambique socialist system and open the country to a more capitalist oriented economy (Veloso, 2006: 196).

When in 1983, the then governor of the Mozambique Central Bank, Parakash Ratilal, declared publicly that Mozambique would join the World Bank, the USSR and East Germany described this choice as a betrayal and interdicted Mozambique's accession to the Council for Mutual Economic Assistance (CMEA), an economic organization led by the USSR (*ibid*). To get assistance from the West,

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<sup>3</sup> People Movement for the Liberation of Angola

<sup>4</sup> FRELIMO became socialist party in 1977 as result of Third Congress Decision, despite the fact that Mozambique became socialist since its independence in 1975.

<sup>5</sup> Mozambique National Resistance

the government of Mozambique had to normalize its relations with the West taking some diplomatic actions such as (i) signing the Nkomati Accord with the Republic of South Africa, in 1984 (ii) entering the Lomé Convention III, in 1984 and (iii) having official visits to the West, it was in this context that President Samora Machel, visited the USA, in September 1985.

As a result of closer ties with the West Mozambique was able to start negotiations with the Bretton Woods' institutions in 1984. These led to the approval, in 1987, of the Economic Rehabilitation Program, which basically meant the beginning of the ideological shift of the Mozambican State. The adoption of new constitution, in 1990 transformed the People's Republic of Mozambique into the Republic of Mozambique and sealed the transition from socialism to capitalism. Since then Mozambique has pursued democracy and liberal economy. In 2004 the constitution was revised, but there were no shifts in the ideological orientation.

## **1. The Public-Private Sectors Relations and Socio-economic Development**

### **2.1 The Public-Private Sectors Relations**

The transformations of public-private relations in the Mozambican economy happened in three different periods. Between 1975 and 1990 the private sector was neglected by the State that did not provide financial assistance nor developed economic policies in its favor. In contrast, companies and production units managed by the State, which were the majority, had all public financial support. The only exception to this general trend was the small farmers, which continued to produce until 1981 without a direct support from the State. With the intensification of the destabilization war, many of them left their farm, facing a time of famine in the subsequent years.

In the second period, from 1990 to 2000, the State moved from a centrally planned to a capitalist economy. This period was marked by the acceleration of the privatization process and a greater awareness of the private sector. In 1995, it started to organize Annual Conferences, which later became institutionalized public-private dialogue mechanisms. As consequence of the public sector increased

openness, the private sector slowly became a partner in development of the country.

From the year 2000, coordination between the public and private economic actors has consolidated with platforms of dialogue; clear economic policies for strengthening private enterprises, especially small and medium enterprises; and measures for the financing of economic activities in both rural and urban areas. In this period, Foreign Direct Investment (FDI) also grows strengthening the role of the private sector in national economic development. The holdings of State in Mega-Projects reinforce the interaction between the public and private sectors, international partners play a key role in the consolidation of the private sector through support to the State budget, concessional loans and investments in the mining sector.

### **2.1.1 Prevalence of Public Sector over Private Sector 1975-1990**

Relations between the public and private sectors from 1975 to 1990 were tense and complex with moments of rupture and continuity. Above all, it was a period of prevalence of the public sector over the private sector. This period was characterized by nationalization, the departure of Portuguese citizens (who were running the private business and the State apparatus before Mozambique's independence) and a weak private sector support.

In relation to nationalization, Mosca (2005: 148) states that 'on 24 July 1974 Samora Machel announced the nationalization of education and health, the land, the funeral companies and law firms. In these areas the private activities were prohibited. The second phase of nationalization took place on 3 February 1976 when he announced the nationalization of profit buildings and prohibited the rent of private houses' (*ibid*).

In practice nationalization meant the empowerment of the public sector as a strategy aimed at "destroying" the colonial State apparatus and build up social equality. In the rural areas, the government established 'cooperatives'<sup>6</sup> and

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<sup>6</sup> A cooperative is an association of persons united to meet their aspirations and economic, social and cultural needs through a jointly owned property.

communal villages as forms of production and life for the rural people against private property and rural dispersion.

The nationalizations affected mainly the urban economy and contributed to the departure of Portuguese entrepreneurs due, largely, to fear of government's reprisals. According to Abrahamsson and Nilsson (1998: 37), almost 185 000 Portuguese, out of 200 000, returned to Portugal. This meant that both entrepreneurs and skilled labor that ensured the functioning of the colonial economy were no longer operating in Mozambique and many companies were abandoned.

Abandonment, uneconomic decisions and sabotage of the companies by the departing Portuguese business community forced the State to intervene in the industrial, commercial and agricultural. As Mosca (2005: 171) reports:

Considering the hundreds of abandoned companies, scattered in the territory, of various sizes and in all economic sectors, ministries, especially of agriculture and of industry and commerce created the Production Support Offices. [...] The vast majority of intervened companies were integrated in provincial Production Support Offices, except in some monopolistic sectors consisting of large companies, whose option was to create State Owned Enterprises (SOEs).

Major State companies in the colonial period, such as the Exploration Division of Air Transport and Railways, passed directly to the Mozambican State whilst large foreign companies such as British Petroleum, *Banco Standard Totta de Moçambique*, *Grupo Entrepoto*, *João Ferreira dos Santos*, *Grupo Madal* among others did not suffer State intervention and were not nationalized.

The existence of a large number of economic entities managed by the State may have contributed to weak private sector support. While SOEs had financing facilities from the Government, the private sector benefited indirectly from the marketing system. This was the case of the small farmers that used to sell their products to Agricom<sup>7</sup>. But the great challenge of the private sector was that the

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<sup>7</sup> State Owned Company for runoff and agricultural marketing

prices were marked by the Ministry of Industry and Trade, often without obeying market mechanisms.

In the 1980s the Mozambican government recognized that it could no longer manage small business as stated by Samora Machel's<sup>8</sup>:

The State cannot continue to pay wages to thousands of employees of the stores of the people, many of whom produce nothing, the current stores of the people should be transformed or delivered to consumer cooperatives, to private traders. Some should be closed if there is no owner for rent, the State cannot manage business. Let's make a plan to transform people's shops. Private business has to play an important role in our country; it was clearly decided in the third congress of the FRELIMO Party. [...] The State should concern itself with the direction of our economy, with the completion of major projects of development.

The decision license stores to private individuals was a measure designed to address the malfunctioning of small commercial units. Therefore, the private sector was delegated the task of managing small businesses in recognition of the role of the private sector in promoting economic development, even if only small traders were concerned at first.

During the period that runs from 1975 to 1990, the Mozambican government designed programs and economic plans to respond to the country's economic challenges. Some of these programs and plans are: the Emergency Program of 1976 whose main objective was to present the International Community the financial needs to tackle the economic crisis originated by floods and the closure of the border with Southern Rhodesia. The Central State Plan of 1978 was controlled by the State and State Owned Enterprises. These programs and plans prioritized the collective production sectors, neglecting the private sector. Indeed the results of these programs and plans have been positive as evidenced by Abrahamsson and Nilsson in stating that during the period between 1975 and 1981 it was possible to maintain production levels, which increased 83% from 1977 to 1981 (1998: 34).

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<sup>8</sup> Samora Machel, Speech on "Ofensiva Política e Organizacional delivered at Independence square on 18 March 1980, Maputo, Mozambique (RM Audio).

A Prospective Indicative Plan with a set of economic and social goals to build a prosperous Socialist State was also adopted for the decade 1980-1990. But the economy began to suffer as result of intensification of destabilization war. In 1983 the government formulated the Economic Action Program to counteract the downward economic trend. However, the program failed again due to intensification of the war. In an attempt to improve the critical situation, the government introduced the Economic Rehabilitation Program (ERP)<sup>9</sup> in January 1987 and the same year came to an agreement with the International Monetary Fund (IMF) and the World Bank to introduce structural adjustments. In the ERP the small farmers were prioritized.

Mosca (*ibid:177*) says that during the 1980s privatization or private sector expansion was slow and insignificant, it covered the small and medium enterprises in transport, trade, hostelry, agriculture and industry. It is clear that the ERP was the initial phase of the establishment of the market economy. In 1990, the Mozambican government introduced the Economic and Social Rehabilitation Program (ESRP)<sup>10</sup>, a comprehensive program that took into account the social dimensions of economic rehabilitation<sup>11</sup>.

The failure of economic plans and programs appears to be linked largely to the war of destabilization that destroyed economic and social infrastructures; and displaced people. Some moved to urban centers where they swelled the ranks of the unemployed, and others became refugees in neighboring countries. In fact the war of destabilization collapsed the rural economy and prevented any prospects of development of the private sector.

### **2.1.2 Transition Period 1990-2000**

The 1990 constitution is an essential milestone in the political and economic transition of Mozambique. From a political standpoint, it introduced the multiparty system and liberal democracy instead of the single party and socialist democracy.

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<sup>9</sup> Programa de Reabilitação Económica

<sup>10</sup> Programa de Reabilitação Económica e social entred in force in 1989

<sup>11</sup> The social dimension of this program aimed to reduce absolute poverty paying more attention to social sectors such as education, helth, food for population

From an economic standpoint, it formalized the changes that were in progress since 1984, moving from centrally planned economy to a market economy.

The differences in the constitutions of 1975 and 1990 regarding the State's role in the economy seem to be clear. While Article 9 of the 1975 Constitution presented the State as promoter of economic planning, Article 41 of the 1990 Constitution presents the State as regulator and promoter of economic growth and social development. By doing so, the 1990 Constitution left room for the private sector to play a greater role in the economic development of the country.

The 1990 Constitution and pressure from the Bretton Woods institutions led to the approval of Law 15/91 of 3 August. This law established the general principles that should guide the privatization and transfer to the private sector of enterprises, buildings and properties owned by the State (Samussone, 2014: 74). Looking at the economic transformations of Mozambique in the 1990s, Castel-Branco *et al* (2001) argue that privatization together with liberalization and deregulation constituted the core of Mozambique's economic transition. However, the transition from a socialist to a capitalist economic model was complex and sometimes opaque.

The process of privatization gained more dynamic with the end of the war of destabilization and especially with entry into power of a democratically elected government in 1994. The effects of privatization were different in each case. For example, while the Company for Construction and Maintenance of Roads and Bridges (ECMP) ended up bankrupt leaving their former workers unemployed, other companies like CETA<sup>12</sup> in turn adapted to market requirements and remains a benchmark. Despite these differences, since 1993 the Mozambican economy began to grow about eight percent per year, having declined in 2000 because of floods (MARP, 2010: 76).

The first conference of the private sector held in 1995 led to the establishment of the Annual Conference of the Private Sector (ACPS), which together with the

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<sup>12</sup> CETA is a Construction and maintenance Company that operates in the following engineering sectors: roads, structures (bridges, ports, hospitals, schools, housing, buildings, warehouses), geotechnical, environmental, hydraulic, and railways

Private Sector Working Group's (PSWG) is the main mechanism of public-private consultation.

The transition period was also marked by the effort of attracting Foreign Direct Investment. The investment law (Law 3/93 of 24 June) allowed the emergence of Mozal in 1998 (Wache, 2008: 3), an aluminum smelting plant located in Maputo province. Mozal represented the promising start of Foreign Direct Investment that in subsequent years were to settle in Mozambique. The company's shareholders are BHP Billiton with 47%, Mitsubishi Corporation with 25% and International Development Corporation with 24% and the Government of the Republic of Mozambique with 4% (*ibid*). However, one must note that with the appearance of Multinational Corporations it is increasingly difficult to distinguish between the public and private sectors, since the State, represented by the government becomes shareholder of companies that would be considered private by nature.

### **2.1.3 Consolidation of Private Sector 2000-2014**

The year 2000 was historically significant: first, because of the establishment of Mozal which began to produce and export aluminum in this year, an operation that galvanized the small and medium companies that were contracted to provide services, especially transport, cleaning and feeding. Second, because that same year the country was ravaged by floods that destroyed the infrastructures, paralyzed economic activities and profoundly affected the country's economy. However, in subsequent years the economy recovered its course registering a continuous growth of over five percent per year.

Mozambique's economic growth is the result of a peaceful environment associated with (i) economic policies, (ii) greater public-private coordination, (iii) Foreign Direct Investment and (iv) international cooperation.

With regard to economic policy the focus is on the *Planos de Acção para a Redução da Pobreza Absoluta (PARPA)*<sup>13</sup> and the establishment of Branches of Single Service<sup>14</sup>. Each plan was applied for five years, *PARPA* I lasted from 2001 to 2005,

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<sup>13</sup> Plans of Action for the Reduction of Absolute Poverty

<sup>14</sup> Balcões de Atendimento Único

*PARPA II* lasted from 2006 to 2009 and the *Plano de Acção para a Redução da Pobreza (PARP)*<sup>15</sup> is still in force (2001-2014). *PARPA I* recognized the central role that the private sector plays in the Mozambican economy by stating: 'the strategy of reducing poverty and promoting economic growth is based on the assumption that private initiative of citizens, families, firms and other institutions, is the engine of development, leaving the State to provide essential services and infrastructure to the implementation of this initiative' (Government of Mozambique, 2001: 81).

*PARPA II* reaffirmed the importance of the private sector arguing that 'the beneficial effects on the economy would be perceived through combating bureaucracy, the increase of quality and strategic investment in infrastructure and encouraging the growth of the private sector' (Government of Mozambique, 2006: 4). In its turn the *PARP* states that 'the Strategy for Improvement of Business Environment 2008-2012, the Strategy for the Development of Small and Medium Enterprises, as well as the Strategy for Employment and Vocational Training are the basis for the promotion of employment through strengthening of the private sector' (Government of Mozambique, 2011: 15). These plans show the central place reserved to the private sector by the Government of Mozambique.

These plans were reinforced since 2005 through the District Development Fund also known as 'seven million'<sup>16</sup>. Since 2010, the Government added the Strategic Program for Urban Poverty Reduction Fund. These funds have served to leverage private finance initiatives in both rural areas and in cities. Yet it still remains as a challenge to best structure the funds to actually turn it into sources to generate employment, especially for youth.

The Plans were strengthened by the creation of the Branches of Single Service through Decree 14/2007, of 30 May, with the aim of improving public services through simplification, flexibility and speed of administrative procedures in cases of citizens' claims. The main objective of the service is to efficiently meet the needs of the private sector, simplifying the procedures in order to allow the establishment and permanence of private companies in Mozambique.

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<sup>15</sup> Action Plan for the Reduction of Poverty

<sup>16</sup> This is money given annually to Districts in order to finance the local entrepreneurs that have economic initiatives but no funds to implement them. The main objective is to reduce poverty.

Regarding the growing of public-private coordination, it seems important to highlight the fact that since 1995 the Confederation of Economic Associations (CTA) has held fourteen Annual Conferences of the Private Sector. These conferences alongside with the Expanded Board of Consultancy are authentic channels of dialogue between the public and private sectors. The Private Sector Working Group, which also includes international partners, is also part of these channels.

The Minister of Industry & Commerce, Armando Inroga indicated, at the XIII edition of Mozambique annual private sector conference held on the 8th March 2013, that the government has complied with 80% of its targets for business environment reform. His comments coincided with the conclusion of the first phase of the Business Environment Improvement Strategy (BEIS) and preparations to implement the second phase as well as the launch of the draft of the National Development Strategy (ACIS & CTA, 2013: 5). The overall objective of the BEIS is to “reduce absolute poverty levels, through the promotion of rapid, sustainable and inclusive economic growth, focusing on the creation of an environment favorable to investment and to the development of national entrepreneurship, and of the realization of actions in education, health and rural development.” (*ibid*) This objective encompasses the main concerns of both public and private sectors.

The implementation of the first phase of BEIS produced, on one hand some results such as better Business Environment<sup>17</sup>, increasing of investments, more access to education and health. On other hand, the lack of funds prevented the country to improve the quality of services (education, transport, health). It is under this context the second phase is being implemented.

Foreign direct investment has increasingly helped to boost the private sector and the economy in general. Indeed, since 2000 the economic growth of Mozambique met even more auspicious moments with the appearance of mega projects: Mozal

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<sup>17</sup> The Rankings of Doing Business reports show that the business environment is improving because for exemple Mozambique in 2013 was placed as 146, in 2014 was placed as 142 And in 2015 is placed as 127.

began its activity, the resumption of operation of Pande and Temane by Sasol<sup>18</sup> the Moatize Coal exploration by Vale Moçambique and Rio Tinto, the exploration of Moma heavy sands by Kenmar and findings of high natural gas reserves by *Ente Nazionale Idrocarburi (ENI)* and Anadarko in the Rovuma basin and more recently the discovery of oil in Inhassoro district.

Alongside the boost of private sector, the financial dimension has gained importance thanks to the capital gains from the sale of shares of some companies engaged in the search and exploitation of hydrocarbons. For example, ENI have paid \$530 million in 2013 from the sale of its shares of Area 4 in Rovuma Basin to the Chinese company CNODC Dutch Cooperatief UA<sup>19</sup>. It seems that these capital gains have not yet benefited the small and medium companies; that is why the ongoing debate suggests a greater appeal for State assistance to this category of companies.

International cooperation also contributes to enhancing the coordination between the public and private sectors. For example Western partners from the forum G19 also known as the Program Aid Partners are supporting the State budget through which they are contributing to the country's economic growth and consolidation of the private sector. Some of the largest donors are: the World Bank, The United States of America, the European Commission, the UK and the Nederland.

Despite the need for financial aid, the dependence of Mozambique on foreign aid is reducing significantly. For example, in 2005 the budget dependence was about 48.1% and it decreased to 27.9% in 2013. In the medium term it is hoped that Mozambique will be self-sufficient in budgetary terms and the traditional sectors such as agriculture and services with help of the mining industry that is booming may contribute to this end.

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<sup>18</sup> Sasol is a South African integrated energy and chemicals company that is exploiting natural gas in Panda and Temane, southern region of Mozambique.

<sup>19</sup> AIM, (2013), *ENI PAGA 530 MILHÕES DE DÓLARES EM IMPOSTO DE MAIS-VALIAS*. Available on <http://noticias.sapo.mz/aim/artigo/884729082013194022.html> > Accessed on 14 October 2014

Another example of international cooperation partners are the prominent emerging economies mainly China, Brazil and India. China has been giving concessional loans to Mozambique, for the construction of infrastructure such as roads and bridges that facilitate and fortify the activities of the private sector. It is with Chinese concessional loans that Mozambique is building, since 2013, the bridge that will link Maputo city to Catembe. The bridge will facilitate tourism, investments and expansion of services. In addition to concessional loans, China together with India and Brazil has been investing in various sectors with greater emphasis on the extractive industry, such as coal mining in the province of Tete.

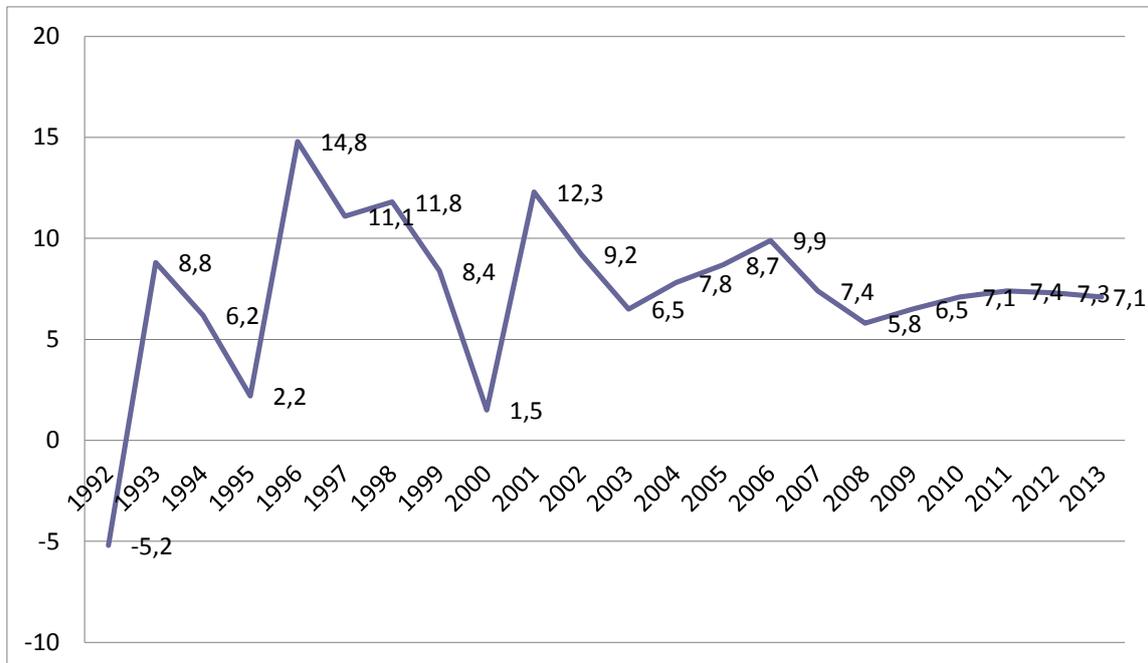
## **2.2 Socio-economic Development**

In relation to socio-economic development Mozambique had to adapt to the reality imposed by Cold War, unfriendly regimes and the destabilization war. After independence the majority of Portuguese businessmen fled from the country and the economy slowed down. The intensification of the war of destabilization would lead to the collapse of the economy due, in part, to the departure of farmers from the productive rural areas to the cities and to the neighboring countries. It was in this context that emergency aid was institutionalized and NGOs became very active across the country, in a relatively disorganized manner at the beginning. As the war ended in 1992, the economy started to recover as shown in Figure 1.

Despite the economic recovery in 2000 the economy experienced a sharp decline due to floods that affected the country. In subsequent years the economy has resumed its pace growing 7.5% on average per year since 2002 (OECD, 2013: 4). Economic growth has had an impact on the budget and on poverty reduction. For example, in 2005 the external financial dependence was decreased from 48.1% to 27.9% in 2013 (Guebuza, 2014:19). However, the Organization for Economic Cooperation and Development (OECD) argues that 'While the poverty rate declined from 69.4% of the population in 1997 to 55% in 2010; recent survey data shows that poverty alleviation is stagnating and regional disparities remain serious' (2013: 10). The perception of stagnation of poverty alleviation seems to challenge the governmental policies to combat poverty. However, the perception does not take into consideration that the mentioned poverty reduction refers to a period of

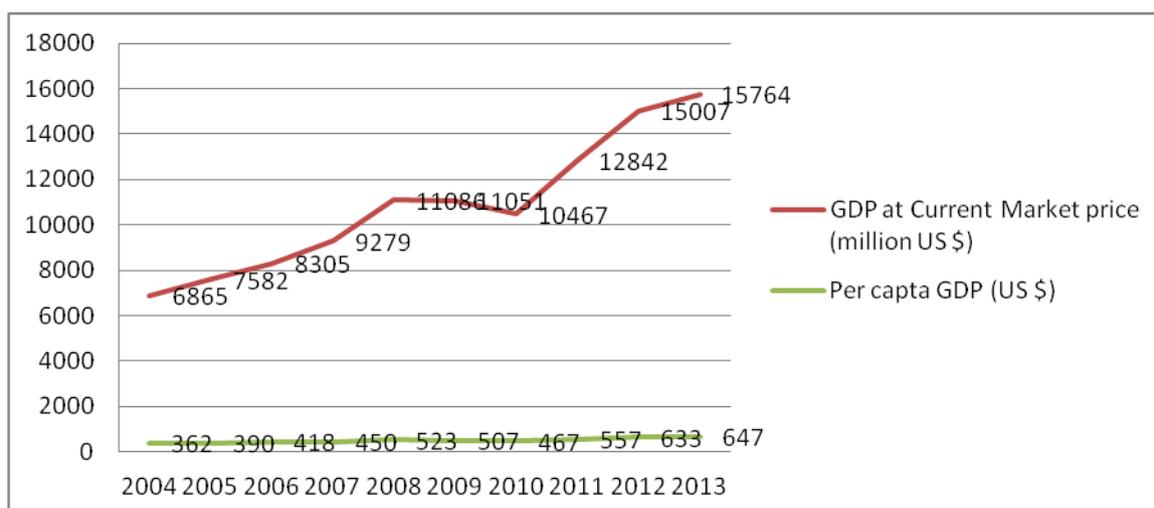
thirteen years (1997-2010) while the perceived stagnation refers only to a period of two years (2011-2013).

**Graphic 1. Annual percentage GDP growth in Mozambique 1992-2013**



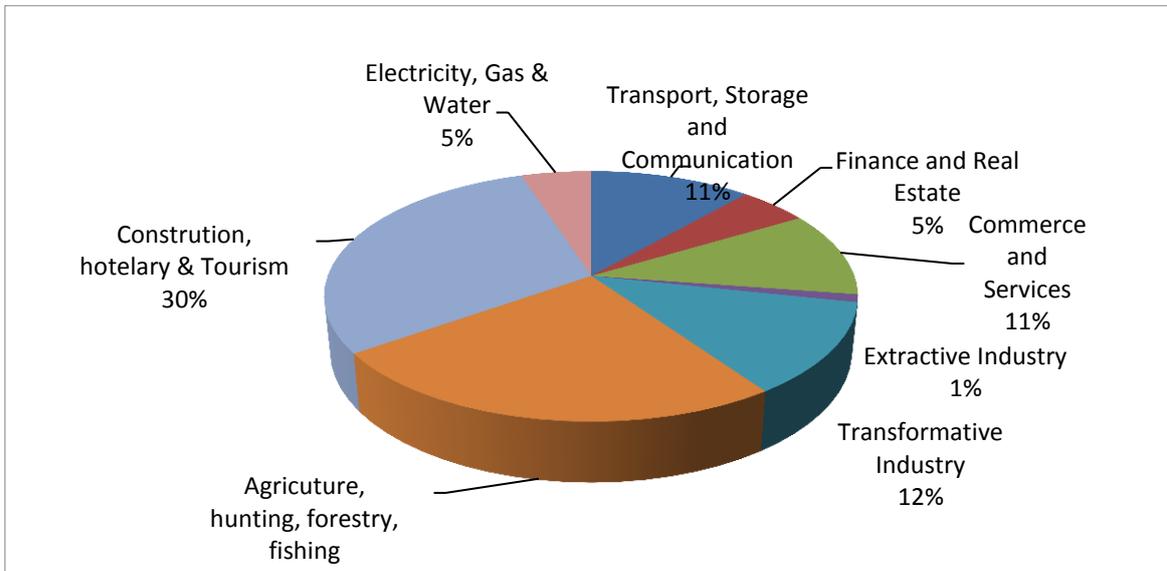
Source: Adapted from OECD (2013) and SADC Secretariat (2014)

The economic growth is reflected in the country's GDP that despite fluctuations, the overall trend is growth. For example, Mozambique's GDP increased from 6,865 million American dollars in 2004 to 15,764 million in 2013, an increase over one hundred percent. The GDP per capita also grew significantly: it has increased from \$ 362 in 2004 to \$ 647 in 2013 (graphic 2). This economic growth has allowed the country to reduce poverty from 69.4% in 1997 to 55% in 2010.

**Graphic 2. GDP at current Market Price and GDP per capita (2004-2013)**

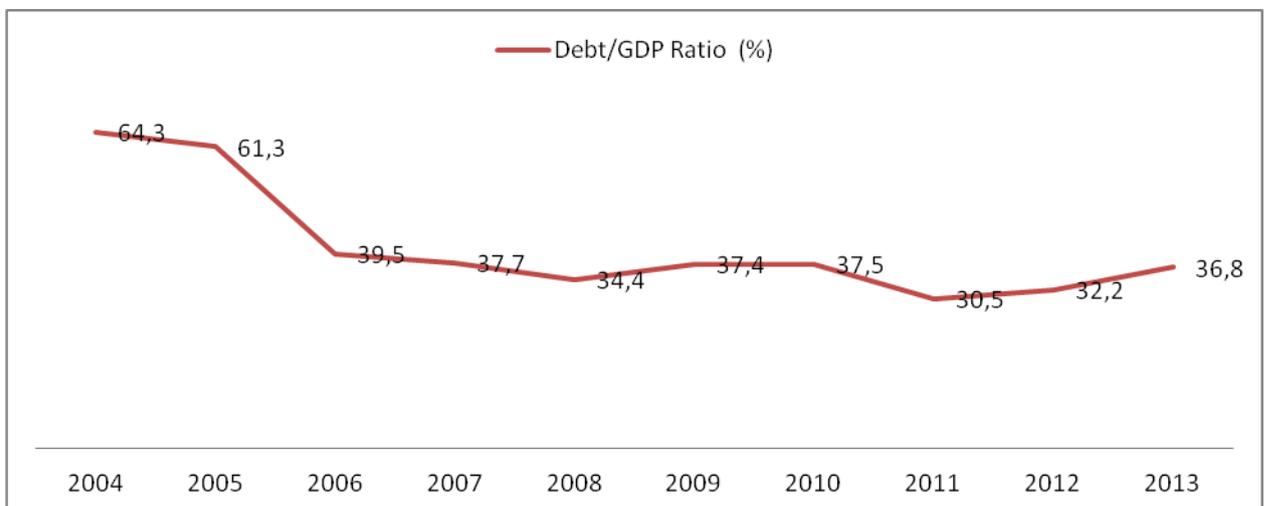
Source: adapted from SADC Secretariat (2014)

The performance of the sectors that make up the Mozambican GDP shows that the extractive industry is still very weak. Surprisingly the extractive industry sector only contributed with 1% (graphic 3). For example the 2012 data shows that the largest contribution comes from construction, hostelry and tourism with 30% followed by industry, agriculture, hunting, forestry and fishing with 25%. It is expected that with the exploration of natural gas the contribution of extractive industry may grow from 2018 with positive effects on the economy, especially in GDP and in the State budget, consequently decreasing the dependence on external financing and increasing wealth for Mozambicans.

**Graphic 3: Mozambique GDP Composition 2012**

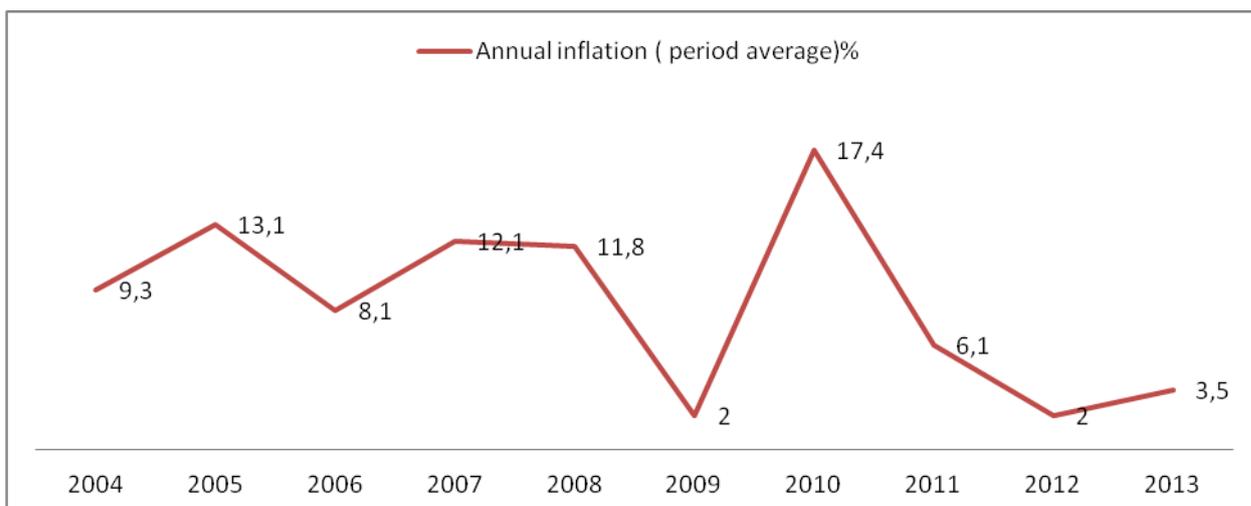
Source: adapted from OECD (2013:10)

The economic growth in Mozambique is sustainable due to the control of public debt and inflation. For example the ratio Debt/GDP is below 40% since 2006, a performance considered sustainable (graphic 4) if compared with the Euro Zone that recommends to its members to not surpass 60%. Yet inflation remains a challenge, in the last ten years, 2010 was the peak with 17.4%, however, in 2009 and 2012 the inflation was 2%, this variation shows some instability of prices in the Mozambican market (graphic 5).

**Graphic 4: Debt/GDP Ratio (%) 2004-2013**

Source: adapted from SADC Secretariat (2014)

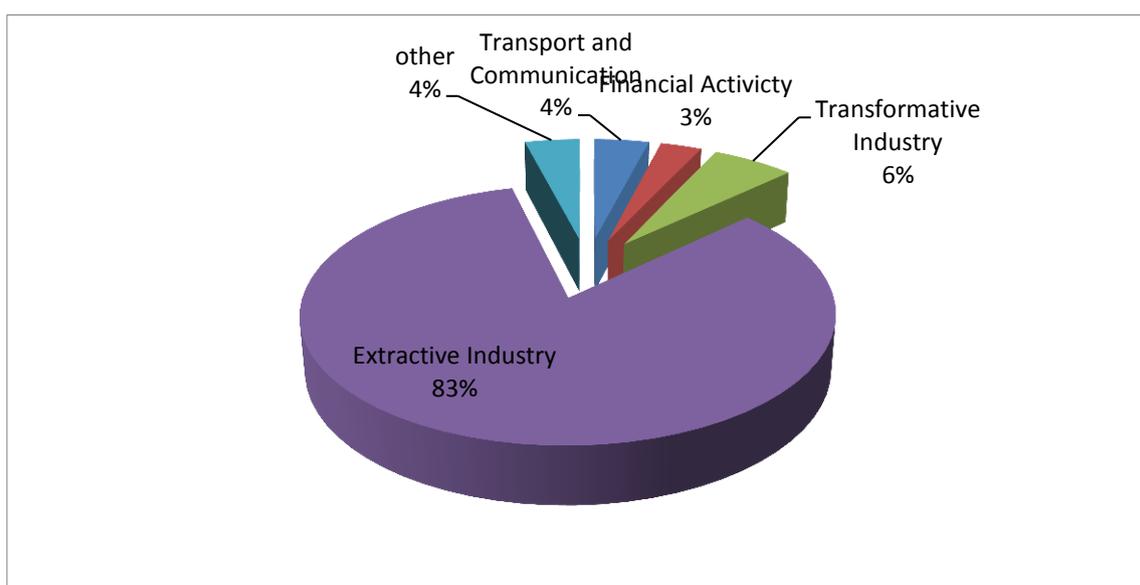
**Graphic 5: Annual Inflation rates (period average)% 2004-2013**



Source: adapted from SADC Secretariat (2014)

The mining industry has been the main source of attraction of Foreign Direct Investment. In 2011 it has absorbed 83% of the total inflows (graphic 6). The manufacturing industry absorbed 6% followed by transport and communications sectors and the financial activities. Other sectors absorbed only 4% of Foreign Direct Investment.

**Graphic 6: Sectorial Composition of FDI in 2011**

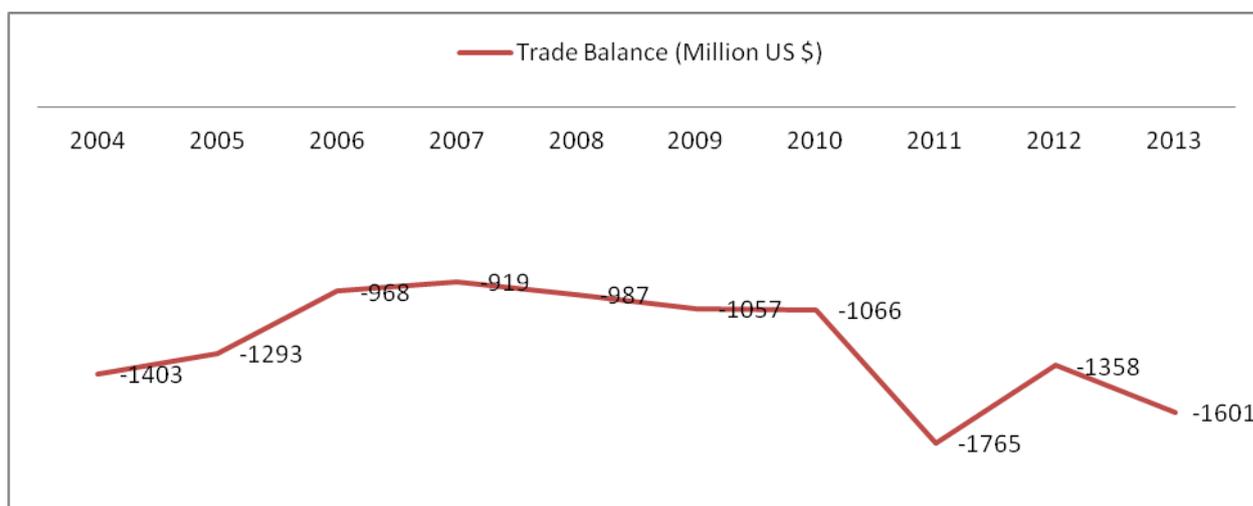


Source: adapted from OECD (2013:10)

The trade balance is in deficit (graphic 7): Mozambique is importing more than it exports. It seems that the trade balance deficit will continue during the period of installation of mega projects, because these companies import expensive machinery that influence negatively the trade balance. Furthermore, some companies like Mozal in addition to importing machinery also import raw materials. Another important factor is the fact that Mozambique exports agricultural products such as sugar, tobacco, cotton, cashew nuts that are usually cheaper in the international market. South Africa, China, the United States under the umbrella of the African Growth and Opportunity Act (AGOA) and the European Union under the umbrella of the Cotonou Agreements and Everything But Arms (EBA) are among the main trading partners of Mozambique.

The deficit scenario may change positively when the export of Liquefied Natural Gas starts in 2018. It may become much better if the country is able to install a heavy manufacturing industry in order to give added value to export products. Therefore, it is expected that in the near future the Mozambican trade balance may reach the point of equilibrium.

**Graphic 7: Trade Balance (Million US \$) 2004-2013**



Source: adapted from SADC Secretariat (2014)

The analysis of the Mozambican economy performance shows that the country is growing steadily. The most significant contribution comes from the sectors of construction, hospitality, tourism, agriculture, fishing, hunting, forest, which in 2012 contributed 55% of the total economy. Despite these encouraging results for

economic growth, poverty reduction is not progressing and the inflation is unstable. Foreign Direct Investment is focusing on the mining industry and the trade balance is in deficit. This scenario suggests that implantation of manufacturing industry may give added value to the products exported by Mozambique.

## **2. Private sector and Democratic Governance**

According to Kaufmann-Kraay-Mastruzzi (2010:4), good governance have the following key indicators: (i) voice and accountability, (ii) political stability and absence of violence, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law and (vi) control of corruption. For reasons of structure in this study the political stability and absence of violence indicator will be presented in the section on Private Sector and Stability.

In relation to voice and accountability, the Mozambican government system is now a multiparty democracy based on the supremacy of the Constitution, the rule of law, the guarantee of fundamental human rights and popular participation through periodic and competitive elections (MARF, 2010: 96). The Constitution of the Republic on its article 48, followed by the press law (Law 18/91 of August 10) and the Right to Information Act passed in August 2014, upholds the principles of freedom of expression and provides for voice and accountability enshrined in it. A visible sign of freedom of expression is the growing number of private media. Newspapers, televisions and private radio represent an irreversible achievement, participating in governance and contributing to the education, Awareness building and information of Mozambican society.

Mozambique has more than 50 parties of which three are particularly known, namely: the Liberation Front of Mozambique (Frelimo), the Mozambique National Resistance (Renamo) and the Mozambique Democratic Movement (MDM) with seats in Parliament. Under separation of powers and the check and balance the government is accountable to the parliament and the head of State presents the State of the Nation at the end of each year to Parliament, in compliance to article 178 of the Constitution.

Since 1994, Mozambique has had competitive and periodic elections. Mozambicans have voted in five general elections (presidential and legislative), four local and two elections at Provincial Assemblies level. However, the election results have been repeatedly challenged with accusations of irregularity in the processes and fraud. For example, Renamo organized demonstrations in November 2000 in Montepuez against the results of the general elections of 1999 and in September 2005 in Mocímboa da Praia against the election results of 2004. Renamo has also contested the 2009 elections, a claim that slipped in instability in the central region of the country. Therefore, the acceptance of election results by the losing parties remains a challenge for Mozambique.

As for government effectiveness and regulatory quality, it is possible to point out some changes resulting from policies implemented by the government. Statistical data show that the population of Mozambique increased from 18,962 000 inhabitants in 2004 to 24,366 000 in 2013 and life expectancy increased from 46.7 years in 2004 to 53.1 years in 2013. Between 2004 to 2014 primary education grew to 57% of the total population, secondary education grew to 197%, technical and vocational education grew to 40.3% and higher education grew to 464.4% (Guebuza, 2014: 27). These data illustrate that the private sector has more skilled human resources at its disposal than in the past. This skilled people allow the companies to have greater possibility of growth and development.

On health the number of doctors has increased from 441 in 2005 to 920 doctors in 2014. The public service also experienced growth from 2001 to 2014, of about 300 thousand employees and agents of the State, the human resources developed as following:

- 82.5% with elementary and primary school in 2001 has decreased to 50% in 2014,
- 13% with secondary level rose to 31%
- 4.4% with higher education increased to 19% (*ibid*)

The process of decentralization of powers and deconcentration of competences gave greater responsibility to the districts and local advisory councils. The advisory councils represent the participation of citizens in the decision making process improving the governance effectiveness. The scenario described here

shows that the governmental policies have a certain degree of effectiveness, but it should strengthen the capacity of central and local institutions and continue to implement policies aimed at greater participation and creating the well-being of people.

Concerning to the rule of law and control of corruption, many initiatives have been undertaken by the government. The country has 141 prosecutors of which 130 are at district level. The network of the Institute of Legal Assistance and Representation covers 135 districts of the total 150 districts and Judicial Courts cover 123 districts (Gubuza, 2014: 52, Paulino, 2014: 2). The creation of the Office for Ombudsman and of the National Human Rights Commission in 2012 reveals the importance given to rule of law in Mozambique.

In terms of legality there are positive aspects as production of orders by the prosecutors which are duly complied with by the Criminal Investigation Police, timely completion of the first interrogation of the arrested by the judges for criminal prosecution, daily selection in Police Commands and Squads by prosecutors, and an increasing improvement of collaboration between the judiciary and other organs of the State (Paulino, 2014: 12). There is also a growing humanization of the prisoners through their participation in agricultural and livestock production, education, sports and cultural activities.

However, there are still many challenges to be overcome: among them stands the failure to meet deadlines for preparatory instruction and probation, denial of conditional release for alleged nonpayment of claims and enforcement of arrest mandates without competent orders (*ibid*). The prisons and police cells are overcrowded, thus degrading the hygiene conditions. Another challenge is the detention in the same cells prisoners with different levels of dangerousness and different age groups.

Regarding to crime, Paulino (*ibid*) said that the most prominent organized crime networks include those connected with:

- a) drug trafficking;
- b) money laundering;
- c) theft of car;

- d) arms trafficking; and
- e) trafficking of human organs.

These groups and their networks are not confined to Mozambique, but extend to other countries, including Portugal, Pakistan, Brazil, the United Arab Emirates and South Africa (*ibid*). Terrorism is not part of organized crime that affects Mozambique. Furthermore, there is no evidence of the linkage between the organized crime networks active in Mozambique with terrorism.

In 2013, the organized crime was engaged in kidnapping with requirement of huge amount of money for redemption, threatening of kidnappings with collections of money from the threatened people and disseminating threatening information by certain groups of criminals (Paulino, 2014: 12). Due to these crimes many businessmen and family members of employees of megaprojects left the country. The insecure environment generated by abduction combined with the instability that opposed the government and Renamo in Sofala province affected the activities of the private sector.

Among the various measures taken to eliminate this type of crime the most important one was the approval, by the Parliament, of the law 6/2014 of 5 February, criminalizing and punishing the crime of kidnapping, thus giving the courts a key tool in combating this type of crime.

Fighting corruption is a major challenge facing Mozambique in the democratic governance of the State. According to the Attorney General's Office, the combat of corruption is done on three key fronts of activity, namely: 1) repression; 2) prevention and 3) institutional coordination. Despite the development of policies, strategies and institutions, available data indicates that the incidence of corruption in Mozambique remains worrying. For example, between April 2013 and April 2014, 876 cases were processed, of which 600 of corruption, 276 of misappropriation and misuse of funds or property of the State. On one hand, these relatively high figures show corruption is one of the major challenges for Mozambique as a State; on the other hand, they illustrate the commitment of the institutions of the justice system in fighting corruption.

### 3. Private Sector and Stability

Since end of the civil war in 1992, Mozambique is a stable despite facing, especially in the post-election periods, localized pockets of instability. Crime has also created instability in localized areas of the country. This section analyzes the instabilities related to the post-election periods and crimes, especially kidnappings and piracy.

Analyzing the instability linked to post-election periods, Wache (2013: 1) argues that 'the after election periods in Mozambique have been violent since 1994 when the country organized its first general elections. Renamo has never accepted the election results as fair, transparent and credible; this may explain the reason why many people died in November 2000 in Montepuez, and in September 2005 in Mocímboa Praia, when Renamo organized demonstrations against the results of general election of 1999 and 2004 respectively'.

The most worrisome period of instability happened after the 2009 elections with an impact on the economy in general and for the private sector in particular, since the north-south linkage was almost closed by Renamo soldiers. The attack, by Renamo soldiers, of the Vale Moçambique Train, a Brazilian coal mining multinational that operates in Tete province, in April 2014, was seen as a threat to Foreign Direct Investment. The Conflict continued until 5 September 2014, when President of the Republic, Armando Guebuza and the President of Renamo, Afonso Dhlakama, signed the Cessation of Hostilities Declaration, after more than seventy rounds of negotiations.

In the negotiation process, diplomats from Italy, Portugal, USA, UK and Botswana have also played a role on persuading Afonso Dhlakama to sign the Declaration. The agreements reached between the parties of the conflict show that Mozambique has internal capacity for conflict resolution. This internal capacity is an asset in the history of the young Mozambican democracy and gives a greater sense of security to the Mozambican private sector. Despite this capacity Mozambique has invited Portugal, South Africa, Botswana, Cape Verde, USA, Italy, Kenya, UK and Zimbabwe to send their military experts as observers of the Renamo's disarmament process.

In relation to crime, piracy and kidnapping have been the most concerning issue for the private sector. In regard to piracy, the hijacking of the fishing boat Vega 5 on 27 December 2010 generated in the Mozambican government the need to invest in maritime security. The first step was to sign agreements with Tanzania and South Africa to coordinate and strengthen enforcement actions and combat piracy in the waters of the Mozambique Channel. The second measure was the purchase of patrol boats in France in 2013. With these measures, Mozambican companies that operate in the Mozambique Channel are safer than in the past.

Kidnappings have also concerned the private sector in Mozambique. For example, in 2013 when the abductions peaked, Rio Tinto coal mining Company 'asked the families of its foreign employees to leave Mozambique amid a spate of kidnappings [...]'. This reaction of Rio Tinto shows how instability has affected the private sector. But the situation was controlled and returned to normal few months later.

## **Conclusion**

This paper analyzed the public-private relationship in Mozambique in four sections. The first section presented a brief history of the ideological choices that Mozambique made over time and emphasized the role played by the domestic, regional and international contexts.

The second section analyzed the links between public-private sectors relations and socio-economic development. In approaching this issue, three stages of the evolution of public-private relations were presented and it was argued that these relations started from a phase in which the public sector prevailed over the private sector going through a transition period culminating with the consolidation of more balanced public-private relations. It was in this section that the main trends in socio-economic development in Mozambique were presented, by focusing on economic growth, Foreign Direct Investment, and the large potential of energy resources such as coal, natural gas and oil. Because of the good economic performance of the country, there is a reduction of external financial dependence on traditional partners such as the European Union and its member States and the United States of America, while emerging economic powers are playing an

important role by financing the construction of infrastructures and by providing concessional loans.

The third section addressed the role played by the private sector in democratic governance by using the good governance indicators of Kaufmann-Kraay-Mastruzzi. This section analyzed indicators such as voice and accountability, government effectiveness, the regulatory quality, rule of law and control of corruption. The paper also presented policies, strategies and other measures that the government took in order to maintain Mozambique on the road of good governance.

The last section discussed about the relations between private sector and stability. Even if Mozambique can be considered as a peaceful and stable country, some factors such as post-election demonstrations and crime –piracy and kidnappings– sometimes generate instability and affect the private sector.

### **Recommendation**

- The Mozambican public and private sectors have to accelerate the ongoing debate in order to lower interest rates which would encourage lending to private productive activities.
- Given the fact that the public-private dialogue channels are being challenged, (the private sector think that the focal-point should be the Prime Minister or the President of the Republic) , it is urgent to find a satisfactory answer for this issue in order to continue to straighten the business environment in the country.
- In the context of the multipolar world where we living in , it is recommended that the Mozambican public-private sectors diversify their partners (financier) to avoid the risk of imposition of political, social and cultural values .
- The funds that the Mozambique's Program Aid Partners (European Commission, United States of America and others) provide for the strengthening of the private sector could be delivered to commercial banks

for the purpose of extending loans to entrepreneurs with low interest rate (equivalent to developed countries rates) and an extended time of repayment.

- It is recommended that the Western partners eliminate their political conditionality in the provision of funding to developing countries, including Mozambique, under risk of becoming irrelevant with the rise of emerging economies with concessional loans, without political conditions.

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