

Contested Sovereignty in Mozambique: The Dilemmas of Aid Dependence

Paolo de Renzio
and
Joseph Hanlon

January 2007

Managing Aid Dependency Project
GEG Working Paper 2007/25



Paolo de Renzio

Paolo de Renzio is a DPhil candidate in the Department of Politics and International Relations at Oxford University, and a Research Associate of the Centre for Aid and Public Expenditure at the Overseas Development Institute. He previously worked as an economist and policy advisor in Papua New Guinea, and as a public sector specialist, lecturer and independent consultant in Mozambique. His research focuses on the interplay between aid policies and modalities and public finance management systems in developing countries.

Joseph Hanlon

Joseph Hanlon is a Senior Lecturer in Development Policy and Practice in the Faculty of Technology, The Open University at Milton Keynes. Joseph was policy advisor and economist for the Jubilee 2000 campaign to cancel poor country debt. He has written extensively on corruption in Mozambique

The authors would like to thank Sergio Mathe, Bruce Byers, Gianturco Leone, Nicolas Lamade and participants at a seminar held in Oxford on 26/27 September 2006 for useful comments.

‘Mozambique appears as many [...] aid-dependent countries, with the government apparently believing that its undoubted reliance on foreign assistance means that it is not in a position to insist on its own priorities. While there is no avoiding the truth that the bargaining position of the government vis-à-vis its development partners is, and will remain, highly unequal, we would like to stress that aid dependency does not have to entail subservience, and that boldness by the government can go part way to redressing the asymmetry just mentioned.’
(Killick et al. 2005:50)

Introduction

Mozambique has been seen by donors as a success story of peace, stability and growth since the end of its devastating war in 1992. Indeed, it has become increasingly important to the international community as one of the few successes in Africa. Donors have invested a substantial amount of resources and effort in support of Mozambique’s economic and political performance, and are understandably committed to sustaining it for as long as possible. Mozambique continues to be highly aid dependent (see Figure 1), but is considered as a model by the Bretton Woods institutions, having consistently met most donor demands, while at the same time growing at an official average rate of about 8% per year since 1997 (EIU 2006). During the same period, poverty declined, but at a much slower rate¹. Given its privileged status among donors, Mozambique has also become a model and a testing ground for so called “new aid modalities”, such as sector and General Budget Support (GBS), in the context of the shifting international debates around aid effectiveness, enshrined in the Paris Declaration of March 2005 (OECD 2005). This has included an innovative mechanism for monitoring donor performance on harmonisation and alignment of their support to the country, called the Programme Aid Partners’ Performance Assessment Framework (PAP’s PAF), discussed in more detail later in this paper.

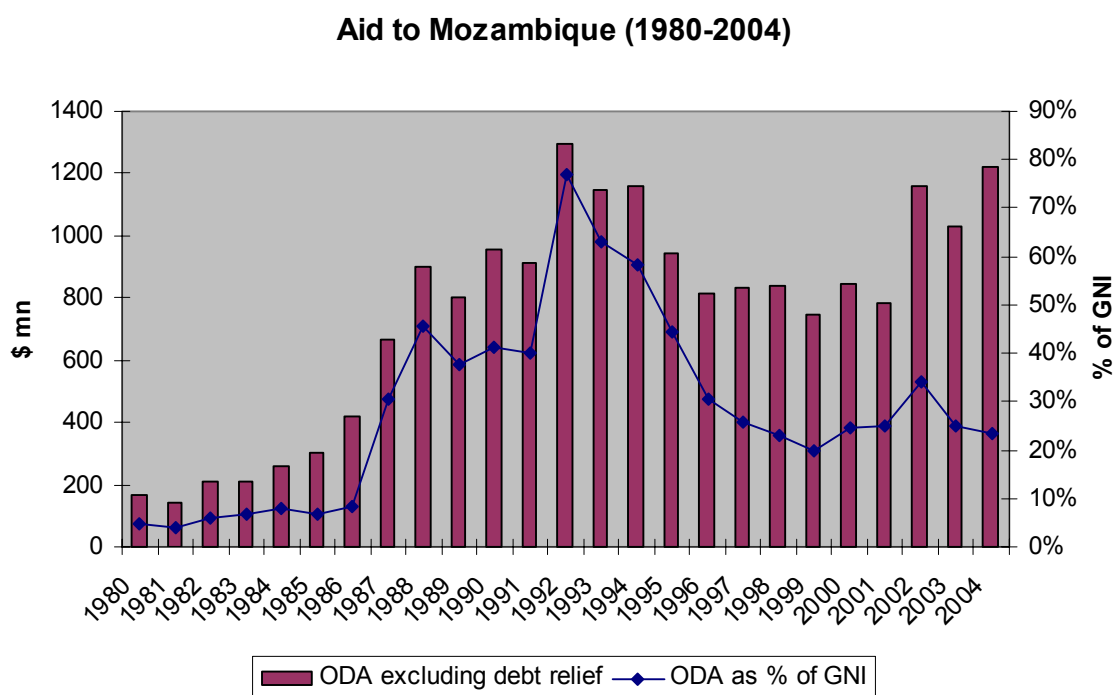
According to the OECD-DAC, net Official Development Assistance to Mozambique in 2004 amounted to around \$1.2 billion, which corresponds to 23% of national income. This makes Mozambique the world's eighth most aid dependent country, with an aid to GNI ratio which is four times the average for sub-Saharan Africa. The largest donors are the World Bank, the European Commission and the United States, with more than \$100m per year, followed by Denmark, the UK, Sweden, Norway, the Netherlands and the African Development Bank (who provide between \$50 and \$70m per year).

OECD DAC figures (see table 1) show that over the past decade, 20% of aid has consisted of loans, and 80% of grants. Moreover, nearly half of aid is accounted for by debt relief, emergency and commodity aid, and technical cooperation, which leaves only half for direct expenditures within Mozambique. According to IMF figures, aid was 48% of the government budget in 2004 – which means that, in practice, taxes and other revenues cover recurrent expenditure, while aid provides for capital expenditure².

Table 1. Aid to Mozambique, 1995-2004

	\$ bn	% of total aid
Total ODA	10.9	
<i>Of which</i>		
Grants	8.7	80%
Loans	2.1	20%
Debt relief	2.5	22%
Technical cooperation	1.9	17%
Budget support	1.4	13%
Commodity, food, emergency	0.9	8%

Source: www.oecd.org/dac/stats/idsonline

Figure 1. Trends in aid flows and aid dependence in Mozambique

Source: www.oecd.org/dac/stats/idsonline

Mozambique's aid dependence is highlighted by the fact that similar resources cannot be easily raised domestically. Despite the emphasis that the government has put on increasing domestic revenues in its poverty reduction strategy (known as PARPA, *Plano de Acção para a Redução da Pobreza Absoluta*), between 1997 and 2004 revenues fluctuated around 12% of GDP, without any substantial increases. Reducing aid dependence has so far proved to be an elusive goal, despite a number of reforms such as the introduction of value added and personal income taxes. Moreover, despite much inefficiency in government spending, there are no obvious areas that could be identified for large expenditure cuts (Mozambique already has a very small army, for example). Any reductions in spending would therefore have to hit capital expenditures (such as the building and repair of roads, schools, hospitals, etc., currently

financed by aid in any case), or tackle the much trickier areas of inefficiencies, wastage and corruption.

Donors definitely see Mozambique's government as one they can and want to work with. A proof of this is the large number of donor agencies and other development actors that have programmes in Mozambique³. An important part of this is due to historical circumstances (see next section), and is based on 20 years of unbroken acceptable relations with the international financial institutions and up to 40 years of strong links with some bilateral donors, in particular the Nordic countries. This has meant that over the years Mozambicans at all levels, but in particular within Frelimo⁴ and in senior government posts, have developed advanced skills at managing complex relations with a diverse range of international agencies, juggling their different priorities and demands, and positively responding to their agendas, while at the same time maintaining internal political support. This reflects, in the word of David Plank, a “complex and perilous balancing act, which depends on ensuring the continued flow of aid while simultaneously maintaining the support of key domestic constituencies” (1993:418), which is one of the key topics that this paper addresses.

Since the end of the socialist period, the government has not managed to promote a strong ‘national project’ in its dealings with donors, but has instead decided to accept and implement many of the ‘Washington consensus’ policies proposed by donors, in order to ensure a steady inflow of resources. Most of the policy discussions have happened, and continue to happen, between the executive and the donors, with little input from civil society or parliament. The fragmentation of aid further means that these discussions often happen either at sectoral or at provincial and local level, undermining the overall coherence of government policy, and promoting a piecemeal approach to addressing development problems.

The question we raise in this paper is whether, after almost two decades of such ‘aid subservience’, Mozambique can still be able to express its national sovereignty through a locally defined development strategy, or if it has lost the ability to define an independent position to insist on when negotiating with donor agencies. Three specific examples will help clarify this argument. They are drawn from the liberalisation of the cashew industry, from the issue of land tenure reform, and from debates on corruption and governance. Issues related to aid management and General Budget Support are also covered to supplement the argument.

A history of winning international support

Mozambique's history is important in understanding its relationship with donors, and with the international community more generally. Mozambique was a Portuguese colony which came to independence only in 1975, after a decade-long liberation war. Frelimo, the only liberation movement, had managed to build wide international support thanks to its diplomatic skills. Portugal, a member of NATO, was backed by the West, particularly the United States. But Frelimo won support from both the Soviet Union and China (highly unusual for a liberation movement in that era) as well as from the Nordic states and progressive movements in the US and Europe. After independence, such support continued, and Mozambique became a one-party state (as was common and treated as normal at the time), following a socialist and self-proclaimed "Marxist-Leninist" line.

Mozambique’s relationship with donors and the international community was very different in each of the three post-independence decades:

- 1975-85 was the period of the socialist experiment. Mozambique had a clearly defined development strategy and gained support from the socialist bloc and its old friends in Western Europe (notably the Nordics and Italy).
- 1985-95 was a particularly complex period. The end of the Cold War brought about the end of the proxy war. The period 1985-95 was a particularly harsh and ideological one for the main Western donors. The 'Washington Consensus' was at its height, and the International Financial Institutions (IFIs) and key donors were anxious to promote a quick transition from planned to market economy in countries formerly belonging to the Soviet bloc. Frelimo struggled to maintain policy control, but by the end of the decade had largely lost the battle. The centre of donor power moved from Europe to Washington.
- 1995-2005 represents a period of accommodation. The IFIs backed off from their more ideological prescriptions and Western European donors regained their influence. The government and the donor community gradually reached a *modus vivendi* in which the government's policy agenda was mostly dominated by the IFIs and donors, without a clear national development vision. We argue later that this gave rise to what we call a 'pathological equilibrium', by which large-scale corruption went largely unchecked as long as political stability was maintained and the neo-liberal economic policies of the IFIs and the other main donors were implemented.

These very rapid changes over a short period of time require a more detailed look at the history. Upon independence, Mozambique had very few skilled or educated people, and its ministries, farms, and factories were abandoned and often sabotaged by the departing Portuguese. Thus the country became dependent on skilled foreigners, called *cooperantes*, or on outside support from the socialist bloc; thousands of secondary school pupils, for example, were educated in Cuba, and until today it is not infrequent to meet civil servants who speak fluent Russian or German, having spent many years being trained in the USSR or in East Germany.

With the intensification of the Cold War under Ronald Reagan, Mozambique (like Angola) became a geo-strategic battlefield. In 1981, with US approval, apartheid South Africa began a war of destabilisation against Mozambique, particularly building up and supporting the Renamo (*Resistência Nacional Moçambicana*) guerrilla force. In the decade-long proxy war, more than one million people died and much of Mozambique's infrastructure was destroyed.⁵

In the late 1970s, the new socialist government prioritised central planning with state farms and industries for future development, but it retained a mixed economy. Services such as health and education were nationalised, but not businesses. Abandoned businesses fell to the state, while others remained privately run. Thus, for example, there were state and private sugar plantations running at the same time throughout the post-independence period. In 1980, just five years after independence, the government began a programme to re-privatise hundreds of previously abandoned small businesses. The onset of the war halted this process, and largely destroyed the rural private sector as shops and larger private farms became targets of Renamo action.

In the mid-1980s, with the growing crisis of the eastern bloc, Soviet support declined, and Mozambique increased its informal negotiations with the US in an attempt to end the war, joining the World Bank, allowing US NGOs to work in Mozambique, and beginning a rapid shift to capitalism. But the war did not stop until after the fall of the Berlin Wall; a peace

accord was signed in 1992 and UN-monitored multi-party elections were held in 1994. Aid from Western and Eastern Europe played a key part in keeping Mozambique alive during the war; this led to heavy dependence on aid, which reached \$1 billion at the end of the war in 1992, a level equivalent to almost 70 percent of GDP.

The rapid influx of uncoordinated donors, some with Cold War political agendas and many trying to work totally independently of government, led to the establishment in 1987 of CENE (*Comissão Executiva Nacional de Emergência*, National Emergency Executive Commission), to coordinate donor activities. All donors (including both the US and USSR, and international NGOs) participated in coordination meetings chaired by a former governor of the Bank of Mozambique. These meetings were effective in producing a high degree of coordination in the donor community, forcing donors and NGOs to tell government what they were doing, follow government guidelines and policies, and often work in provinces selected by the government rather than by themselves. This system successfully pushed donors to do less emergency relief and more development and reconstruction.

But perhaps the most important shift took place in Washington. Initially the World Bank had been the dominant IFI in Mozambique. The shift away from central planning and toward the market economy, as well as the first structural adjustment measures, were taken while the war continued in the late 1980s. But in parallel with adjustment, further privatisation and rapid devaluation, the government put money into the economy, and despite the war, there was economic growth. The World Bank accepted the first round of adjustment measures, but the IMF did not. By 1990, the IMF had gained ascendancy, and it imposed an especially strict regime. Government spending was capped and cut, meaning civil service wages were more than halved, pushing nurses and teachers below the poverty line. Peace came in 1992, but the IMF not only limited government capital spending, but actually demanded that aid be reduced by more than \$100 million per year. The IMF argued that post-war reconstruction would be inflationary, and had to be kept under control⁶. This meant there were only limited reconstruction efforts and no substantial immediate peace dividend. Indeed, there was economic decline instead of growth, with a fall in GDP per capita.

The bilateral donor community, mostly made up of 'like-minded' donors which had been supporting Mozambique since independence and throughout the civil war, rebelled and made an unusual public protest. This led the IMF to ease some of its restrictions, opening a period of strong economic growth from 1995 onwards⁷. It also marked a shift in power back toward the World Bank.

The peace accord had recognised the government, so Frelimo remained in power throughout this whole period. But first the war, and then the dominant role of the United Nations during the peace process, combined with the heavy hand of the IMF, meant the early 1990s were dominated by the international community. Frelimo convincingly beat Renamo in the 1994 elections, bringing the UN special mission to an end, and allowing the government to reassert its control of the country. But the very high levels of aid dependence meant that donors continued to retain massive power.

For its part, the Mozambican government accepted the move to the market, but there were divisions within Frelimo. One large group rejected the strict neo-liberal line and looked more to a Nordic model of capitalism in which the state could have a more interventionist role in development, promoting a more coherent 'national project'; this part of Frelimo was allied to a small but growing group of genuine local business people⁸. But the other group accepted the minimal non-interventionist state and private sector-driven model of capitalism. Donors

were pushing for quick change and used both policy and financial incentives to make the rapid shift to capitalism personally worthwhile to members of the elite⁹. Thus the second group became dominant, and quickly gained wealth on the basis of the privatisation of state assets and the use of donor funds. They could be said to have followed something similar to the 'state capture' post-socialist model common in Eastern Europe, which is particularly characterised by disabling the justice system¹⁰.

The 1985-95 period saw therefore the rapid shift to a market economy, with a heavy donor focus on rapid privatisation, seen as key to reducing the role of the state in the economy, and to unleashing market-driven growth. In the process of rapid privatisation, however, given the thinness of Mozambique's incipient capitalist middle-class, the elite was allowed to buy off the privatised companies, sometimes with donor-funded loans that were never repaid¹¹. In this process, donors promoted an image of capitalism in which businessmen could take advantage of the market transition at great personal gain simply because they subscribed to a capitalist rather than a socialist world-view. Market-driven accumulation and 'trickle-down economics' underpinned the model, claiming it was good for people to get rich because this would help reduce poverty. Through the 1990s, those in government and the elite who supported the new model found themselves in receipt of top-up salaries and highly paid consultancies, while anyone who opposed the neo-liberal model was increasingly marginalised. For key Mozambicans, some accepted the rhetoric that life was improving for everyone, while others closed their eyes to the obvious fact that it was not. This combination of opportunities for enrichment and ideological closure created a donor-dominated hegemony that did not leave much space for alternatives.

The issue came to a head in the late 1990s. The two main banks, privatised in a hurry under heavy World Bank and IMF pressure in 1996/7, were on the verge of bankruptcy as a consequence of looting by people in the state capture group. Two key individuals who were trying to investigate, journalist Carlos Cardoso and the head of the Central Bank's banking supervision arm, António Siba-Siba Macuacua, were assassinated in November 2000 and August 2001, with ensuing investigations proceeding incredibly slowly¹². This caused growing unrest within civil society, who appealed to donors to use their financial power to put pressure on government to investigate the murders. Instead, at the October 2001 Consultative Group meeting, donors pledged more aid than the government itself had asked for, providing enough extra resources to recapitalise the looted banks. The only issue raised in relation to the assassinations was a bland insistence on reform of the justice system, which has ever since been a point of contention in reviews of government performance, given its slow progress.

This strengthened the impression that donors were willing to turn a blind eye on corruption in order to safeguard Mozambique's reputation as a 'success story'¹³. Indeed, former security minister Sergio Vieira wrote in a Sunday newspaper column that the pledge of the extra money showed that the international community recognised "the good performance of the government" and that this "overrides the bank scandal and the assassinations of Siba-Siba Macuacua and Carlos Cardoso"¹⁴. No donor replied claiming that Vieira was wrong.

The impact of history

Three important points need to be drawn from this outline of Mozambique's relations with the international community. The first is that Frelimo has a long and successful history, dating back to the 1960s, of negotiating and keeping good relations with a diverse group of

international supporters who are essential for its political survival. The rapid shift in alignment from a socialist to a capitalist economic model, and the continued support from a key group of 'like-minded' donors are a clear proof of this.

The second point relates to how the international community exercises its influence, and how this may have moulded the way in which Mozambican officials respond to donor pressures and requests. In the first years after independence, Mozambique was proud of its national project for equitable, non-racial development. Although in retrospect state-centred development and the reliance on big projects have both proven to be questionable strategies, at the time this was fashionable and drew substantial donor support. However, during the Cold War, equitable development and a socialist model was seen as choosing the communist side, and Mozambique drew increasing support from Cuba, eastern Europe and the then Soviet Union. The US backed apartheid South Africa as its bulwark against communist regimes in the neighbouring states. The result was more than ten years of war in the context of the regional and global struggle between opposing blocs, with results that were highly traumatic for Mozambique. Some senior Mozambicans felt that a million people died *because* Frelimo had chosen to adopt a national development project, and that this was a risky strategy, to be avoided in the future.

The third point relates to Frelimo as a party, and the way it values party unity above all else, seeing this as essential to remaining in power. Frelimo has always been a broad front, with internal divisions along regional, ethnic, and ideological lines. Groups and factions form and shift according to the issue at hand, but differences are largely argued out within the party. There are no expulsions or splits, and all factions remain inside the party. Neither have the highly corrupt been expelled, nor have the outspoken opponents of corruption left the party to set up an alternative political force. Donors have remarkably little understanding of, or influence on, internal party dynamics. But this insistence on unity partly reflects Frelimo's desire to show a united front to donors and maintain its credentials as guarantor of political stability, which in turn extracts two prices in negotiations. First, Frelimo is sometimes prepared to accept donor impositions rather than risk a divided response. Second, Frelimo cannot take decisions when internal agreement cannot be reached, which sometimes forces it to defend a contradictory position on what might otherwise be unacceptable actions by individuals. In particular, Frelimo finds itself forced to defend its most corrupt members and find implicit compromises with donors in order to protect them¹⁵.

The lack of a 'national project' and the nature of government-donor relations

Since the adoption of the free-market model, Mozambique has not managed to put forward what could be called a 'national project', a comprehensive, nationally-owned development strategy based on a strong vision of future needs and policy priorities which are not dictated by external forces. The 'Agenda 2025' is the document that more than any other tried to achieve such an objective, by bringing together a group of intellectuals and policy-makers, and basing its deliberations on an extensive series of nation-wide consultations (GoM 2003). It identified a general vision and strategic options for health, education, social capital, economy and development and good governance. However, its use for informing actual policy debates has until now been limited. The Government's 5-Year Plan (*Plano Quinquenal do Governo*), meant to set the main priorities for a government's full term when it comes to power, consists mostly of a long list of actions without any prioritisation or strong policy drives (GoM 2005).

In all other documents, and most of all in the PARPA, which is the key policy document on the basis of which donor support has been forthcoming, goals are mostly dictated by existing donor strategies – with a particular focus on ending absolute poverty and achieving the Millennium Development Goals. So, for example, the PARPA talks of an enabling state in which the private sector is the main engine for growth and poverty reduction. But its first version (2001-2005) was heavily skewed towards provision of basic services such as health and education, in line with the guidelines underpinning debt cancellation in the late 1990s, for which a poverty strategy based on social sector investment was a prerequisite. The second PARPA (2006-2010), on the other hand, is meant to devote more attention to the productive sectors, again in line with more recent shifts in international debates. Moreover, its first version was written with heavy input from foreign consultants and little involvement of civil society, and was submitted to donors for comment but never submitted to Parliament; indeed, it was mostly seen as a document directed at the donors for complying with the requirements of the Heavily Indebted Poor Countries (HIPC) initiative and accessing additional resources through debt relief.

Continued aid dependence, and an increasing reliance on programmatic forms of donor support such as General Budget Support (see below) have further strengthened the key role that donors play in all stages of the policy process. A 2004 study on the *Political Economy of the Budget in Mozambique* by Tony Hodges and Roberto Tibana, states that:

[...] high aid dependence means that the budget process essentially involves only two actors, the executive and foreign donors. Accountability to donors is much stronger than it is to Mozambican society. [...] The strong influence of donors contrasts with the weakness of internal pressure on the government from Mozambican society. (2004:8)

Parliament, for example, is almost totally bypassed by the aid process. The Hodges and Tibana study goes on to point to the "narrow 'predatory' interests of the leading families that constitute the politico-business elite" (2004:13). And it concludes

that the small size of the private sector, along with the practice of patronage as a tool for political survival, results in a highly concentrated and politically connected elite, which has little interest in developing and articulating alternative policies. [...] the executive appears not to be inspired by any real vision of development or even by the strategic objectives and priorities enunciated in documents like the PARPA. (2004:101)

Finally, the study points to the fact that with a large proportion of aid being channelled in the form of projects, a large number of individuals, especially in the main sectors, are dealing directly with the donors, benefiting from the perks that come from managing large projects which run parallel to government systems. They are therefore in a weak position to demand changes.

This reflects a more general fragmentation within the government, characterised by the fact that planning, budgeting and the PARPA process are based entirely on sector ministries and local governments, and within those units, specific sections or departments. Thus the plan is often just the collection of departmental plans, and the budget is simply automatic increases on the previous year's sectoral budget, with little attempt at central coordination and at reallocation of resources according to shifting priorities. The problem is compounded because individual units often set up parallel planning and budgeting processes which allow them to

directly negotiate funding for donor projects and programmes outside regular government procedures. The ministry of finance has limited control over these mechanisms, despite recent attempts at promoting integration¹⁶.

The nature of government-donor relations is therefore shaped by an environment where high aid dependence is coupled with limited pressure for accountability from civil society, parliament or the media, who lack political clout and technical capacity, and with substantial rewards for going along with donor demands. In such a situation, there are clearly few incentives for the political leadership to take strong positions against donor policies, or to engage in debates about policy alternatives which could call into question the predominant development paradigm.

A study team led by Tony Killick for the budget support partners in 2005, and published with the interesting title of “*Perfect Partners?*” (Killick et al. 2005), raises key questions about government-donor relations. The report says that government leadership “appears weak ... both at sectoral and central levels” and that “stronger leadership from the top levels of the government of Mozambique is essential for further major progress towards more effective aid” (2005:50). The problem, as reported in the quote that opens this paper, rests “with the government apparently believing that its undoubted reliance on assistance means that it is not in a position to insist on its own priorities” (ibid.). But the Killick team believes that “donors will be anxious to maintain active and substantial programmes of assistance to Mozambique, a fact which gives the government genuine bargaining strength. [...] The government of Mozambique should be willing to say 'No' to donors promoting their own pet projects and schemes” (2005:50-51). In the following section, we describe some areas where this has in fact happened.

Testing the limits: subservience on cashew ...

Although the government has failed to develop a national project, it has confronted the donors on at least three issues – trade liberalisation for cashew nuts, land privatisation, and corruption and governance – which provide useful examples. On the first, it backed away from a fight, but on the other two it has taken a stand and perhaps underlined the point that it need not be subservient.

The mid-1990s saw real pressure by the Bretton Woods institutions and by donors in general, and the liberalisation of the cashew nut sector proved to be a very highly publicised test case¹⁷. Cashew nuts were grown by tens of thousands of peasants, processed in large factories by 10,000 workers, and were once Mozambique's largest export. But the factories were protected; raw nuts had to be sold to domestic factories and could not be exported to India for processing. As part of the liberalisation process, the World Bank demanded that the free export of raw cashew nuts be allowed. It accepted that the factories would close, but argued that peasant gains from selling cashew in the free market would more than outweigh the incomes from the lost jobs. Not surprisingly, the government disagreed and opposed the change¹⁸.

Allegedly, the showdown took place at a dinner in the house of the Bank's then resident representative in Maputo. Present were several ministers and the World Bank country operations manager from Washington. She told ministers that she would not submit the 1995 *Country Assistance Strategy* to the Board without the new cashew policy based on export liberalisation. All other aid was conditional on Mozambique having a World Bank programme – nearly all donors had clauses in their aid programmes which said that aid could only be

given to the government if it was ‘on track’ with both IMF and World Bank programmes. The ministers present may have remembered that donors had twice withheld food aid and allowed Mozambicans to starve, in 1983 to force it to join the Bretton Woods institutions, and in 1986 to pressure it to agree to its first structural adjustment policy¹⁹. So they accepted.

In retrospect, it seems likely that Mozambique could have held out, and that the country operations manager would not have stuck to her threat. But it was a bitter issue, with the predominance of the market ideology at stake²⁰. Looking back, many Mozambicans see this as a naked show of power, with the World Bank arm-twisting the government into accepting a policy change it did not agree to, not because of ideological opposition, but out of a concern for its potential negative effects, which turned out to be very real – factories were shut down, thousands of jobs were lost, and peasant farmers gained very little. In the words of Harvard economist Dani Rodrik and some of his colleagues,

the direct benefits from reducing restrictions on raw cashew exports were of the order \$6.6 million annually, or about 0.14% of Mozambique GDP. However, these benefits were largely offset by the costs of unemployment in the urban areas. The net gain to farmers was probably no greater than \$5.3 million, or \$5.30 per year for the average cashew-growing household. Inadequate attention to economic structure and to political economy seems to account for these disappointing outcomes. (McMillan et al. 2002)

In the cashew case, the lack of bargaining power caused by aid dependence probably combined with the unwillingness to present counter-arguments to the neo-liberal predicament to generate disastrous outcomes which many in Mozambique resent until today. In the words of David Plank, expressed before the cashew crisis,

The important point about orthodoxy is not that it is by nature mistaken, but that it forecloses debate and limits the range of options open for consideration. The Mozambican Government is handicapped in its negotiations with donors by the non-existence of other external sources of assistance, as well as by the virtual absence of alternative ideas about what aid is for and how it might be used. (1993:415)

History therefore shapes the way in which Mozambican government ministers and officials deal with the donor community, and the power that they feel they have to question and resist donor conditionalities and the predominant ideology that underpins them. On one side, the cost of the previous national project, defined at independence, was truly horrific in terms of lives lost. The cashew case was a turning point, because when the government did try to take a stand, the full weight of the donors and the World Bank was turned against it. On the other hand, the adoption of a market ideology, and the choice not to question donor positions, came with opportunities for personal advancement and enrichment, which were not available under the previous regime. As observed above, this combination of collective reluctance and individual advantage has probably been the main factor turning aid dependence into aid subservience in Mozambique over the years.

... but refusing to compromise on land and governance.

Despite the development of a general preference for accepting donor proposals without too much questioning, as seen above, there have been two examples where the Mozambican government has taken a clear stand – and held its position under strong donor pressure, on issues which the donors consider important.

Most dramatic has been the issue of land²¹. Under the Mozambican constitution, land belongs to the state and cannot be sold or mortgaged; peasants have the right to remain permanently on the land they occupy. Mozambicans are very conscious of the problems that landlessness has caused in Zimbabwe and Brazil, and realise that the latter came about partly from peasants being forced by debts to sell their land. From the early 1990s, Mozambique has come under strong pressure from the World Bank and the United States (and only later, surprisingly, from the IMF) to privatise land and allow it to be sold and mortgaged. Within Frelimo, the boundaries between groups are very porous, and some in the state capture group have obtained land that they hope to be able to sell after privatisation, but on the land issue the present leasehold/peasant rights system has deep seated support within the majority of Frelimo and in the country.

There was a major debate in the mid-1990s, triggered by donor pressure and opportunities for a land grab by the state capture group on one side, and by a feeling on the other that the law was failing to protect peasant rights. What followed was one of the most democratic and open debates in Mozambique in the 1990s, in which civil society played a key role, organising meetings throughout the country; unusually, parliament, too, was brought into the debate. The donors and the state capture group were resoundingly defeated, and a new law was passed in 1997 which maintained the present system and strengthened peasant rights.

With the start of the new century, donors again pushed land privatisation onto the agenda. In the IMF's Letter of Intent dated 17 October 2005, there is a commitment to undertake a study of "rural land tenure negotiations". USAID, through its dominant role in the main business association (CTA), also pushed hard for land privatisation. But when the issue was raised at a meeting with donors in December of the same year, the Minister for Planning and Development told donors that government was totally opposed to land privatisation. This position was also the result of clear pressure from civil society in the Poverty Observatory²² a few weeks before, when a mention of land privatisation in the draft new PARPA document was removed after vocal protests from civil society representatives. Finally in May 2006, speaking at a USAID-funded meeting of the CTA, President Armando Guebuza made clear that land would not be privatised. This statement from the top was important, because Guebuza and his family control substantial land and would be expected to gain from privatisation. On this issue therefore, more than almost on any other, Frelimo has been willing to stand firm and face up to donor pressure. The fear of landlessness goes deep into the core of most politicians in southern Africa, and most Mozambicans believe strongly that the present system prevents landlessness.

If a genuine selflessness and political commitment drives the land issue, Frelimo's stand on governance is driven by pure self interest. Although both sides implicitly understand the 'pathological equilibrium' in which donors accept a certain level of corruption in exchange for policy compliance, the donors continue to push for reduced corruption and better governance, while the Frelimo state capture group resists strongly and defends its position. As an increasing percentage of donor funds are flowing through the government budget, the issue of corruption has been receiving greater attention, given the need to assess the level of fiduciary risk that donors are taking by providing direct support to the government's budget. A number of recent surveys and studies have tried to shed light on the issue of corruption in Mozambique, but so far with very limited follow-up²³.

A recent assessment of the quality of the Public Financial Management system (Lawson et al. 2006), while recognising the improvements made in recent years, points to

areas where virtually no control exists yet over public spending, such as with the payroll system and with procurement, two areas known for being prone to serious corruption. PFM reform, given the core interests it touches and different from many other reform areas, has been moving at a very slow pace, indicating resistance in certain parts of Government to the establishment of a more transparent and accountable system for tracking public expenditures.

Along similar lines, a number of studies in Mozambique also point to the malfunctioning of the judiciary system. At regular intervals, donor pressure increases, and the government agrees to a study. Several such studies have been carried out during the past decade, but have largely not been implemented, and there are few results to show. With the assassination of Carlos Cardoso, many thought that things had gone too far, and the government had to accede to donor pressure for an investigation and trial. Initially only the gunmen were identified and tried, and not the members of the predatory elite whose involvement was considered common knowledge, and the focus of much popular scorn. Donor pressure continued, and in April 2006 former President Joaquim Chissano's eldest son was charged with ordering the murder.²⁴

While on the land issue the Government faced the donors head on, standing firm on its position to retain a land tenure system which the donors did not agree with, on corruption and justice reform the strategy has been one of passively resisting reform, while maintaining an appearance of cooperation. Such compromises clearly reflect what Plank defines as a "strategy for coping with the tension between the demands of foreign donors and those of domestic constituencies. [Allowing] the continued existence of lax administration and/or corruption [...] enables governments to enter into formal compliance with awkward conditions while informally pursuing other ends" (1993:419). On their side, as noted by Marc De Tollenaere, "donors have also shown an increasingly pragmatic attitude when confronted with disappointing outcomes of democracy assistance. Maintaining political and economic stability and safeguarding cooperation initiatives (generally regarded as 'success') has always taken precedence over efforts to speed up progress along the imaginary path of democratic consolidation" (2006:ix).

On both land and governance, where the Frelimo leadership sees its fundamental political and personal interests at stake, it is prepared not to be subservient. But why does the government not go further, and state its priorities more clearly *vis-à-vis* the donor community in a number of other policy areas? Is it weak leadership and subservience born of a harsh history, or is it a fear that taking a stand on other issues will have repercussions on the maintenance of key elite privileges?

Aid fragmentation and bureaucratic overload

Another possible explanation for the weak leadership shown by the Government of Mozambique in directing donor interventions can be found in the very nature of the aid system. International debates over the past decade, reflected in the Paris Declaration on Aid Effectiveness (OECD 2005), have highlighted how aid effectiveness and government ownership may be undermined by the way in which aid is delivered, with its proliferation of individual projects responding to donor preferences rather than government priorities, and placing too heavy a burden on an unskilled bureaucracy. The *Perfect Partners?* study stressed that despite the gradual shift to improved donor coordination, "the overall [administrative] burden on capacity-starved institutions is still excessive" (Killick et al. 2005:35), and that donors are failing to reduce such burden. One donor mission arrives in Mozambique every working day, the report noted. And that number was an estimate because the World Bank

refused to tell the team how many missions it sends. "Only a few donors comply with information requirements to the Department of International Cooperation" (2005:36). Problems are compounded because of many donors keeping decision-making power in head offices, the Killick team found. Another problem is "rivalries between donors and rapid turnover of agency staff" (2005:49).

The Killick team estimates that half of total public spending is grant aid spent off-budget:

A large proportion of total assistance coming into the country is made up of a multitude of uncoordinated, often donor-driven, development and technical assistance projects, which do not add up to a coherent whole, do not necessarily promote the GoM's priorities, and of which the GoM has highly incomplete knowledge. Because of the continuing large scale of project assistance, line ministries tend to orient themselves more to the attraction of project finance than to attempts from the centre to achieve a coherent overall strategy. (2005:46)

Aid covers almost two-thirds of the Ministry of Agriculture's budget. Five years of a donor-driven sector programme within the ministry, PROAGRI, "has had no effect on the development of agricultural capabilities and had little impact on the Ministry's performance [...] This is mainly due to fragmented donor interventions and the continuing strength of established individual niches and of the interests (and rent-seeking) that such fragmentation often creates" (2005:47).

Arguably, the arrangements that have been put in place for managing GBS, described below, have achieved a greater level of coherence and coordination, but they are still linked to a limited share (about 20%) of total aid flows. In fact, despite all the international conferences and declarations on promoting harmonisation and alignment, at the country level donors are often unable or unwilling to introduce changes which can limit the bureaucratic overload generated by the aid they provide. There are clear political, institutional and individual incentives in many donor agencies that actively discourage the sort of coordination that could reduce the transaction costs of delivering aid, potentially freeing up capacity within government institutions to better manage the policy process²⁵.

For example, a study for the US-based Center for Global Development by Sarah Lucas²⁶ was highly critical of the actions of the US Millennium Challenge Account in Mozambique, on the grounds that it did not take into account ongoing processes that were aimed at improving donor coordination and aid effectiveness. But the report also highlights some of the power games donors play, and the hierarchies that these are based on. Despite the fact that Mozambican staff were already overstretched in dealing with donors, the MCA demanded that a senior official be assigned to the formulation of its project. The Ministry of Planning and Development agreed to assign to the MCA the same person who had been leading the revision of the PARPA, which was high on the agenda of many other donors. This not only highlights the incapacity of some donors to adopt approaches that reduce the burden of aid administration and promote coordination, but also the continued reluctance of the Government of Mozambique to more actively manage its relations with donors, and be able to stand firm when certain requests are unreasonable.

Bureaucratic overload clearly is a factor in government subservience on policy issues. Ministers and officials spend so much time in dealing with donors that they have insufficient time left for their government and party responsibilities. That, combined with the

fragmentation of the planning and budgeting system, makes it very difficult for the Mozambican side to develop alternative strategies. This is further compounded by the lack of domestic think tanks – local academics and experts who could be developing alternative ideas and approaches are instead working as consultants for the donors.

General Budget Support: blurring the government-donor boundary

The latest testing ground of government-donor relations in Mozambique relates to the arrangements that have been put in place for managing the support that donors provide directly to the government budget. Its rationale and justification follows a simple argument: the failure of structural adjustment policies to ‘buy’ reform in many countries stems from the lack of political will to reform. Therefore, reform will only succeed where recipient governments ‘own’ their development strategies and the associated reform agenda. Ownership, in turn, comes as a result of the definition of a development strategy which allows for increasing control over the resources necessary to implement it. In countries with better institutional frameworks and more responsible governments, donors should step back and provide assistance through national budgets for the implementation of the government’s development strategy. GBS, therefore, should be the preferred aid delivery modalities in all countries where donors feel comfortable with aligning with national systems and strategies. The subtle contradiction of the argument lies in the definition of the boundaries of the ‘zone of comfort’ that donors are willing to accept, as we will clarify below.

Mozambique’s status as a long-term ‘donor darling’ has meant that since the late 1990s a growing group of donors have been eager to provide an increasing share of their aid as direct support to the national budget. The initial group of 6 donors, which included most of Mozambique’s historical supporters, has grown to 18, with the African Development Bank being the last agency to join. The relation between the government and the so-called G18 is structured by a Memorandum of Understanding, signed in 2004, which spells out the terms under which donors are willing to provide aid as GBS, the arrangements for periodic performance reviews, and the reciprocal obligations that the parties undertake to comply with. A regular cycle of annual and mid-term reviews is set up based on 24 sectoral and thematic working groups, which meet regularly to accompany the formulation and implementation of government policies, including reforms included in the Performance Assessment Framework (PAF), a summary matrix which forms the basis of policy dialogue.

While the Government clearly sees (and has repeatedly stated) the benefits of moving towards GBS and other programmatic forms of donor support, in order to reduce aid fragmentation and increase the volume of resources which flow through the national budget, there are a series of costs and contradictions which need to be highlighted²⁷. First of all, as long as different aid modalities coexist in Mozambique, the administrative burden of aid coordination is probably increasing rather than decreasing, as government officials need to devote attention both to the large number of projects that still exist, while at the same time attending all the working group meetings created as part of the GBS machinery. Secondly, as Richard Batley notes in a recent study on *The costs of “owning” aid*, “the demands on government for improved financial management and reporting, however valid, are certainly heavier” (2005:422). Thirdly, he also notes how “donors’ common voice can become a ‘common front’ in an unbalanced power relationship, especially when donors agree together to withhold disbursement” (ibid.). Such ‘ganging up’ has not materialised yet, but mostly because of the donors’ willingness to overlook some very serious past breaches, notably related to the bank fraud scandals and to the allegations of electoral meddling in 2004 (see below).

Besides the potential additional costs to government of a partial shift towards GBS, there is a clear contradictory consequence which stands out in terms of how government-donor relations have developed in recent years in Mozambique. As Batley notes, “depending on the strength of the national system, budget support may increase ‘ownership’ by government or it might be seen rather as introducing donors more deeply into the heart of government” (ibid.:423). As a result of the complex GBS machinery, and of the weakness of the government system, donors are in fact increasingly involved in all stages of the policy process, having priority access to key documents and information, and influencing government policy by putting pressure ‘from within’²⁸. The flip-side of this arrangement is that their joint responsibility and stake for Mozambique’s success are higher than ever. If donors decide to ‘pull the plug’ as a consequence of some serious governance issue, they could easily be blamed for undermining the country’s financial and economic stability.

Such deep inter-connection between the government and its GBS donors seems to describe Mozambique as what Graham Harrison has termed a “post-conditionality regime”, in which “it becomes far less insightful to make distinctions between external and internal interests” (2004:77). In post-conditionality regimes,

[donor] intervention is not exercised solely through conditionality and adjustment, but to a significant degree through a closer involvement in state institutions and the employment of incentive finance. (ibid.)

Post-conditionality regimes are typical of aid-dependent countries which have been hailed by donors as success stories, such as Mozambique and Tanzania. In these countries, donors have given themselves the difficult task of promoting ‘partnerships’ and ‘ownership’, while at the same time guaranteeing that such ownership still adheres strictly to their predominant development paradigm. The homogenisation of PRSPs, and the design of post-conditionality GBS arrangements are the two most common instruments utilised. Mozambique is a clear example of this trend. As highlighted above, the PARPA has followed many of the global trends in PRSP content, and already in 2000, economists Roberto Tibana and Pedro Couto (now Vice-Minister for Finance) were noting how “authorities in Mozambique are overwhelmed by the extent of donor intervention in domestic policy formation and decision making” (2000:3)

However, this is not to say that the Government of Mozambique has not managed to exercise any influence over the ways in which GBS arrangements have been structured. A recent evaluation of GBS in Mozambique noted that “although initially weak, government ownership is strengthening” (IDD and Associates 2006:29). Notably, the Government has successfully insisted that reporting requirements be kept to a minimum, and that they be based on existing government documents. This includes using the PARPA merely as an ‘operationalised’ version of the Government’s 5-Year Plan, rather than as a policy document in its own right. In this sense, there is a growing consensus that the next PARPA, in 2010, will not be a separate document, but merely part of the overall plan. The consolidation of different sets of conditionalities promoted by different donors into a single Performance Assessment Framework (PAF), and the discussions which led to its drastic reduction in length, can also be considered as a success for the government.

Moreover, the Government, albeit with the consent of donors keen to live up to the mutual accountability commitments signed as part of the Paris Declaration, has also managed to include in the MoU a requirement for donors’ performance to be assessed on a yearly basis,

which arguably has contributed to improving donors' compliance with issues such as predictability of disbursements and improving aid coordination²⁹. The PAP's PAF is based on the yearly monitoring of a set of 18 indicators, ranging from the share of GBS and other programme modalities in each donor's total aid portfolio, to the harmonisation of systems across donors and the use of government procedures for procurement and payments. The idea of a mechanism for monitoring donor performance, as a counter-balance to donor conditionality, was developed during the negotiations around the 2004 MoU, when key officials within government, especially within the ministry of finance, were keen to 'lock in' GBS as an increasing and more predictable source of financing. At the same time, some of the more progressive donor agencies saw this as an opportunity to experiment with the spirit of the Paris Declaration and its emphasis on 'mutual accountability'. The involvement at key moments of foreign consultants pushing for a bold, more formalised approach allowed for the PAP's PAF to take shape and gain the necessary support from both sides.

It is difficult to say, given its short existence, if and how this mechanism has provided a basis for the government to take more control of its relations with donors, and assert some of its positions. Its narrow focus on issues of 'aid administration' does not point in the direction of an increasing policy space being opened as a result of the structure of GBS management. What is certain, however, is that the workload around GBS remains huge. Since 2005, every April, the G18 and the government issue a joint aide memoire to mark the end of the annual review, which looks back at programme implementation in the previous year and defines priorities for the present and future years. The aide memoire is developed during a period of almost two months, and the one presented in April 2006 involved 24 working groups and hundreds of people. During that period, these people – many of them very senior government officials – did little other work. At the 13 April 2006 press conference, the Minister for Planning and Development complained about the number of sleepless nights for his staff in the weeks before the meeting, while the Swedish ambassador, whose embassy led the donor side, admitted she was shocked by the amount of work involved³⁰.

Another issue relates to the dynamics within a diverse donor community. The original GBS group was small and active, and tried to enter into genuine policy dialogue, including on governance issues. But its growing influence and access to senior government officials led several key donors, including the World Bank, to put some money into budget support in order to buy a seat at the table. Initial GBS meetings were small and technical, often involving just economists; recent GBS meetings, especially during the annual reviews, have been large and at higher, often ambassadorial, level. This makes it even harder to agree on policy issues, as the ambassadors know little about the detail of sectoral issues. Different donors have different priorities, including HIV/AIDS, investigation and prosecution of past corruption, and land privatisation. Others in the group see their priority as disbursing money, and don't want to rock the boat. The problem is compounded because of the rapid turnover of donor staff who are often in Mozambique for a period of two years or less, and rarely have the time to understand the underlying issues. Finally, donors have increasingly managed to recruit the most capable human resources, often at the expense of government, and produce large numbers of studies and reports which are not widely read. The result is a huge menu of compromise demands to be made to government as part of the annual review³¹.

Such emphasis on the *process*, rather than the *content* of the policy dialogue between the government and the donors, could be interpreted as proof that Mozambique has definitely lost any interest in questioning the predominant development paradigm, and is satisfied with exerting some control over marginal areas of the aid management process. Or it could be seen as the consequence of the erosion of government's capacity to manage increasingly complex

interactions with the donor collective, which is increasingly involved in key policy processes. Or, finally, it could be seen as the inability of a process involving hundreds of donor and government staff and dozens of committees and subcommittees to have any coherent policy discussions. Probably all three interpretations have some validity, but they do not tell the whole story.

New government, new beginning?

Can the Mozambican government end what the Killick team calls its "subservience" to donors and begin again to set its own priorities, insisting on them in negotiations with donors? A new government elected in December 2004 may be leading to some changes. Armando Guebuza, the new president, has replaced virtually all ministers, although Luisa Diogo, a particular favourite of the donors, has so far kept her position as prime minister.

After the elections, the donor community showed its eagerness to work with the new government, despite Guebuza's reputation as a hard-liner with few sympathies for foreign intervention. The conduct of the elections had been sharply criticised by international observers, notably the Carter Center in the US and European Union observers, citing the total lack of transparency and significant ballot box stuffing by Frelimo. In other countries, donors might have imposed conditions on the government, especially relating to transparency. Yet in Mozambique, the US, EU and other donors rushed to assure the new government of their continued support, and electoral fraud was never raised in donor meetings.

Guebuza spent the year before the election touring the provinces, and he has shifted the rhetorical emphasis much more towards rural development. In particular, two changes raised donors' concerns. The most important was the decision to split the Ministry of Planning and Finance into a Ministry of Finance and a Ministry of Planning and Development. Donors were very opposed to this and unsuccessfully fought against it. The new structure means that planning (and with it the PARPA and a good part of donor relations) are separated from the budget preparation process. Donors supported the previous close integration of plan and budget which some claimed led to a dominance of financial considerations and a general lack of planning – which could be one of the reasons why Guebuza decided to make the change. The other change is more subtle. Under the previous government, ministers and senior officials were particularly available to see donors. This has changed; meetings now need to be planned much longer in advance, and donors are expected to meet more with lower level officials³².

Just as cashew, land and governance were tests of government-donor relations under the previous government, so there have already been three tests with the new government: increased spending (which the government won because most donors don't back the IMF on this), the establishment of a development bank (which like cashew is the show of strength that the government is losing), and governance (where the government is maintaining its position).

Divisions on the donor side led to Mozambique winning an important battle. The IMF has consistently tried to impose firm caps on government spending. The government wage bill, mostly made up of teachers and health workers, could not exceed 7% of GDP according to an IMF agreement. IMF documents also made clear that it wanted to reduce primary deficit (which is, in effect, the deficit before aid is taken into account), which would limit the amount of budget support, part of which could be used to finance recurrent expenditure such as salaries. This caused disquiet in both government and the donor community. The wage cap meant that it was impossible to hire the additional teachers and nurses necessary to meet the

Millennium Development Goals, and donors were anxious to increase General Budget Support. The first challenge came in January 2005, when one of Guebuza's first actions was to authorise the hiring of an additional 10,000 teachers, clearly breaking the cap. At first, the IMF did not respond, then it said that it had underestimated GDP and since the cap is a percentage of GDP, the extra teachers were okay. In negotiations in September 2005, the IMF loosened the wage cap further to 7.5%. And as the implications of a cap on primary deficit became clear, the IMF said that it had never intended to cap aid, and that the extra budget support would be acceptable. Eventually, both caps were entirely removed, and a focus on net domestic financing was introduced instead.

But still, there are limits to what donors are willing to support. During his visits to rural areas, Guebuza highlighted the lack of rural credit as a major barrier to rural development. He mentioned the creation of a development bank as a clear priority in his political agenda, reflecting one of the main recommendations contained in the "Agenda 2025". The document claimed that a development bank could play a crucial role in promoting economic development in Mozambique, by mobilising rural savings and government funds liberated by debt relief to finance development projects, credit guarantees and venture capital companies. Donors did not welcome this initiative, and worked actively to block the proposal. Guebuza used a speech at the Carter Center in the US, in December 2005, to actually express his annoyance at donors for opposing the development bank, and to say he would continue to push for it³³. Guebuza went on to condemn donors for not giving developing countries the chance to follow their own programmes. He said Mozambique's government should set its priorities; donors should monitor their aid programmes but not interfere in policy.

Pointedly, the government is not going it alone to create a development bank, although the public discussion continues. But the issue of the development bank has had considerable impact. Donors privately say³⁴ that they wish government would take more initiative in its relations with donors and try to set the agenda. Government responds that its flagship issue, on which it pinned both development hopes and political capital, has been rejected out of hand. If donors reject what government thinks is really important, then no serious initiatives are possible. In some ways, this looks a lot like cashew – a show of strength by the donors beyond the importance of the issue itself. Donors could just as easily have smothered the proposal with support and have the same effect, but instead they chose frontal opposition.

Governance remains the most fraught issue. The joint government-G18 aide memoire presented on 13 April 2006 said that the government's performance on governance and corruption was "not satisfactory", with the government failing to meet 8 of 13 targets. Nevertheless, because of good government performance on other issues, such as spending on health and education, the government's performance overall was seen to be "satisfactory". Again, the 'pathological equilibrium' was maintained – carrying forward the social sectors for the Millennium Development Goals and the remaining structural adjustment demands, while governance reform keeps getting deferred. The tension on this, and the government's strong stand, was made clear both in statements at the launch and at the subsequent press conference. Speaking for the donors, the Swedish ambassador demanded prosecution of those involved in the banking scandals a decade earlier and investigation of the murder of Siba-Siba Macuacua five years ago. But when asked about this at the press conference, the Planning and Development Minister refused to make any commitment to prosecutions.

Private discussions with donors³⁵ show that some donors consider the issues linked. They say they would be more willing to consider support for a development bank if the government were prepared to prosecute those who robbed the previous government-owned

bank. Many Mozambicans don't see it that way, and remain angered by the rejection of the development bank. But it is possible that the Frelimo leadership accepts that in order to keep the party together, they cannot afford prosecutions of key party figures.

Conclusions

The brief overview of the relationship between Mozambique and its donors presented in this paper calls into question much of the current international discourse on 'ownership' and 'sovereignty' in aid relationships³⁶. As we have tried to show, the case of Mozambique is a case in which the expression of national sovereignty has been very much a contested issue, undermined at different times both by external actors and by internal political dynamics. The examples covered areas in which donors clearly imposed policy choices on Mozambique, despite clear resistance or disagreement (such as in the liberalisation of cashew exports and the establishment of a development bank), areas in which the government was able to stand firm in the face of donor pressure (such as in the case of land tenure systems and of expanding service delivery despite IMF-imposed expenditure caps), and areas where leadership is contested or utilised for mere self-interested purposes (such as with GBS arrangements and with corruption and governance issues).

We have highlighted a number of reasons which have characterised Mozambique's weak capacity to set the terms of the aid relationship over the years. Firstly, in a number of occasions, donors have been very inflexible in their imposition of specific policy prescriptions, creating an environment where the questioning of the predominant development paradigm is seen as a losing strategy for an aid-dependent country which needs to keep aid resources flowing into the economy. Secondly, Frelimo's internal political dynamics, with the coexistence of a 'state capture' group alongside a more progressive wing, and with the importance given to party unity, have stifled its capacity to present a unified position *vis-à-vis* the donor community, especially on difficult policy areas which might have led to an internal split. Finally, over-stretched bureaucratic capacity dealing with a complex and fragmented set of aid interventions has meant that the government often devotes more time and attention to the process of managing aid, rather than to the content of the policy dialogue and to the internal debates which could lead to the development of a coherent policy position to be confronted with that proposed by donors.

On the donor side, recent emphasis on 'partnership' models of development cooperation, while opening some doors for a different role to be played by the government, is still rooted in a relationship based on limited trust and on limited acceptance of government leadership which questions donor worldviews. The donors' need to support Mozambique as a success story is contradictorily part of a 'pathological equilibrium', which on the other side sees the part of Frelimo which has been allowed to enrich itself through privatisation and corruption. In such a context, while claiming to take a long-term view which justifies short-term concessions on corruption and justice issues in order to achieve long-term development impact, donors may at the same time be undermining the very conditions for such long-term success to materialise.

Endnotes

¹ Figures on the reduction of poverty levels are controversial. Household surveys were carried out in 1996-97 and 2002-03. In the first survey, 69% of the population was found to have incomes below the poverty line. If the same method of estimating consumption had been used for the second survey, poverty would have fallen to 63% in six years. The introduction of a different method, however, showed that the portion of the population below the poverty line was actually down to 54% (NDPB, 2004). The second figure, showing a much improved poverty situation, is the one normally cited by government and donors.

² Sources: OECD database, IMF (2006).

³ There is no consolidated list but there are probably about 60 bilateral and multilateral agencies working in Mozambique, as well as more than 150 international non-government organisations. In particular, the group of donor countries that provide general budget support to the government has grown from six at the end of the 1990s to eighteen at last count, the largest such group for any country receiving budget support.

⁴ Originally, the *Frente para a Libertação de Moçambique* was Mozambique's liberation movement. It then became the governing party, and has been in power since independence.

⁵ UNICEF and other agencies estimated destruction and other losses at more than \$20 billion (Hanlon 1996:15). This means that the total aid Mozambique has received since the end of the war is still less than the estimated wartime losses.

⁶ See Hanlon (1996).

⁷ See Hanlon (1996:30, 42, 50), and UNDP (1998:49).

⁸ See also the discussion in Bowen (1992).

⁹ Such a rush may have ended up supporting the 'pathological equilibrium' referred to above, in which huge corruption was permitted so long as privatisation and reduction in the size of government was implemented quickly (see Hanlon 2004a).

¹⁰ See Pradhan (2000:35).

¹¹ See, for example, the World Bank's own Operations Evaluation Department on pressure to give improper loans (Landau 1998:62-63). See also Harrison (1999a).

¹² Personal relations could be important in this case. Cardoso had a Norwegian wife and was well known personally to many in the donor community, so eventually pressure was brought on the government for an investigation. By contrast, Macuacua - arguably more important as number three in the central bank - was not known to donors, who therefore never put sufficient pressure on the government to start a proper investigation.

¹³ For further detail, see Hanlon (2004a). A similar point is made by Harrison about the 1997 Consultative Group meetings. He states that "corruption is an issue which is important to an extent, but this importance is not absolute or immutable. Mozambique always received the finance and rescheduling that it requested; the politics of increasing anti-structural adjustment

opinion in Mozambique and the ‘showcase’ potential of Mozambique overrode concerns with corruption in 1997” (1999b:327).

¹⁴ *Domingo*, Maputo, 2 Dec 2001.

¹⁵ On the other hand, Frelimo did force former President Joaquim Chissano not to stand again for elections in 2004, largely because the corruption around him had grown to unacceptable levels.

¹⁶ See, for example, de Renzio and Sulemane (2006) and Tibana and Couto (2000).

¹⁷ It may also have been important in the World Bank trying to assert its renewed dominance with respect to the IMF.

¹⁸ See Hanlon (2000).

¹⁹ See Hanlon (1996:90-92), and Hanlon (2000).

²⁰ Some people pointed out to some black nationalists that the cashew factories were largely owned by Asians, and black people would make more money out of exporting raw nuts; given such stakes, ministers may also have been concerned that they could not keep the party and government together (point three, above) in a confrontation with the Bank.

²¹ For more detail on this topic, see Hanlon (2004b).

²² A consultative body set up to promote civil society participation in policy processes.

²³ There were two main corruption surveys carried out. The first one was promoted by the independent group *Etica Moçambique*, while the second one was commissioned by the Government’s Public Sector Reform Unit (UTRESP). See also USAID (2005), and Lawson *et al* (2006) for issues related to public finance management.

²⁴ Party insiders say that when Chissano was forced by Frelimo to not stand again, it was made clear that he would be protected from prosecution, but that it might not be possible to protect his son.

²⁵ See de Renzio *et al.* (2005).

²⁶ http://www.cgdev.org/section/initiatives/_active/mcamonitor/fieldreports/mozambiquefield

²⁷ For a discussion of some of these issues, related to the inherent costs of GBS, see Batley (2005) and Macamo (2006).

²⁸ In late 2005, one of the GBS donors tried to influence a specific policy decision on the grounds that they were providing several millions of dollars a year, stating that “it is our obligation to critically observe the government’s actions and policies” even where those are not directly covered in the PAF. This was not done publicly, but through a private letter to the government – which was then leaked by a Mozambican. The underlying assumption is clearly that GBS donors have an obligation and a right to challenge a wide range of government policy decisions.

²⁹ The Killick study is the result of this requirement (Killick et al. 2005).

³⁰ A mid-term review also takes place in August/September every year, taking up almost as much time.

³¹ For example, the aide memoire of April 2005 had 57 evaluation criteria.

³² This is confirmed by Macamo (2006).

³³ *Zambeze*, Maputo, 15 December 2005.

³⁴ Interviews with Joe Hanlon.

³⁵ Interviews with Joe Hanlon.

³⁶ See Williams (2006) and Fraser (2006).

Bibliography

Batley, R (2005) *Mozambique: The costs of 'owning' aid*, Public Administration and Development, 25, 415-424.

Bowen, ML (1992) *Beyond Reform: Adjustment and Political Power in Contemporary Mozambique*, Journal of Modern African Studies, 30 (2), 255-279.

de Renzio, P and J Sulemane (2006) *Integrating Reporting of PRS and Budget Implementation: The Mozambican Case*, mimeo. London: Overseas Development Institute.

de Renzio, P with Booth, D, Curran, Z and A Rogerson (2005) *Incentives for Harmonisation and Alignment in Aid Agencies*, ODI Working Paper 235. London, Overseas Development Institute.

De Tollenaere, M (2006) *Democracy Assistance to Post-Conflict Mozambique: Intentions and Outcomes*. Working Paper 37. Netherlands Institute of International Relations.

EIU (2006) *Mozambique Country Report*. London: Economist Intelligence Unit

Fraser, A (2006) *Aid-recipient sovereignty in historical perspective*, mimeo. University of Oxford.

GoM (2005) *Programa do Governo 2005-2009*. Maputo: Government of Mozambique.

GoM (2003) *Agenda 2025*. Maputo: Government of Mozambique

Hanlon, J (1991) *Mozambique: Who calls the shots?* London: James Currey.

Hanlon, J (1996) *Peace without profits: How the IMF Blocks Rebuilding in Mozambique*. London: James Currey.

Hanlon, J (2000) *Power Without Responsibility: the World Bank and Mozambican Cashew Nuts*, Review of African Political Economy, 27 (83), 29-45.

Hanlon, J (2004a) *Do donors promote corruption? The case of Mozambique*, Third World Quarterly 25 (4), 747-763.

Hanlon, J (2004b) *Renewed Land Debate and the 'Cargo Cult' in Mozambique*, Journal of Southern African Studies, 30 (3), 603-625.

Harrison, G (2004) *The World Bank and Africa: The construction of governance states*. London: Routledge.

Harrison, G (1999a) *Corruption as 'boundary politics': the state, democratisation, and Mozambique's unstable liberalisation*, Third World Quarterly, 20 (3), 537-550.

Harrison, G (1999b) *Clean-ups, conditionality & Adjustment: Why Institutions Matter in Mozambique*, Review of African Political Economy, 26 (81), 323-333.

Hodges, A and RJ Tibana (2004) *Political Economy of the Budget in Mozambique*, mimeo, Oxford Policy Management (later published in Portuguese as *A Economia Política do Orçamento em Moçambique*, Princípios, Maputo 2005).

IDD and Associates (2006) *Evaluation of General Budget Support: Synthesis Report*. International Development Department, University of Birmingham.

IMF (2006) *Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility*. Prepared by the African Department, 5 December 2005. Washington DC: International Monetary Fund.

Killick, T, Castel-Branco, C and R Gerster (2005) *Perfect Partners? The performance of Programme Aid Partners in Mozambique, 2004*. Report to the PAPs and the GoM, Maputo.

Landau, L (1998) *Rebuilding the Mozambican Economy, Country Assistance Review*. Operations Evaluation Department. Washington DC: World Bank.

Lawson, A, de Renzio, P and M Umarji (2006) *Assessment of Public Finance Management in Mozambique 2004-5: Final Report*. Unpublished document, London: Overseas Development Institute.

Macamo, E (2006) *Political Governance in Mozambique: Final Report*. Report for DFID Mozambique, June 2006.

McMillan, M, Rodrik, D and KH Welch (2002) *When Economic Reform Goes Wrong: Cashews in Mozambique*, CEPR Discussion Paper 3519. London: Centre for Economic Policy Research.

OECD (2005) *Paris Declaration on Aid Effectiveness*. Paris: OECD.

National Directorate of Planning and Budget (2004) *Poverty and Well-Being in Mozambique: The Second National Assessment*. Maputo: Ministry of Finance.

Plank, D (1993) *Aid, Debt and the End of Sovereignty: Mozambique and Its Donors*, Journal of Modern African Studies, 31 (3), 407-430.

Pradhan, S et al (2000) *Anticorruption in Transition - A Contribution to the Policy Debate*. Washington DC: World Bank.

Tibana, RJ and Couto, P (2000) *Aid Dependence: A Case Study of Mozambique*, paper written for project on “Managing the Transition from Aid Dependence in Sub-Saharan Africa”. Nairobi: AERC.

UNDP (1998) *Mozambique National Human Development Report 1998*. Maputo: United Nations Development Programme.

USAID (2005) *Corruption Assessment: Mozambique. Final Report*. Washington DC: USAID.

Williams, D (2006) *Aid, Sovereignty and ‘Ownership’*, mimeo. University of Oxford.



The Global Economic Governance Programme was established at University College in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The three core objectives of the programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and develop a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

The Global Economic Governance Programme
University College, Oxford OX1 4BH

Tel. +44 (0) 1865 276 639 or 279 630

Fax. +44 (0) 1865 276 659

Email: geg@univ.ox.ac.uk

www.globaleconomicgovernance.org