

**Understanding state-society linkages for poverty reduction: The relationship between the state and domestic non-state actors in poverty reduction processes**

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## Introduction

This paper contributes to the theoretical debate on the strategies to build effective states in Africa. The idea of building effective states is connected to the consensus that only the 'right' kind of state capacities will remove the obstacles that held back Africa's development prospects (World Bank 1997; Levy and Kpundeh 2004). Effective states have been defined as those that "can guarantee security and the rule of law, and can design and implement an effective strategy to ensure inclusive economic growth" (Green 2008: 12). The problem with this conflation of effective and developmental states is that one tends to consider effectiveness by the ability of the state to comply to a specific set of standards, in this case, development. A state can be effective in the Weberian sense of the world, *and* ignore development. A distinction has to be made between states that can effectively achieve their domestic goals and states as agents of development.

An effective state is by definition a state with a high degree of domestic autonomy and authority. For different reasons, many African states lack both attributes (Villalón and Huxtable 1998: 8-15; Osaghae 1999a; Chazan *et. al.* 1999; Sorensen 2001; Chabal 1998). African states are composed by a combination of weak states and strong regimes (Bøas 2003). These states are weak in the sense that there is a discrepancy between the institutions of the state and the norms and values of the peoples inhabiting the territory; and between the territory and the population (Buzan 1991). They have strong regimes in the sense that the weak state apparatus inherited from colonial times has made leaders resort in personalized kinds of rule in order to remain in power (Harrison 2004 & 2005; Bratton and de Walle 1997). "(...) political power, instead of having the impersonal and abstract character of legal-rational domination specific to the modern state, is a personal power. Second, politics becomes a kind of business because it is political resources that give access to economic resources (Bøas 2003: 33). Bureaucracy still exists, but is not the dominant medium for the conduit of political demands and grievances.

Taking Mozambique as its empirical case, the paper discusses two institutional spaces for poverty reduction where the state deals with domestic non-state actors. The first institutional process is the Development Observatory, which coordinates activities related to the national Poverty Reduction Action Plan. The Mozambican PRS is supposed to be formulated by national authorities in broad consultation with stakeholders, describe and diagnose poverty conditions and present a medium-term action plan to reduce poverty and generate more rapid economic growth in the country (IMF December 22, 1999). The

Development Observatory is the institutional mechanism through which the government of Mozambique expects to guarantee that the following, supervising, monitoring, evaluation and consultation in activities related to the national Poverty Reduction Action Plan will involve other stakeholders (GoM 2008). Even though criticised as falling short of creating a genuine embeddedness of the state in society - of promoting a kind of "populist" neoliberalism or as a mechanism of maintaining order in the periphery of the international system (Gould 2005; Craig and Porter 2003) – PRS still represent efforts at strengthening the links between state and non-state actors in policy design and project implementation for poverty reduction.

The second one is the Mozlink Programme, which aims at increased participation of local economic actors in transborder micro-regional integration processes. The SDI process is directed at integrating the economy of a micro-region in the international markets by promoting industrial development and local development (DBSA 2000). While successful in attracting international capital for industrial projects, the state has not made an effort to create institutions and processes to promote local development (de Beer and Akwright 2003). Through the Mozlink Programme the state is supposed to create the conditions for its private sector to benefit from the projects promoted, and hence contribute to local economic development (CPI 2004). Common to both processes is the fact that institutional mechanisms have been created to deal with the involvement of domestic non-state actors.

Both processes aim at creating more effective structures of coordinating state-society relations. However, ability of building effective structures is considered to be challenged by foreign penetration, and domestic proliferation of non-state actors in public goods provision. External penetration is supposed to weaken the ability of the state to engage with domestic non-state actors, while the proliferation of non-state actors in public goods provision weakens both the authority of the state and its ability to achieve societal change. This paper argues that both claims have to be qualified as they are based on a partial understanding of the concept of sovereignty and its historical manifestations.

### **Sovereignty and governance: challenges to state-society relations in Africa**

African states ability to engage with domestic non-state actors is challenged by foreign intervention in what is perceived to be its areas of domestic sovereignty and by forms of governance - product of structural conditions and leadership choices - that makes leaders less prone to engage with society in structured ways. However, to consider foreign intervention simply as challenges to sovereignty ignore the role of state actors in the creation and maintenance of the state system. And, connected to the issue of effective and development states, even if the governance of African states makes it difficult to build

governance structures that manage state-society relations in a developmental perspective, an evolutionary approach to institution building would still consider this endeavour relevant as it creates policy spaces that can be used as rallying points for citizens.

### Foreign intervention and state sovereignty

Although recognized as equal sovereign entities in the international system of states, most of the newly independent states failed in their efforts to achieve effective statehood. Regardless of this failure, the presence of a bipolar system made it feasible for small states to enjoy a modicum of domestic autonomy and freedom to try experiment with different ways of promoting development. Some succeeded, but the majority failed, keeping billions of people in poverty. To solve this problem, poor countries have to close their "creeping sovereignty gap" (Ghani and Lockhart 2008: 17). This "sovereignty gap" is characterized by a gap between the jure and facto sovereignty, "... - the disjunction between the de jure assumption that all states are 'sovereign' regardless of their performance in practice – and the de facto reality that many are malfunctioning or collapsed states, incapable of providing their citizens with even the most basic services, and where the reciprocal set of rights and obligations are not a reality" (Ghani and Lockhart 2008: 21).

The perception that states subject to international development interventions face a rough time to strengthen state-society relations is historically misleading. Fuelled by the inability of rulers to finance state expenditures by raising domestic taxes, "International borrowing by rulers has been a pervasive aspect of the European international system since the Middle Ages and of the global system since the nineteenth century" (Krasner 1999: 127). And, connected to it, given the sovereign nature of rule, so has been the issue of default. The arrangement of the loan system makes to it that borrowers do have to make concessions that violate their autonomy and, as Krasner has noted, this has been a similar practice from that of nineteenth century financial practices – restructuring domestic policies and occupying positions in the state bureaucracy. "Some of IFI's missions are not so different from the banker's committees that assumed control of state finances in the Balkans in the nineteenth century or the customs receivership established in Nicaragua" (1999: 143). While being an intrusion on the autonomy of borrowers, an agreement with the IMF has the advantage of being legitimate for all other parties in the system. Despite its positive bias towards powerful states, its 185-strong (and paying) membership makes the IMF a legitimate institution.

Normative discourses about development and the role of the rich countries towards the poor are best understood as "rituals of intervention". Tony Killick considers that conditionality "requires legitimization

because it limits the freedom of action of governments internationally recognized as sovereign, and because the policies required often impose political and economic costs in these governments and their peoples" Killick (2002: 481). Mohammed Ayoob also cautions that "conceiving international society in such false terms will permit the dominant powers to act even more arbitrarily by arrogating to themselves the right to act on behalf of the international community" (Ayoob 2002: 47). Tony Killick identifies 5 justifications for conditionality (2002: 481). First, in financial terms, conditionality works the same way as *collateral assets* that private lenders would have demanded had they provided the loans. Second, conditionality is supposed to protect against *moral hazard*, the danger that governments will not undertake policy reform once the loan has been made (see also Krasner 1999). Thirdly, there is a concern with "*the influence of recipient-country policies on aid effectiveness*", a concern that prompts donors to put in place mechanisms of control that guarantee their constituencies that their money is used effectively. Fourthly, aid can provide willing reformers with the financial and political backing needed to shove-off conservatives within the government. Fifth, conditionality increases the predictability of domestic policies by "*inducing greater consistency over time*", as donors are supposed to be more coherent in their political and financial commitments than poor countries governments.

The idea that foreign intervention in the affairs of poor countries is a problem for the state is misleading. This perception is based on a reading of the state system as an anarchic system, borrowed from analogies with the market system with competing units. The market analogy is strongly connected to popular understandings of sovereignty, and the birth of the state system. The argument that intervention is good for the state system makes sense once one accepts that in order to guarantee the continued legitimacy of the international state system, more powerful states have to empower weaker ones, and states have done so since the beginning of the state system (Spruyt 1994). States as such face a survival imperative that makes them have a preference for forms of organization that resemble them, and for rulers who want to create such organizational forms in the territories these rulers preside over. Effective states are able to fend-off competitors and become the overarching source of authority. Developmental states do so and also prove the supremacy of the state as a provider of public goods. There is a potential conflict between strengthening the authority of the state and promoting development, and this conflict informs much of the practice of development assistance when it comes to how African states and its civil society are dealt with.

### Challenges to state-society relations

There are three main interpretations of the state in Africa - Neopatrimonial, Marxist and post-structural -, and each one of them is strongly opposed to or sceptical to the strengthening of state society relations

as a solution to the problems of development in the continent. In these three understandings, the state is either run by a horde of would be tribesmen, by a petty-bourgeoisie exploiting the peasant, or dominated by an ethic that view public service as an avenue for personal achievement (Bratton and de Walle 1997: 61; Clapham 1998; These tendencies are also supposed to replicate themselves in civil society (Makumbe 1998). Common to these characterizations is the fact that they caution against the institutionalization of state-society relations. Based on these understandings of the African state, it is not wonder that on a publication edited by researchers affiliated to the World Bank have stressed the need to strengthen the autonomy of state institutions and personnel (Levy 2004: 12), instead of emphasising the creation of institutions to hold politicians and bureaucrats accountable to civil society.

Development assistance is in itself a constraint to strengthened state-society relations. By providing both state and civil with financing, it insulates them from the need to relate with the people they claim to represent (Moore 2001). African states and civil society are considered to suffer from *extraversion*. The term *extraversion* "alludes to a peculiar strong orientation within African post-colonial states; external agencies have had an exceptional influence over African states to the extent that African elites are often looking 'outwards' to external forces rather than 'inwards' to domestic society" (Harrison 2005: 253). This means that African elites (in post-structural theories understandings of the state) are active in seeking dependency as a form of political advantage.

Most definitions of civil society accept the twin criteria of being a membership organization and attempting to change the policy on behalf of their members without vying for state power. Civil society is defined by Harry Blair as comprising "the collectivity of these social organizations that enjoy *autonomy from the state* (are not part of the state or creatures of it) and have one important goal among others to *influence the state* on behalf of their members" Blair 1997: 25). Desai and Potter define NGOs as "autonomous, non-membership, relatively permanent or institutionalized, non-profit (but not always voluntary) intermediate organizations, staffed by professionals or the educated elite, which work with grassroots organizations in a supportive capacity. In their efforts to "reach the poor", the institutions providing international aid are accused of "bypassing the state" as they "often run their own projects, sometimes setting up their own bureaucracies, effectively by-passing those of the state" (Desai and Potter 2002: 471-2).

Alison Van Rooy (2002) identified six meanings of civil society in the literature. Civil society has been defined as "values and norms", a "collective noun", a "space for action", a "historical moment", and as anti-hegemony". The overarching emphasis is to consider civil society to be "an antidote to the state" (Van Rooy 2002: 492). Common to all these usages represent a distinct effort for independence from

the state as a positive value, a romanticized ideal of an arena outside the machinations of the state, a bastion of liberty and community values. The autonomy of civil society is stressed and valued, under the assumption that contacts with the state would contaminate civil society.

To act effectively, we need a new conceptualization of how states function, how they fit in the contemporary globalized world, and how the international community should use its vast resources to help the recovery of failed or failing states" (Ghani and Lockhart 2008: 27). In terms of charity, "Ceding what should be functions of the state to outside aid agencies, private companies, and NGOs is not sustainable precisely because it undermines the corresponding branches of the state, whose legitimacy is crucial to its functioning". As it is through the provision of public goods such as defence and security or health "severs the critical link of accountability between the state and its citizens" (Ghani and Lockhart 2008: 28).

A major shortcoming of theorizations of civil society is that they do not dwell into how their supposed added value will be achieved. For instance, if civil society is supposed to demonstrate different ways of being and doing, as well as influence state policies, there is a need to design the appropriate institutional channels for that end. Most development interventions do not render themselves amenable to single-minded interventions and demand multi-level and multi-sector coordination, as the constraints affecting the ability of the poor to develop are to be found on different levels of policy making (Green 2008; Kabeer 2001). The advocacy role of civil society also demands coordination when it comes either to change government policies or scale-up their experiences from working with the grassroots (Clark 2002 and 1997; Davies 2002; Desai 2002). If both the state and civil society need each other in order to master the challenges of development, we need a theoretical approach that deals with the institutional processes through these two actors can converge and promote development taking into consideration their comparative advantages.

### **Institutions and institutional change**

Despite the scepticism towards the involvement of the state in society, a number of initiatives to strengthen state-society ties are under way. The scepticism of International Financial Institutions is warranted, not because the state is weak and prone to distort incentives to domestic non-state actors, but because governance reforms actually demand a state with weak institutional ties with its society. This fact has led Jenkins to consider that donors are afraid of the success of reforms, for the results of deeper state-society relations in dependent countries more often than not lead to policy outcomes that violate their political and economic prescriptions (Jenkins 2002), "The desire for a liberal capitalist state



remains central to policy designed to reform and improve governance, as this serves the (...) agenda of efficiency and social control more than the poverty reduction agenda of material provision" (Brackling 2005: 1015). Despite these challenges, second generation reforms demand stronger ties between state and society.

Institutions are the "formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (Hall 1986: 19). The focus on institutions is not merely about their legal status, but on their relational character, about how institutions structure the patterns of rewards between individuals. "Institutions [...] bear a direct relationship to people's capabilities as they determine both (1) the size of the cake and (2) how it is divided." (Bastiaensen *et. al*, 2005: 980). How institutions are designed have an impact on how civil society organizes itself and on the character of social mobilization (Hall 1986; Stepan 1985). The institutional approach is basically a comparative research program. It is a reaction against the practice in standard neoclassical economics that efficiency criteria are derived from models. "The view that now pervades much public policy economics implicitly presents the relevant choice as between an ideal norm and an existing 'imperfect' institutional arrangement. This *nirvana* approach differs considerable from a *comparative institution* approach in which the relevant choice is between alternative real institutional arrangements<sup>1</sup>" (Eggertsson 1990: 12).

Institutional design can be passive or active. Juliet Johnson considers institutional design to be passive when "it attempts to provoke others to create or adapt institutions in ways intended by policymakers" (Johnson 2001: 258). The term "passive" denotes the assumptions behind the intervention, not exactly that the intervention is not aimed at changing the environment. The state makes radical changes, but these changes are supposed to trigger, indirectly, the behaviour of individual actors at the micro-level. Hence, passive institutional design is loaded with assumptions about the impact macro level structures have on individual behaviour.

Passive design of institutions was the preferred instrument and a characteristic of the shock therapy of first generation reforms. "The shock therapist explicitly advised postcommunist states to use such methods to destroy their old command-oriented institutions in a big bang, evoking metaphorically the destruction and rebirth of the economic universe" (Johnson 2001: 259). Juliet Johnson found state elites did not have to design policy constrained by the old societal groups. "In this atmosphere of extraordinary politics political parties, economic interest groups, and other associations embodying civil

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<sup>1</sup> P. 1 in Demsetz, Harold (1969), Information and efficiency : another view-point, *Journal of Law and Economics*, Vol. 12 No 1, quoted in Eggertsson (1990: 21, emphasis in original).

society had little time in which to coalesce and make organized demands on the state" (Jonson 2001: 256). Actually, Johnson argues that these leader in these countries were free to a greater degree than in other countries because of a past legacy of weak state society relations, more concretely an absence of mobilized interest groups pressuring the government (Johnson 2001: 256). These results are also similar to those of Linda Weiss (1998) when studying types of state capacity in Asia.

Paradoxically, as a rule, active institutional design is more prone to the kind of agency based explanations that were used as factors to trigger passive institutional design. "Active policies can aim either to create new institutions or to adapt old institutions to new purposes in a process Thelen<sup>2</sup> calls 'institutional conversion'" (Johnson 2001: 261). Active institutional design requires state capacity, in this sense the ability of the state to forge consensus, consistency and credibility (Johnson 2001: 261). "Creating new institutions requires the state to design, staff, fund, and then interact with a wholly fresh entity, while actively converting existing institutions in a short period of time typically requires extensive personnel training, technical adaptations, and administrative reconfigurations that may meet with resistance" (Johnson 2001: 261).

A related, but not less important issue is what happens once a specific policy path is adopted. In institutional theory, the discussion goes between those who argue for path dependence and path contingency. James Mahoney considers path dependency to be "those historical sequences in which contingent events set in motion institutional patterns or event chains that have deterministic properties" (Mahoney 2000: 507). Mahoney provides an interesting approach to the identification of contingent events, when arguing "Because the presence of contingency cannot be established independent of theory, the specification of path dependence is always a theory-laden process" (Mahoney 2000: 508). It is though not an arbitrary process. It puts demands on the theorist to clarify how the theoretical approach makes some events contingent and others not. This will lead to either specific events being considered by some as being "business as usual," "new wine in old bottles," or revolutionary changes. This can be understood within what path dependence theorists distinguish as *self-reinforcing sequences* and *reactive sequences*.

Drawing on historical institutional theory, the path contingency approach "treats policy choices as an independent variable, and it argues that the relative importance of institutional legacies is contingent upon the type of policy choices made by state actors" (Johnson 2001: 256). It opens the way to the understanding of the circumstances when institutional legacies matter for different policy choices.

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<sup>2</sup> Kathleen Thelen (2000), "Timing and temporality in the analysis of institution evolution and change", in *Studies in American Political Development*, No. 14

“Instead of posing the primacy of either agency or structure, the theory focuses on the dynamic interaction between the two by analytically separating the voluntaristic choice of an institutional design policy from that policy’s subsequent implementation” (Johnson 2001: 256). Policy choice here moves from being the dependent to being the independent variable. Theoretical (institutional change) and empirically (second generation reforms), institutional change demands state activism in the promotion of linkages.

We need to have an understanding of state effectiveness that takes into consideration the fact that effectiveness can be constructed in a process of institutional evolution (Ghani and Lockhart 2008: 33). To connect results to forms does not allow us to study how the actual forms of state effectiveness have come about in the various processes through which the state manoeuvred its tasks of solving different societal problems.

### Understanding state-society linkages for poverty reduction

The argument here is that institutions and institutional design affect the nature of the relationship between the state and domestic non-state actors, the nature and extent of civil society mobilization and the impact of domestic non-state actors’ activities in poverty reduction. This is based on the fact that

*“There is evidence that the existence of the state and the rules it establishes and enforces can strengthen and increase the efficiency of LOI’s [Local organizations and institutions] and that, at least in coalition with other urban-based groups, LOIs can give rise to collective action increasing the power of the state” (Nugent 1993: 629, quoted in Evans 1996: 1034)<sup>3</sup>.*

Alfred Stepan has also found evidence that states consciously manipulate institutions in order to influence the power of civil society. In a study of Chile, Alfred Stepan describes what is considered to be a “sophisticated attempt at policy-induced structural fragmentation of existing, and potential oppositional collectivities” (Stepan 1985: 322). Approaching the state-society relations from an institutional perspective implies arguing that the problem of the state in Africa is not the absence of institutions, but the fact that power is not institutionalized. This however is not an argument for institutional transfer, but for the creation of policy processes through which the state and domestic non-state actors negotiate *and* only from their build institutions. The nature and form of these institutions have to be a product of the resolution of domestic conflicts over the proper sites of authority and its boundaries.

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<sup>3</sup> Jeffrey B. Nugent (1993), “Between state, market and households: a neoinstitutional analysis of local organizations and institutions”, *World Development*, Vol. 21, No. 4

There is a suspicion towards government intervention in the linkages literature dealing with TNCs and SMEs, especially towards government intervention in developing countries. While recognizing that "The success of linkage programmes obviously depends on the capabilities of the state," Hansen and Schaumburg-Müller argue caution that "[i]n many developing countries, more interventionist approaches may be unfeasible or directly undesirable due to a weak state apparatus." There is a need to balance the benefits of linkages against the risk of government failure, they add (2006: 24). However, political underdevelopment, extraversion, neopatrimonialism or other "natures" of the state do not tell us much about the state.

Concepts like "political underdevelopment" or "neopatrimonialism" are useful concepts as far as they describe the differences between western and African states, but they are not necessarily explanatory devices. African states can be considered to suffer from a surfeit of bureaucracy, not an excess. And their poor citizens are not de-linked from the body politics, but suffer directly from it, hence their poverty. The major problem is that the poor suffer from a lack of institutional mediation between them and the politicians. Brackling argues that "the lack of formal representation of the poor, could be viewed relatively not as an exclusion from politics *per se*, but as a signifier that the politics under view does not necessarily take a (state) representational form. Taking the experience of politics as the extent to which one is subject to instrumental, or indeed arbitrary power reinstates the poor as potential victims of an 'excess' of politics" (Brackling 2005: 1015). It is not hence, as the liberals want to portray, that the poor are absent from the formal political space. It might be more that they are avoiding the repression coming from the formal political space. In a sense, this can be seen as an argument in favour of the negotiation of rules between the state and domestic non-state actors. Using European cases of institutional design might lead us to find what kind of institutions Africa does not have, but transferring them will seldom hide the fact that the organization of political life in African states will not be conducive to a process of institutional building *and* evolution.

## Linkages

A number of concepts are used to capture the links between the state and society in the promotion of development. The term "linkages" is used mostly in economic development literature to denote patterns of relationships between TNCs, states and local SMEs (Hansen and Schaumburg-Müller 2006).

"Partnership" is used in development assistance to mark a change towards more egalitarian relationships between creditors, lenders and Northern and Southern NGOs in the management of aid (Fowler 2002). "Synergy" and "coproduction" are used specifically connected to the regulation of state-society transformation where the state is the key actor in a process of societal transformation, albeit in a

close relationship with domestic non-state actors (Ghani and Lockhart 2008; Evans 1996; Ostrom 1996). The preference for the term “linkages” in this paper is due to its pedigree and the fact that it brings to the forefront positive associations with the strategies of societal transformation pursued by the development states of East Asia. However, for practical purposes, the concepts of synergy and coproduction have the same ambition, employ the same techniques, and have the same relationship to the state as the term linkages.

“Partnership” is however rejected here is imbued with a sense of harmony of interests that seldom can be found, either in the reality of state-society relations or that of development assistance. The concept of partnership is considered here to be dangerously deceiving as it attributes to the reality of development assistance non-existing attributes, and induces actors in poor countries to behave according to false premises (Fowler 2002, see Edgers 1995).

In economic development talk, the term linkage usually denotes a relationship between a TNC and a local company. Linkages are hence defined as “formal and informal collaborative exchanges between legally independent firms where material and immaterial resources are transferred, and/or practices shared and transmitted” (Hansen and Schaumburg-Müller 2006: 8). In this formulation, linkages are considered to be business relations between two independent firms that are not based on a relation either of anarchy (as in a pure market transaction) or hierarchy (as in the case of a local subsidiary of a TNC). Linkages confirm more to the idea of a network, although in this case it is more accurate to talk about a socially constructed network relation with the aim of achieving specific strategic goals for TNCs.

Synergy and coproduction focus the research on the fact that the state needs to provide an institutional environment in which citizens can engage for development purposes, and also alerts the researcher to the need to look at the ways in which citizens engage with the state both in terms of policy advocacy or in daily activities connected to service provision. The successful performance of both tasks presupposes a link between state and society. Common to both concepts is the emphasis on state coordination, hence putting the state at the apex of a project of societal transformation (Ghani and Lockhart 2008: 50).

Synergy implies that “civic engagement strengthens state institutions and effective state institutions create an environment in which civic engagement is more likely to thrive” (Evans 1996: 1034). The emphasis on synergies allows research projects that “explore the relationship between government and society in a variety of different developmental contexts” (Evans 1996: 1034). The presence or absence of state-society synergy is thus mapped, and its impact on development outcomes measured. Co-

production means “the process through which inputs used to produce a good or service are contributed by individuals who are not ‘in’ the same organization” (Ostrom 1996: 1073).

Evans provides a framework through which to analyse the synergy approach. He looks for whether successful synergies are a result of past endowments or if synergies can be constructed even in situations of weak states. Under the “endowment” view, the idea is to probe “the extent to which positive state-society relations depend on pre-existing features of the society and polity that are relatively difficult to change in the short run” (Evans 1996: 1036). If social capital building is a matter of decades or centuries, development outcomes that are related to the presence of social capital will most probably fail in the short run. Things like the structure of the economy, inequality, and the like can be grouped under the “endowment” category.

Under the perspective of “constructability,” the emphasis turns into the possibilities of building synergies in the short run. “It assumes that prior distributions of socio-political endowments are not the primary constraint. Instead, the imaginative application of ‘soft technologies’ of institution-building and organizational change can produce synergetic relations even under most unlikely circumstances” (Evans 1996: 1036). What the research does is to move a step further and look beyond what market-based approaches to institutions do. “Without denying the necessity of exploiting the incentive structures and flexibility that markets provide, it is clearly time for a broader definition of the institutional bases of improved human welfare and enhanced productivity in poor countries,” writes Peter Evans in his introduction. Moreover, a research agenda based in the synergy approach moves even further from the structural determinism of markets towards an analysis of the conditions under which different market-oriented states have managed to promote human welfare in a close relation with societal groups.

In a co-production framework, citizens as “clients” disappear to reappear as partners in a production process. Citizens are no more passive recipients of goods (beneficiaries) or “clients” that demand a good. Together with the state; citizens participate in the production of a certain good, or in the delivery of a certain service. “Co-production implies that citizens can play an active role in producing public goods and services of consequence to them” (Ostrom 1996: 1073). This is the primary concern of development theory with its race to the local. A failure to conceptualize its challenges and strengths will deprive the theorist and development practitioners of the necessary insights into one of the most challenging social exercises of our times.

Examples from Brazil and Nigeria illustrate this point. In Brazil, Elinor Ostrom's research shows that co-production is feasible even in technical areas such as water distribution. “Constructing major

infrastructure, especially water and sanitation in urban and peri-urban areas, is not where one could first look to find important, replicable examples of effective co-production in developing countries" (Ostrom 1996:1074). The focus on co-production in water delivery helps advance the argument that there are no technical issues that stand above the need for the involvement of affected communities. And as the case of education in Nigeria also attests, even the more obvious areas where participation is accepted need a clear commitment from the part of the state on towards the process, and the extent the process affects public servants and their position in the state bureaucracy.

The possibility of being identified and be subject to sanctions in the community is a good incentive for good behaviour. The democratic decentralization of infrastructure provision also brings obvious advantages in terms of holding the companies providing the infrastructure services accountable. There is a difference between having a big company, contracted at the central level doing the work or a local company whose contract was won on a competition with other potential providers. "A reputation for high-quality work is important for a local contractor and may be of little concern to a large firm (with political connections to national leaders) who may never return to that locality" (Ostrom 1996: 1075). Democratic decentralization in this sense has to be accompanied by sanction mechanisms.

Co-production is a challenging exercise. While eagerness to copy best practices is rife, the challenges have to be kept in front of the mind when thinking about replication. Ostrom (1996: 1075) writes about three main difficulties with co-production: "(i) the organization of citizens and their fulfilment of promises to undertake collective action (also called social capital outside the government), (ii) good teamwork within a public agency (social capital within the government), and (iii) effective coordination between citizens and an agency." For Ostrom the problem is that citizens in such a system are subject to the same challenges of collective group mobilization as in any other instance of collective action. The issue of social capital within the government is addressed by the literature on principal-agent relationship and on team production. While emphasis has been put on the possibility of ensuring citizens' mobilization or government effectiveness, "little attention has been paid, given the gulf perceived between public and private spheres, to the problem of relating citizen and official inputs" (Ostrom 1996: 1075). Given the centrality of participation in today's development efforts, this lack of attention might obscure the understanding of the relevance of synergies for development.

In terms of understanding state-society relations, the focus needs to be shifted to the role of the government in fostering linkages. The focus has to be is the nature of political relationships at the linkages program, and the impacts of these relationships on policy outcomes. For Hansen and Schaumburg-Müller, the state should "play an active role in promoting linkages to foreign investors in

targeted industries and ensuring that these linkages benefit local industry" (2006: 23). The conventional economic image of a "market for linkages" depicted by Hansen and Schaumburg-Müller (2006: 23) is not accurate, for it fails to allow for the political motives behind the setting-up of a linkages program. Moreover, analysing the state without reference to its relations to the private sector still puts emphasis on the autonomy of each actor, instead in concentrating on the kinds of relationships that are needed for the state to achieve its political goals in conjunction with domestic non-state actors (Weiss 1998: 33). Linda Weiss's main argument is that there is a need for a different institutional approach, one that "brings the state and its organizational *linkages with industry* more centrally into the picture" (Weiss 1998: 33). For instance, Linda Weiss argues that sectoral transformation "involves the creation of new branches of production, the shift to new products, the adoption of new technologies, and the diffusion of innovation" (Weiss 1998: 66-7). This goal cannot be achieved if those supposed to execute the programs (either private enterprise, non-profit actors, or communities) have not been co-opted to the state project.

Conducting an institutional study of linkages implies the consideration that a linkages process is one among a number of parallel paths where the state and civil society interact. For the case of African states, an understanding of linkages demands a close reading of dynamics connected to the political dynamic at the state level (political governance), the management of extraversion (dependency), and of dynamics inside civil society. Of special importance is the design of the linkages process, given the fact that the design of institutions affect the mobilization capacity of civil society, and also conditions whether civil society will find it worth getting involving in infighting for the control of the civil society agenda in a linkages process. The relevance of these aspects will be illustrated through a brief discussion of the Development Observatory and the Mozlink Program in Mozambique.

### **Genesis and evolution of the DO and the Mozlink program in Mozambique**

This empirical part discusses the Development Observatory and the Mozlink program in order to illustrate the main arguments in the previous discussion. Three kinds of theoretical points are here illustrated. The first one is that institutional design has an impact on the rationale for collective mobilization of domestic non-state actors. The second is that institutional evolution also happens as a result of the crossing of distinct policy paths: in some cases for the good, in others for the bad. The third and more general point is that the different approaches to the nature of the state and civil society, although not directly determining outcomes, do have an impact on the implementation of both processes. The discussion starts with the Development Observatory, followed by the Mozlink program.



The conclusion makes a summary of the contributions that these two cases make for the understanding of state-society linkages for poverty reduction.

### The genesis and evolution of the Development Observatory

The Development Observatory (DO) was set up in April 2003 as a consultative forum to institutionalize civil society involvement in the monitoring and evaluation of the Poverty Reduction Strategy Papers implementation process in Mozambique. From the onset, the DO was meant to be held in Maputo with a handful of civil society organizations and creditors. Since 2005, the DO has been extended to the provincial level, at the request of civil society organizations and some international donors. It was first called "Poverty Observatory", but as it extended to the provinces, some of the provincial observatories called themselves "development" observatories because the participants decided their observatory should be about discussing provincial development strategies in general, not merely poverty reduction. Later on even the national observatory assumed the same role (but without necessarily changing its role or structure).

According to the government, "The DO is a consultative and participatory forum between the government and its national and international partners in the fight against poverty, in areas connected to the implementation of the government's planning instruments" (GoM 2008: 4). It has as its general objectives to:

1. Create the conditions for an effective dialogue and consultation between the government and its national and international partners, as well as elevate the degree of responsiveness of all intervening actors.
2. To monitor and evaluate the degree of implementation of the targets in connected to country's development strategies, as set out in the Government's 5 years plan.
3. To make joint reflections and analysis, integrated in the planning circle, the practical measures and necessary steps to the implementation of the targets in the poverty reduction strategy (e.g. PARPA II) and, on a more general note, to the promotion of growth and development in the country (GoM 2008: 4).

Involving the government, creditors and civil society, the DO represents a clear break with the past when it comes to the legitimacy of civil society to participate in policy processes. The DO has the potential to be a "positive, useful and relevant" tool for strengthening civil society involvement in policy processes in Mozambique. It has the potential to strengthen the accountability of policy processes, to

increase effectiveness through monitoring and evaluation, and is relevant to counteract the wide spread sense of exclusion and alienation from the political process and economic decision-making that have-not citizens often experience" (Francisco and Matter: 2007: 5). Both civil society and donors chose their representatives to the DO. The government is represented (pr its representatives) and representatives of public institutions invited to the process. The technical coordination of the DO is under the National Directorate of Planning of the Ministry of Planning and Development. A similar structure was designed for the provincial DO, composed by actors operating at the provincial level.

There have been a number of well-done studies on the Development Observatory process in Mozambique and the role of civil society in it. The aim in this empirical discussion is to liberate much of the analysis of policy processes in Africa from its reliance on path dependency approaches to social change. While the DO is very well described, and its current manifestations well documented, the analysts fail many times to account for the evolution of the process. Since its inception, two kinds of change can be observed. The first one is that the process has been expanded to the provinces, but was not necessarily deepened in terms of its goals or forms of civil society involvement. Second, there is too much concentration in merely one path, thus failing to bring in the analysis instances where different paths collide, and the consequences of that for the DO. Three such paths are considered to have had an impact on the DO: the Joint Review process, the change of leadership in Mozambique and its emphasis on local participation, and the internal dynamics within the organized civil society involved in the DO.

Before the advent of the PRSP, Mozambique lacked a comprehensive document aimed at targeting poverty, and poverty reduction efforts where until that time only fractional. Civil society organisations would participate in sectoral discussions with the relevant government agency regarding problems affecting their area of concern (Government of Mozambique April 2001). The sectoral documents were brought together under the government's Poverty Reduction Action Plan (PARPA – Plano de Acção para a Redução da Pobreza Absoluta). The general objective of the Poverty Reduction Action Plan is to develop and to enable an effective monitoring and co-ordination of actions that might lead to poverty reduction in the medium term, and to poverty eradication in the long run. As such, the PARPA shows a wish list of actions deemed important for poverty reduction and intended to be implemented within each specific area, without a clear set of measures on how to finance them. However, it states that those policies activities will be implemented taking into account the overall macro-economic framework.

Despite its potential, Francisco and Matter consider that the institutional design of the DO leads it into being more of an event than a mechanism for participation. This view is also shared by some of the

people the author has interviewed. They have compared the DO to a “Bhandja”, a kind of traditional public meeting where the boss comes and talks, the locals voice their grievances, and the meeting is closed. Both the boss and the populace have expressed what they feel and want, but this process of consultation has no mechanisms to reach decisions or to follow-up. Francisco and Matter have captured these views in the following words: “The DO has not evolved into an effective participatory mechanism, not so much because of being informal and depending on ad hoc procedures, but chiefly because it has been restricted to a consultative body with no channels for feedback, social accountability, checks and balances and other forms of citizens’ empowerment and participation” (2007: 6).

#### Civil society in Mozambique

To study civil society in Mozambique and its evolution is a good way to understand the evolution of the political system in the country. This is both interesting, as it attests to the close link between the nature of civil society and the state, but is also problematic because it points to a worrisome reliance of civil society on state initiatives and processes. Actually, the inability of civil society organizations to engage effectively in the PRSP process from its inception is connected to the fact that when the process was launched, only one civil society organization was doing advocacy connected to the impact of political and economic reforms in the country.<sup>4</sup> When the process of political and economic reforms started to deal with governance issues, and demanded more inclusion of civil society organizations, there were few organizations to be found with the organizational resources to head the call.

As discussed in the theoretical section, a process of institutional innovation such as the DO does not necessarily create policy-oriented CSOs, although it might create a forum for them to coordinate their activities. This close connection between changes at the state levels and changes in the nature of NGOs and their organizational strategies attests to two factors. The first is the absence of the state as the institutional embodiment and mediator for social conflicts in the country, and the second is its policy dependence on the government and the choices it makes (even if those choices are forced onto it by creditors). In the absence of the state, politics becomes contingent, instead of being conducted through a structured process of decision-making. There is no state to be changed, only politicians.

The number and depth of the political and economic changes the country has gone through also begs caution when analysing civil society and its role in development. Drastic changes have occurred in the political and economic spheres, from the end of colonial, the efforts at establishing a Marxist-Leninist state, a civil war, and neoliberal reforms. The establishment of a Marxist-Leninist was attempted from 1977 and was officially abandoned when the country start negotiating access to concessional funds

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<sup>4</sup> The Mozambican Debt Group is a coalition of ...

from the IMF in the mid-1980s. This period did however leave its mark in the public consciousness as a period of state economic activism, albeit marred by a total negation of citizen activism.

We can identify four kinds of NGOs in Mozambique, closely connected to different historical (or political) periods in the country. According to José Negrão (Negrao 2003), civil society in Mozambique has followed a path marked by a strong reliance on state initiatives (before neoliberal reforms introduced from 1987) and determined by donors and donor-financed Northern NGOs afterwards. Common to all these historical periods was the fact that what was called civil society or NGO were associations that had an agenda connected to the official one, be it the state agenda or the donor agendas. Associations who did not operate according to the rationality of donors and the state were ignored, and where there was none other, NGOs were created from scratch.

Roughly speaking, and with apologies for a strong bias towards considering civil society what interacts with the state, we can have a rough time distribution of the birth of different kinds of civil society organizations in Mozambique (Negrao 2003; Francisco and Matter 2007). After independence in 1975, the state first established its own organizations to reach the poor, a process quite similar to that of the Portuguese colonial power before independence. During the civil war in the 1980s, some few civil society organizations emerged, most notably Caritas. The Mozambican Christian Council existed before independence and survived the one party state. The emphasis in the 1980s was on humanitarian work, and this was done mainly either by the Mozambican Red Cross, Caritas Mozambique or the Mozambican Christian Council.

The end of the 1980s brought about the age of commercial NGOs, mainly a one (wo)man show, in order to access donor funds in search for local implementation partners. In Mozambique, these organizations had to be created from scratch as given its colonial history and absence of strong institutionalisation of public power, there was no civil society connected either to advocacy or service providing (see Negrao 2003). The problem is that advocacy was not the main priority for such NGOs. Only 10 years later, by the end of the 1990s, Mozambique witnessed the birth of indigenous advocacy movements, such as the Mozambican Debt Group and the Land Campaign. According to Negrão, while advocacy initiatives were a reaction to changes being driven into poor countries by International Institutions, the civic engagement and the process for the resolution of such issues were endogenous (2003: 5-6).

The state and the opening of policy spaces

Democracy in Mozambique still falls short of being a system with widespread participation of citizens besides the formal aspects of voting and freedom of association. What is absent in Mozambique is

ideological commitment by all parties to a program of economic development. The armed conflict seems to have changed battleground, but not ended. Cooperation between Frelimo and Renamo is absent. “[The two parties] may have disarmed their respective armed forces and established a unified army as mandated by the general peace agreement, but their leaders have not undertaken a corresponding demilitarization of mentality. Thus, while their practice of democracy is strictly limited to mutual tolerance and avoidance of provocation, it has yet to extend to positive cooperation and collaboration” (Mazula 2004: 197). This kind of ‘negative’ cooperation places huge constraints on the governance of institutions created to manage state-society relations.

Brazão mazula argues that this lack of autonomy and interdependency of, and among, various centres of power coupled with the absence of interdependent relationships between the state, civil society and the citizen are major explanatory factors in the failing of Frelimo’s project of governance. As he writes regarding Mozambique, “Indeed, the attempt to exclude civil society from the process of social and political development of Mozambique may well have been a contributory factor in the weakening of the Frelimo regime” (Mazula 2004: 190).

It is in this context that the opening-up of the policy process at all levels of decision-making that has to be seen as close to a revolution. The passing and implementation of the Law on Local State Organs (law 8/2003) provided a legal space for local state organs to act and to be held accountable. The Law covers the competences and functioning of local organs at provincial, district and locality levels. While at the provincial level participation is at present framed within the context of the PO, at district level the government has created consultative forum – the District Consultative Council. The Law made the District the most important budget unit, thus elevating local participation to an important exercise.

However, in a context of strong Presidentialism, the central government still holds the reins over the process through its control over local level officials. The president has in its hands all the power of the state, from the central level to the local level. The president nominates and has the authority to demote all holders of state power occupying executive functions. The President is the head of the state, the head of the Armed Forces, security forces, and the head of the government. Hence, even though the democratic process has allowed for people to vote for the president and legislature, no other power holders are accountable to the people. The latest wave of decentralisation has seen municipal elections going to a number of districts and all provincial capitals, but the bulk of the decision-making power still resides with the President.

For a country with 11 provinces (Maputo has the statute of a province), and 128 districts, there are in theory many entry points for civil society. However, citizen power is extremely weak. Francisco (2007) estimates that “Under existing constitutional setting (...) the Mozambican citizen exercises a direct power in less than five percent of the sovereign organs, while with regard to the remaining 95 percent, the citizen power is delegated to the parties, the elected President of the Republic and the Presidents of the 33 municipalities, who hold the power to nominate the executive and other public administrative organs and representatives”<sup>5</sup>

Through the Consultative Council the government was able to delegate powers to Districts while at the same time retaining the de facto control on the policy process. In its article 36, the Law on Local State Organs puts the burden of achieving the government development plans on the district level, leaving the central government with then power to monitor and evaluate performance. The district administrator is the one heading the district consultative councils. However, given that district administrators are legally still dependent of the President, it is the central government interpretation of what constitutes local development that gets prioritised. According to a cadre of the Ministry of Planning and Finance, the government reserves itself the right to change the local development plans in cases they are not aligned to the PARPA (and it can use performance in the Consultative Councils to fire District administrators). Hence, local participation as a virtue of the Law on Local State Organs does not actually amount to an increase on the clout of non-state actors in the policy process.

#### The G20: Institutional design and civil society mobilization

The DO clearly illustrates the extent institutional features create synergies between the state and society in the management of development. While so far the involvement of civil society has not amounted to changes in policy the process (and most civil society sources involved do not seem to be concerned by these or other results besides participation), the DO has brought a new dynamic inside civil society organizations. The G20 is the network of civil society organizations involved in the DO. The name has its origins on the number of organizations that participated in the first Observatory. Since then the network has expanded to the provinces, and so has the number of members. However, a decision was taken to maintain the name.

The establishment of the DO has put pressure on civil society to organize its inputs to the PRSP process. The requirement that civil society should nominate its own representatives and also produce a

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<sup>5</sup> Francisco, António A. Da Silva (2007), “Alianças no combate à pobreza em Moçambique: cidadãos como parceiros do governo?” Draft of a presentation at a seminar held by the Foundation for community development, 13 of March, Maputo, Quoted in Francisco 2008: 18)

joint input to the DO sessions were the major features of the DO. Two goals are to be pursued through the Development Observatory: to fill the gap related to the participation of civil society in the design of PARPA; and to create, at a national scale, a poverty monitoring and evaluation system (not merely related to PARPA) that has as its final product the elaboration of a National Poverty Report from the perspective of the poor and general demands" (Negrao 2003: 11).

As a platform regulating civil society involvement in the DO, the G20 does not have a formal membership base, but its members are those civil society organizations that do manifest an intention to contribute to the DO in each calendar year. The platform is open for all citizens who want to get involved in the process. What determines the number of members is the participation in the G20 plenary. However the secretariat reckons that an approximate number of 100 NGOs are involved on a regular basis at all levels.

For instance, the challenges were twofold. The first to show that civil society existed as an entity beyond individual organizations. The second was to show that it was a meaningful partner to the state in its efforts to reduce poverty. As one NGO representative wrote, "It was necessary to reply to the government, and this reply should be something more than the mere sending of names. It was, simultaneously, an unequivocal sign of the existence of a organized civil society as a valid interlocutor to the proposed agenda [of poverty reduction] and that would assume its role in a responsible way" (Menete 2008b: 1). The fact that the government did not send the invitation directly to civil society organizations was also considered to be a result of criticism connected to the consultation process in the drafting process of first PRSP.

Connected to the first PRSP, the government was accused of inviting "its" NGOs, and that bypassing critical ones. In this sense, some sense that the government decided to pass this responsibility to civil society. "However, regardless of the reasons, this detail (the choosing of NGOs) has been seen an indicator that the government does not interfere in the businesses of civil society and, as a result of this perception, that civil society is independent from the government" (Menete 2008b: 2). This sense of independence was also reinforced by of the criteria for eligibility and representativeness in the G20.

The first criterion was a typological one, and concerned representativeness. A typology was established that divided civil society organizations in terms of levels. The first level was constituted by membership based organizations. The second level was made by umbrella organizations representing the different membership based organizations of the same nature. The third level was composed by networks that were composed by organizations from the two first levels. Networks, by virtue of being issue-based,

could have both umbrella and membership based organizations of various nature and goals. The second criterion has to do with eligibility and concerned the specific areas of intervention in the PO identified by the G20. Organizations were supposed to be able to make a contribution in one of five areas, (1) the structure and dynamic of the PO; (2) social areas; (3) human development; (4) governance; and (5) economy. Each organization was supposed to bring to a working group its own inputs.

The most pressing issues for the G20 seem to be its internal governance mechanism and its approach to the PO governance mechanism. How individuals position themselves towards these issues seems to be connected to their expectations. Francisco and Matter (2002: 16) identify three main lines of expectation they consider relevant when people evaluate the “usefulness, role and impact of the PO in Mozambique”. The first has to do with *ignorance, prejudice and informal fallacy*, where they assume, given ignorance or lack of knowledge, people are not able to make critical observations, base their analysis on prejudices, or in a circular way, use lack of evidence as a sign that their fallacy might be true. The second has to do with *wishful thinking and ad hoc voluntarism*, where reality is interpreted according to expectations rather than evidence. The third one has to do with *critical thinking and professionalism* characterised by “open mindedness and scepticism, as well as a high technical standard and quality of work attitude expected from a person or an organization that is said to be well-trained in a particular job and task”. However, merging these expectations to internal processes at the G20 provides a more worrisome view (for those interested in a critical civil society).

A closer observation of internal debates at the G20 provides a picture of a conflict-ridden civil society platform. While the insight provided by Francisco and Matter is accurate, in their analysis they do not take a closer look at how these different expectations collide in the actual process of governing the G20. These changes seem to be happening along the fault lines of expectation above mentioned. Since 2005, the G20 has been involved in a process of restructuring. The main question is whether the G20 will become an organization representing civil society or will it continue to be a platform for civil society engagement in the PO. Roughly speaking, we can say that those with a critical view want to cement and deepen the G20 as a civil society platform, while those who express expectations that Francisco and Matter consider to be based on *ignorance, prejudice and informal fallacy* seem to favour the creation of one more organization.

Two motives are given to justify establishing a formal organization. The first one is the classical one connected to donor pressure. Donors want a formal organization because they more easily can match funds earmarked to participation in the PRSP process to a specific organization. In this sense, this is a



generalized tendency in NGOs (although problematic for its impact on accountability towards members) and is not a particular feature of the relationship between G20 and its donors. The issue becomes more problematic when we make a triangulation between the expectations towards the PO, the position of the individuals in the organizational struggles, and political space created for the government. As a result of this triangulation, those who expose views under the category of *wishful thinking and ad hoc voluntarism* seem to be more positive towards the institutionalisation of the G20, and also less inclined to take a critical role against the government. Their position seems to benefit the status quo, not merely by omission, but by taking positions in terms of civil society strategising that block any possibility to have a strong and critical civil society. In a way, Francisco and Matter have touched on this when they write "One of the more dangerous features in wishful thinking is to put a veil between the observer and the truth, which can pose serious difficulties for introducing improvement, in conformity with reality" (2008: 16). But, what is suspicious here is the degree their wishful thinking seems to be consistent with a strategy of avoiding a critical civil society.

Another document drafted by the G20 coordination group seems to put more emphasis on the G20 as a *methodology*. The fact that these issues are being settled almost 6 years after the G20 was established is attributed to the urgency of participation. The G20 gave priority to form rather than content, under the understanding that issues of form would be solved in a later stage on a national level meeting. The document claims that successive meetings have defined the G20 as a platform, a dynamic mechanism to coordinate, in an annual basis, civil society participation in the DO.

There seems to be a huge divide within the governing bodies at G20. For instance, in October 2008 the G20 together with the Southern Africa Trust organised a regional seminar on poverty units/observatories in the SADC region. This was a reaction to the fact that in April of the same year, SADC had decided to create a regional Poverty Observatory. If compared to the evaluations of the DO, the G20 contribution is telling, and we think it worth to transcribe here some of the remarks:

"Civil society participation [in the DO] is recognized by the government, and the government gets many inputs given the organized form civil society does it. The interaction with the different civil society actors is remarkable. This interaction is done in an institutionalized way, with the G20 representing a civil society composed of actors from different areas, from the private sector, religious organizations and NGOs" (G20 and SAT 2008: 8).

The only time the document mentions something that can be considered to be negative is when it refers to the challenges facing civil society participation in policy processes as a result of the efforts by the government to decentralize planning:

“Despite organizational efforts done by civil society at the central level, there are still gaps in civil society participation at the provincial and local level. Participation in the decentralization implemented by the government, especially when it comes to the allocation of resources to the district level, is beyond the capacity of local and provincial level civil society, with very visible differences from province to province, and locality to locality. We mean, civil society participation is structured, but it does not reach all levels and in the provinces this participation is much differentiated, what demands more organization and effort from civil society” (G20 and SAT 2008: 9).

At the same time that the above document was drafted, the Mozambican Debt Group (a founding member of the G20 and part of the G20 coordination council) sent a comment on the government’s draft of the *Guidelines for the Development Observatory* (GMD 2008). The general idea was to try to correct the structural lacunae found in the Development Observatory. The most pressing issues for the Debt Group were the lack of clarity of what to do with civil society inputs in the process, the alignment between the DO at Central, Provincial and District level, and the relevance of consensus on the DO in relation to the Joint Review process between the government and donors. The crucial question was the relevance of civil society involvement, or the extent agreements at the DO could override decision in the Joint Review process.

#### The evolution and coordination of the Mozlink program in Mozambique

The Mozlink linkages program is coordinated by the country’s Investment Promotion Centre (CPI) on behalf of the government. CPI has the mandate to promote and facilitate national and foreign investment in Mozambique, and operates as a “one-stop-shop” and it “facilitates the concession of fiscal and customs incentives to investors; identifies potential partners for joint-ventures; identifies and disseminates investment opportunities; and provides institutional assistance to investors in the implementation of investment projects (CPI 2008: URL <http://www.cpi.co.mz/content.php?content.7> , extracted March 11, 2008).

CPI coordinates Mozlink, which is the denomination for the Linkages program in the country. The first Mozlink program was conceived for the SMEs with a contract in Mozal. Mozlink 1 had as a target 25 companies, and is closed. It was to serve as a mentorship program to companies to enable them to

deliver to Mozal. Mentorship involved training in quality, management, and safety. The second phase of Mozlink is supposed to start with 15 companies based in the needs of Mozal, Sasol, MPDC, CDM and Corridor Sands. Mozlink 2 is dependent on the packages to be made available by the big companies. Each big company will provide information about the type of activity they have for SMEs. The ambition with Mozlink is to train 100 companies to be able to deliver services to big companies. Mozlink has a website that functions as an interaction site between big companies and SMEs. Mozlink, while directed at big private companies, is part of an overall effort by CPI to target and involve in linkages government ministries such as the Health Ministry, or public companies such as the electricity company. At this level the focus is mainly on increasing the availability of services to SMEs.

CPI does not however, through Mozlink, get involved in the analysis of the data it collects. Even in this regard, it does not function as a knowledge centre, able to do match-making between TNCs and SMEs. Even in this regard, its role is more like a “one-stop-shop” where SMEs can come in to get information about TNCs, or vice-versa. The database serves to make a comparison between different categories of companies, and the contribution that linkages make to SMEs in relation to companies outside the program. The CPI does not have the mandate to assess whether the work carried out is having the desired impact in the national economy. This, according to CPI sources, is probably done by the ministries of Finance and of Industry, to whom CPI sends the raw data. This organizational feature raises serious doubts about CPI role as a coordinator of the linkages program

The most visible aspect of the linkages program was connected to Mozal, the aluminium smelter. A special linkage unit, the SMEELP – Small and Medium Enterprise Empowerment and Linkage Program - was established for that purpose within the Mozal expansion phase project. The SMEELP is a result of a cooperation between different public and private institutions - **BHP Billiton Aluminium Project Team (BPT)**, its Engineering, Procurement and Construction Management Contractor **SNC Lavalin Murray and Roberts (SLMR)**, the **Investment Promotion Centre (CPI)**, the **Africa Project Development Facility (Apdf)**. Other supporters of the Programme were: the **Mozal Operations Team (MOT)** which assigned a representative to the Programme’s Steering Committee and **the PoDE –CAT** which provided some company level support (CPI 2004). It is mainly as a result of the experiences stemming from the dynamics of linkages between Mozambique SMEs and Mozal that the Mozambique linkages program has been developed.

The failure of the materialisation of backwards linkages with Mozal lie behind the creation of the SMEELP. This first linkages program had four components: (i) the identification of SME contracts; (ii) the selection of SMEs; (iii) training & bidding; and (iv) mentorship (delivered by SLMR and consultants)

(CPI 2004: 9). The impacts of the SMEELP cannot be overstated. It raised the performance (and the profit levels) of many Mozambican companies, and increased the level of confidence of international investors in the ability of Mozambican firms to perform according to environment standards.

Studies by Goldin (2004), Castel-Branco and Goldin (2003) and CPI data show that with the introduction of the linkages program, the investment of TNCs in the local economy increased. For instance, SMEELP has helped 17 SMEs in Mozambique to deliver contracts to Mozal. According to CPI, "SMEELP provided SMEs with opportunities for growth and for its sustainability the model was transferred to the CPI linkages division" (CPI 2004: 9-10). Although the SMEELP was transferred to the CPI in 2003 and become MOZLINK, the next development in the implementation of the linkages program is *once again* being promoted by the IFC in conjunction with TNCs.

Two set of explanatory factors can be found here. Contrary to the emphasis of the linkages literature, linkages are not either government or market led. In the case of Mozambique, the IFC is an important actor in the design and implementation of the program. This is true even more because the idea of having the government as a coordination through CPI seems to have remained just an idea. A second set of explanatory factors might be connected to a reluctance of the government in engaging with its private sector. While it is possible to read in the media a number of grand statements by the government regarding its role in the promotion of gigantic projects in the industrial and mineral sector, there is a near total absence about the connection between these TNCs and local industries. The main protagonists in linkages seem still to be IFIs and TNCs.

In a 2004 draft proposal for a "*Coordinated national linkages program to increase MNC contribution to the national economy*", the CPI it is proposed that

"the government plays a leading role, commit more resources and support for the program; and CPI as the government institution coordinating all activities for the promotion and facilitation of domestic and foreign investment is the appropriate organization to coordinate the linkages program and all support programs capitalizing the accumulated experience" (CPI 2004: 3).

The CPI had envisaged the role of the government to be (i) to mobilize MNC to participate; (ii) to mobilize appropriate funding for SMEs; (iii) to support the institution that coordinate all linkage activities (in this case the CPI); and (iv) to access the results of the program (CPI 2004: 13). Four main actors or group of actors are identified: the government, the CPI, TNCs, and suppliers - both as beneficiaries and

as contributors. The government is supposed to have an institutional role connected to its ambition to establish a strong private sector in Mozambique. According to the CPI document, "the government has the responsibility to design the institutional framework for the linkages program and establish the implementation strategy" (CPI 2004: 15).

A recurring complaint by managers of public companies and representatives of SME is that the government does not seem to work for the promotion of the national industry, both small and big. This concern has been raised both in terms of lack of a "patriotic spirit" on the part of the political elite, and of the government being against black entrepreneurs. For instance, managers of SMEs who have been interviewed for the study have complained that the government was not interested in having SMEs development. Once a SME shows signs of growth and success, they claimed, the government descended upon it with a barrage of tax and customs officials and made the business unprofitable. Others were more critical and claimed that the Frelimo government hated black businesses.

The absence of a clear government role in linkages is attributed by some to an absence of a national vision by the government. A manager from a public company has accused the government of not entering into deals to promote the interests of public companies, in opposition to the South African government who was seen as a model in terms of promoting the economic competitiveness of its local industry. The explanation, according to the manager, is in how politicians reacted when business opportunities were made available: instead of bringing these businesses to the local companies, the politicians would transform these businesses into avenues for private profit, giving signs of "a lack of a patriotic spirit" (*anonymous interview, Tuesday, January 25, 2005*). Castel Branco argues that it seems as if around the absence of a national vision, important personal interests have been generated (*Interview, February 11, 2005*).

Linkages: how are they happening in Mozambique?

In development theory, linkages are promoted as a conscious strategy for industrial upgrading. Linkages transcend mere inter-firm networks for the production and exchange of goods and services towards the achievement of an overall industrial strategy. For the case of Mozambique, one important barrier to linkages is the overall theoretical scepticism against government intervention. This scepticism works in favour of ad-hoc approaches to linkages, and TNCs-driven linkages initiatives.

For instance, Nicole Goldin studies the relationship between small and large firms from the perspective of demand created by big companies in products and services produced by SMEs. Her research is an

endeavour whose main goals are, theoretically, to shift the emphasis from the “small is beautiful perspective” that concentrate on the supply side of SMEs towards issues of SMEs growth sustainability, job creation and individual welfare, as a result of linkages with TNCs (Goldin 2004: 1). Empirically, she studies how the presence of a large enterprise has generated downward linkages up to the informal sector in Mozambique.

Once such a demand-model of linkages is in place for all big companies and contractors in the government, the combined effects would be increased performance of SMEs given the combination of demand for goods and services and the availability of financing. Linkages are therefore reduced to a mere financial exercise, and SMEs development will be equated with the growth and modernisation of a myriad of firms. This might be a possibility, but misses the point in the case of the political drive for linkages, which is informed by a development perspective, hence demanding a clear understanding of the linkages process and the end goal.

This kind of approach leads Goldin to consider TNC driven linkages as relevant for firm-upgrading, without a proper consideration of the political element in linkages. Goldin points out that there has been a shift from the supply-side towards the demand-side of micro-finance to SME promotion. Here, a contract with Mozal serves as collateral for micro-credits. Mozal stays for aspects such amortization of loans, what is done through a deduction from the price of goods and services paid by Mozal to the SME. “In this model, risk is reduced for all parties, and at the same time, credit necessary for upgrading becomes more readily available and cheaper than it would have been, had the firm not been contracted to Mozal” (Goldin 2004: 15). However, this kind of approach to linkages restrict the upgrading through linkages to the firm level; the upgrading of the industrial sector, a crucial element informing linkages programmes, is abandoned from the account.

According to Castel Branco linkages are being spearheaded by Mozal because this TNC is too big to go unnoticed in the international media, and hence something has to be done to show that it also benefits the local economy (*Interview, February 11, 2005*). As he argues, to try to analyse Mozal from the perspective of a firm and its linkages is meaningless because it is a global top-rate company. By default, it will necessarily increase the performance of local firms dealing with it. The understanding of why Mozal does such a thing is to be found, according to Castel Branco, in the dynamics of global social responsibility of multinationals. Mozal shareholders have to respond to a constituency that is very keen on avoiding the usual (bad) publicity that follows the establishment of multinationals in poor countries.

A more appropriate focus should then be on institutional dimensions of linkages in Mozambique. Large firms are not only those fully private. For the case of Mozambique, SMEs managers interviewed by Goldwin (2004: 11) identify state agencies as important actors in a linkages strategy. The potential for SME development present in development programs can not be understated, especially in a country like Mozambique that is involved in an extensive expansion of its roads, health, and education network. . According to a government source, the government and its creditors consistently ignore these linkage opportunities in Mozambique (*anonymous interview, July 14, 2006*).

This shows that, without messing-up with the financial instruments currently available in the country, a sustainable SME development strategy would uplift many enterprises in the country, once the model is extended to other big companies and to the state procurement agencies. Goldin notes

“One final issue, which is highlighted most dramatically by the small firm survey and echoed in interviews with policy makers, is the importance of government spending and government procurement. In this study, government entities were often viewed as ‘large firms’ consumers by their small firm clients – illustrating the significance of their purchasing power” (Goldin 2004: 23).

Hence a crucial question arising from this section is “*where is the government?*” Much of the previous discussions have been based on the assumption that the relationship between capital and industry is a key factor in the understanding of linkages policies and their outcomes. However, an institutional analysis of the Linkage program would not be complete without a consideration of the impact of the ideological orientation of political leaders towards the economy. Here, the emphasis is on the political system as a factor structuring the demands facing the state.

#### Linkages and International Financial Institutions

In August 2007 the International Financial Corporation (IFC) launched its expanded Linkages initiative for Mozambique. Modelled after the first Linkages program, which was aimed at increasing the participation of Mozambican SME in servicing Mozal, the new Linkages reaches other big companies (Mozal –aluminium, Sasol – gas exploration, Cervejas de Mocambique - beer, and Coca-Cola – soft drinks), but other national and international have also made a pledge to participate in it (CFM and CVRD). The involvement of the two beverage companies makes a distinct departure from previous linkages that only involved companies where IFIs had become involved either as shareholders or as providers of financial and political guarantees. Frans-Josef Jaspers, Materials Management Manager of Mozal is quoted as saying that the initiative “...is a unique initiative from some of Mozambique’s leading

companies (...) All four participating firms will review their supply chains to identify opportunities to acquire products locally that are currently brought from outside the country" (IFC press release Maputo, August 28, 2007).

The involvement of the IFC in the Linkages program in Mozambique dates back to the end of the 1990s, and provide an insight into the political economy of the Mozambican linkages program. The IFC was one of the financiers of the Mozambique aluminium smelter Mozal, and in that category directly affected by the criticisms raised about the connection of such a gigantic project to the overall goal of the Bretton Woods Institutions in promoting economic growth in Mozambique through private sector development. With the establishment of Mozal, the IFC got involved in supporting the capacity building of local companies to be able to benefit from Mozal's outsourced activities. IFC has also invested a total of US 145 million in Mozal, (120 in the first phase and 25 in the second phase of Mozal) (World Bank 2005: 8). The government seems to be leaving the role as a coordinator of the linkages program to the IFC and market actors.

The IFC seems to have a greater ability to push for linkages where it has invested some money in terms of equity. For example, besides one of the shareholders at Mozal, the IFC, alongside MIGA and IDA support, invested in 2004 US 18 million to cover part of the government equity in the Pande/Temane Gas Pipeline. IFC also approved a US 3 million "contribution to a US 12 million SME financing and technical assistance facility; has played an advisory role by being the "lead advisory" to the government of Mozambique in the negotiations around the concession of the Moatize coal mines, a process eventually won by the Brazilian mining giant *Companhia do Vale do Rio Doce*. According to the World Bank, CVRD Moatize investment "will probably be the largest investment in Mozambique in the medium to long term". The World Bank further write "Given its dimension, multiple components and location, the Moatize project is expected to have a massive positive impact on poverty reduction in the Zambezi Valley, one of the most populated regions in Mozambique and also one of the poorest" (World Bank 2005: 8). MIGA<sup>6</sup> provides technical assistance to the CPI. Besides this, it has also facilitated since 1994 an amount of US 2.8 billion worth of FDI in Mozambique. Projects directly connected to the SDI initiative where MIGA is involved are the Sasol Gas, Mozal and Maputo port (World Bank 2005: 8).

The government's eagerness to attract big investments through tax exemptions has met resistance from the IMF, which is particularly critical to efforts from the part of governments to compete to attract IFIs investment through regulatory laxity or low wage strategies. The approval in 2007 of a Mozambican law on mines and oil will make big projects also pay taxes and duties is welcomed by the IMF representative

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<sup>6</sup> For further information regarding MIGA investments in Mozambique please consult [www.miga.org](http://www.miga.org)



in Mozambique considers the new law “a step in the right decision” (Félix Fischer, IMF Mozambique representative, *in* “Correio da Manhã”, Thursday, January 10, 2008). The IMF Representative is keen to point that the new law will block the possibility of big projects in the future get the same tax exemptions that the Mozal aluminium smelter and SASOL, the gas company, got in Mozambique, and also to provide the state with resources to invest in the economic upgrading of the economy.

For the World Bank in its turn TNCs operation in these countries without a clear connection to developing countries sectoral strategies raises the risk of a dual economy. In a recent visit to Mozambique, Peter Zoellick, President of the World Bank Group, has encouraged the government to promote linkages between industrial and mineral extractive projects or else the country would run the risk of having a dual economy (AIM News Cast Maputo, February 4, 2008). Another instrument to avoid the emergence of dual economies is the adherence to EITI, which “sets a global standard for companies to publish what they pay and for governments to disclose what they receive” (EITI 2008). The main goal of EITI is to improve governance through increasing insight into how much companies pay for contracts and governments get from mineral resources exploration. So far, the connection between TNCs and SMEs linkages and the overall performance of the economy seems to be more a concern for IFIs and international investors than for the Mozambican government.

This section has shown that linkages in Mozambique are not only a concern of the state, but also of IFIs and TNCs. The challenges of promoting linkages and their viability has to be understood in terms of the impact of a policy process where there is not dual relationship between the state and SMEs in the design of linkages. The linkages program is designed for TNCs to identify what operations can be made available to SMEs. In that project, they have the financial backing of the IFC. How do SMEs and their concerns are represented in the linkages program? The next section deals with the Mozambique Business Network, a business organization of the SMEs involved in linkages.

#### The Mozambique Business Network

The MBN is a network founded by 15 Mozambican SMEs who have come together to create a business association to target procurement from big companies. Members of the MBN are currently serving or have served Mozal, and they were interested to use this past experience as a demonstrative evidence of their ability to work according to international standards (and hence get more business, by excluding other SMEs from the MBN). The idea of having a business network to deal with big companies came out of the IFC. The IFC had been closely involved with the linkage programme in Mozal through the Mozlink

program at the Mozambican Investment Promotion Centre (CPI). The idea was that they would use their common experience from Mozal as a showcase that they can transact!

Suppliers of TNCs are also supposed to be active contributors to the linkages supporting system. This contribution assumes that “their participation in the design, operation, management, modification of the various supporting programs” will improve the performance of the programs (CPI 2004: 16). This assumption demands the presence, at the SMEs side, of an organization that takes such a role, given the overall role of organizations as sites of aggregation of interests and also as the institutional memory of specific kinds of societal relations.

Some strands in political economy would postulate that the organization of the private sector is crucial to guarantee positive policy outcomes for SMEs. Based on a pluralist or on public choice approaches to the state, the assumption is that organizational strength is critical for outcomes related to policy at the state level. From the vantage point of institutional theory, the organization of the business sector is only relevant if it can guarantee its members that non-members will not get better outcomes. An organization is as good as its ability to punish defection. The case of the Mozambican Business Network (MBN) illustrates the challenges of building an organization that guarantees to its members that non-paying individuals will not enjoy the benefits achieved by the organization.

The MBN is not included in the model for the linkage program in Mozambique as an organization representing the interests of SMEs involved in linkages (or with a potential to get involved in linkages). For all that matter, neither do TNCs have a corporate representation in the model. TNCs start however from another position, one where they do not need local suppliers to survive. Most of them are not directly dependent of local firms as suppliers, and they did not come to Mozambique because of the dynamism of its industrial sector. As with Mozal in its first phase, they can pull resources from elsewhere in the world, and train the needed local workforce. However, as membership in the MBN is not a criteria to get access to TNC contracts, the policy role of the MBN is weakened.

As of May 2006, members at MBN were not paying any membership fees. MBN had no bank account and no members. According to her, one explanation to this is that Mozambicans are very much donor dependent, “they do not want to pay for anything”. She could not understand why the companies refused to pay membership fees because all are as she calls them multimillionaires in dollar terms, but do not want to pay 100 USD a month. After it was agreed that they would pay fees, a cut-off date was established as of January 2006 and now, they want to see benefits. They do not understand the idea behind an association. “They do not even realize that if you are not strong, nobody will listen to you!”

Since then she has mobilised to open-up for new members, and suggested them to segment the market into associate, full, and life members. They could become life members, and enjoy more power than the others.

Neither the government nor the MBN seem keen to work together. This however might be more a product of perceptions stemming out of past negative experiences elsewhere (like tax collection) than an outcome of any negative experience with collaboration. As the Executive Director of MBN said members of MBN do not want any interaction with government, only just want more business. This is problematic because MBN has benefited from a capacity building financing from AMSCO that stipulates lobbying as one of the activities to be pursued by the organization. The understanding amongst the rank and file at MBN is that business/government linkages are dealt with at the level of the Mozambican Confederation of Trade Associations (CTA), even though some members of MBN consider the CTA to either too connected too political or representing the personal interests of those in positions of leadership.

This is however insufficient because CTA deals with macro-level issues. According to one CTA representative, micro-level issues should be pursued by the companies on their respective associations, not at the level of the Confederation. There is not visible association of small business with interactions with the government. Regardless of at what level SMEs linkages with Mozal should be dealt with, this example shows the extent the business sector is weakly organized in Mozambique, without a clear understanding of how their membership in different organizations is connected to the problems they face.

While servicing Mozal leads to better business practice and working conditions, there is not guarantee that the company will allow the practices developed to Mozal to spread out to its overall businesses with the country economy in general. For instance, if a company is servicing Mozal, it might get access to finance and also a better price for its services. The temptation might be too much for those companies who know that they can produce according to the labour standards of the national economy while charging international prices. One of the interviewed has pointed out that many companies were tempted to (and some actually did) have two operations: one servicing Mozal and the other the local economy. The only problem here is that both Mozal and the local economy were many times served the same product, with the difference that those goods and services taken to Mozal fared a higher price. Instead of leading to better conditions at the firm level, Mozal had just the unintended impact of creating an incentive for firms to establish dual operations in the shadows: one to show Mozal, and the other for the local economy. As long as the government does not reward good performance in linkages with

incentives that stretch to the national economy, the effects of servicing Mozal will not be transferred to the national economy.

As MBN lacks a formal representation in the linkages program, its legitimacy as an interest organization can only be ascertained by its membership base. Given the fact that only 15 companies had provided services to Mozal, this base is quite small. Besides, the possibility of a MBN having a bargaining power against Mozal or another TNC is almost null as these TNCs, without a noticeable cost in their budgets, can pick-up another national SME and upgrade it to their purposes.

Regarding MBN/CPI relations, the structure of Mozlink has no place for organized interests. Neither membership in MBN is awarded positive sanctions to elicit increased membership. As MBN can not offer its members any of the benefits of membership in an interest group, its agglutinating role disappears. This shows that the institutional design of specific processes have an impact on the creation and evolution of interests among individuals and organizations.

### **Final remarks**

Institutions are seldom created in a vacuum. When created, new institutions are forced to share space, compete for resources, and attention with a variety of others. For the worse, new institutional processes might become hostage of other processes, and live a subordinated existence. Much of the reluctance about the deepening of state society relations in Africa as a mechanism to strengthen the effectiveness of the state is based on this negative understanding of institutional change. New institutional arrangements will only increase the grip of greedy government officials on NGOs; lead to an even deeper penetration of donors in the domestic affairs of borrower countries; or be captured by dishonest state and ONG officials.

The cases under study here provide somewhat a more nuanced picture. The study of the Development Observatory (DO) and of Mozlink attest to the fact that while we can find at play dynamics of extraversion, Presidentialism, and neopatrimonialism, the crash between these three and our linkages processes is creating different configurations of state-society relations – and not necessarily reinforcing the “negative” sides of the African state. In terms of institutional design, the DO has made leadership over civil society, and the best way to organize civil society, conflicting issues in the relationship between civil society organizations. The fact that whatever is produced by the G20 can be attributed to those civil society organizations involved in the DO, civil society is now fighting over the contents of a document (in this case the Poverty Annual Report), something unheard-of before the advent of the DO.

In terms of its impact on the mobilization potential of the private sector, Mozlink can be seen as the reverse mirror of the DO. The MBN never got a formal representation at Mozlink, and the CPI did not make MBN a channel for the voices of the private sector interested in participating in the linkages program. Benefits accruing from participating in Mozlink were connected to performance at the level of the company and its relationship to a TNC, and not to a company being part of MBN. In terms of its potential to coordinate SMEs involvement in linkages with TNCs, Mozlink seems to have been crossed two negative paths. The first one is the political environment in Mozambique, and the overall government suspicion towards free (black) enterprise. The second one is extraversion, the deep penetration by foreign organizations that are inimical of any role for the government as a coordinator of development, and even less of empowering the local private sector to compete in the international market.

The devolution process under way in Mozambique has also intercepted with the DO process in a somehow positive way. For the first time in Mozambique, civil society from all levels of policy making in the country are involved in the same policy process – the drafting of the government economic and social plan, that feeds the PARPA. Not only that but they also get involved in these processes under the framework of the DO process. We have here a case of institutional convergence that has already started to increase the assertiveness of civil society, as well as increasing intra-civil society conflicts over goals, strategies and alignment in relation to the government. Again, the comparison with Mozlink is telling. While TNCs exist in the whole country, CPI is located in Maputo, with many ambitions to expand but few resources to do so. This means that in practice, linkages between TNCs and SMEs outside Maputo fall outside the realm of the government. A recent initiative for the creation of a SME unit at the Ministry of Industry and Trade might solve this institutional bottleneck.

There is a common theme to both empirical stories that illustrate the theoretical discussion. Regardless of the constraints facing African states and societies, there is space for a project of institutional engineering in order to increase the development effectiveness of the state. While material development outcomes might not be achieved outright, institutional processes geared at the deepening of linkage relationships between the state and domestic non-state actors in poverty reduction processes have the potential to produce stocks of institutional capital to be used in a project of societal transformation – such as that of poverty reduction.

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