

## ***B. Decentralisation: the Rules of the Game***

### **1 Introduction**

In this introductory section, we set the scene for the discussion of the rules of the game for decentralisation by characterising some, but not all, features of the interaction of key institutions of the state. The interested reader is therefore referred to other studies which more profoundly analyse the formal and informal institutional rules that govern the relationships between the executive, the legislative and judicial powers, the security apparatus, the media and civil society organisations (CSOs) (see, e.g., ECORYS, 2008).

The rules of the game define the formal, legal framework for the relationships between the state and citizens and between institutions within the state, between the executive, Parliament, justice, media, civil society, etc. The overall framework is the constitution of Mozambique and the body of laws and bylaws (regulations). The 1990 constitution represents a turning point from the post-independence one-party state to a pluralist one. Until then the lines between the executive and legislative branch and the judiciary were blurred. In the post-independence constitution, the president of the Republic was the head of the government, of the state and the speaker of the legislature, the Popular Assembly. Interestingly, the Frelimo Party Central Committee, along with the president, the Cabinet and Members of Parliament (MPs), also had the prerogative of legislative initiative. The 1990 constitution formally reversed this situation and defined the separation of powers, with formal, clear boundaries between the three powers. This was confirmed in the 2004 constitution, which emphasises the idea of separation but also interdependence of powers in its preamble.

The 1990 constitution and its 2004 replacement are liberal democratic constitutions with some features typical of socialist or social democratic constitutions (e.g. on natural resources and land), which guarantee basic rights such as political rights (universal suffrage), civil rights (such as the press and association freedoms), *habeas corpus* and protection of human rights. The constitutional precepts related to the fundamental rights are in harmony with the Universal Declaration of Human Rights and the African Charter on Human and Peoples' Rights, as stated in Article 43 of the 2004 constitution. The 1990 constitution also in a way addressed the shift to the market economy in its Chapters III and IV. For example, land continues being the property of the state. The constitution defines four types of property: state, public, private and joint (public/private).

A **presidential system**, foreseeing a strong president, is another trait of the Mozambican constitution. The president has the prerogative to appoint the prime minister, the presidents of some key courts (such as the Supreme Court, the country's highest judiciary body), the Constitutional Council and the Administrative Court, as

well as the provincial governors who, in turn, appoint the district administrators. The president also appoints the attorney general, the president of the National Electoral Commission, and chairs the State Council, an advisory body also including the leader of the opposition, some MPs, former presidents and the prime minister. Apart from that, the Presidency has some exclusive advantages in the legislative process, through the exclusivity to use a simplified mechanism that allows it to present bills to the legislature which must be included in the agenda of the next session for immediate discussion.

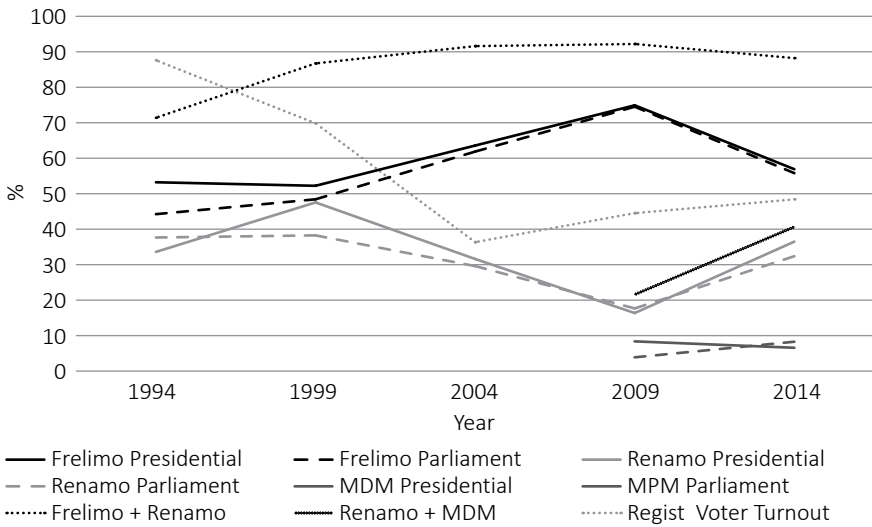
Since the first multiparty elections in 1994, brought about by the constitutional reform of 1990 and the Rome GPA, multiparty democracy and regular general and local government elections have been an established part of the rules of the game. The Mozambican electoral democracy has been characterised by fragile electoral institutions; frequent changes of the electoral legislation and rules; a plethora of small, opportunistic parties without funding and without genuine programmes or any chance to win a seat in Parliament; a ruling party deeply entrenched in state institutions; a dominant opposition party with an active military apparatus and often aggressive discourse; as well as repeated, well-documented attempts at electoral manipulation and fraud. These factors constitute impediments to electoral competition and representativeness, reduce the effectiveness of the institutional checks and balances and contribute to the slow pace of progress towards consolidation. In that sense, Mozambique is a case of democracy stalled between transition and consolidation, the so-called 'dominant power systems' (Carothers, 2002, p. 11ff). This represents a hybrid regime because of its combination of authoritarian and democratic elements (Diamond, 2002). With the dominant party not relinquishing its claim to hegemonic rule and actively seeking to limit the political space of its competitors, democratisation in Mozambique is thus another case of movement 'from *abertura* to closure' (Joseph, 1999).

All general elections since 1994 (Figure 2) produced two major outcomes: firstly, they reproduced the political dominance of Frelimo, and secondly, they reaffirmed what is a two-party Fre-namo<sup>49</sup> system, in which the two signatories of the Rome GPA not only dominate the political competition in Parliament and elections, but also the national agenda. It is this competition which eventually decides over matters of peace and war, control over people and territory, the allocation of resources, access to benefits, inclusion and exclusion, reconciliation and potential for conflict, to the exclusion of other parties and CSOs at large, holding the Mozambican population hostage. The 'second civil war' (Igreja, 2015) between the Frelimo government and the Renamo party between 2013 and 2014 only confirms this assessment (see Section C, 2.1).

---

49 Composed of Fre(limo) and (Re)namo.

Figure 2: Electoral outcomes, 1994–2014



Source: authors, based on National Electoral Commission data

Note: MPM = Movimento Democrático de Moçambique

As stated above, Frelimo maintained its political dominance which enabled the party to produce legislation which often emanated from the Executive (central government), corroborated and approved by the Frelimo Political Commission and enacted with the Frelimo majority in the National Parliament (*Assembleia da República*, or AR). Obviously, this is intended to consolidate its position, power and interests in what we labelled an LAO. The legislation regarding decentralisation is no exception.

As noted, informal relations are part of the rules of the game, for example, between the Frelimo party, the state and the economy. Thus, political, administrative and economic actors play their role not only by recognising the formal rules defined by the 'civic public', but also by 'playing the game' to circumvent the formal rules according to non-publicly codified rules, defined in the other 'publics' referred to in the previous section. Especially in a rent-seeking and clientelist-patrimonial system, informal and formal rules are therefore incongruent with the economic and political practice of key actors at the margin or outside of and in contradiction with the formal rules. A good example is the fact that land is sold on an informal (black) market, although the constitution and the land law prohibit such transactions.<sup>50</sup> Another example is the manipulation of procurement rules in favour of bidders whose offers do not meet the legal,

<sup>50</sup> This is epitomised by the popular saying that 'land is not sold, it is only bought'.

etc. requirements or in which the formal rules were manipulated (DFID, 2011). Thus, corruption can be explained in part as using the space for manoeuvring which exists for representatives of both state agencies and businesses, by ignoring or circumventing the formal rules and adhering to the (informal rules) which they have established. Impunity for culprits is widespread in a state like Mozambique, where the sense of citizenship and associated rights are not exercised by all Mozambicans; where the justice sector (including the Anti-Corruption Office) is institutionally weak, underresourced and dependent, in budgetary terms, on the executive; and where the criminal investigation police (*Polícia de Investigação Criminal*, or PIC) have only recently gained more clout and independence, having been formerly part of the executive (Ministry of Interior). The CIP has documented many such cases.

In the first subsection, we focus on the (formal) rules of the game for decentralisation. In the second, these will be complemented by discussing two examples of informal rules: the Open and Inclusive Presidency (*Presidência Aberta e Inclusiva*, or PAI) promoted by President Guebuza, and the importance of the local basis for access to positions of power within Frelimo.

## **2 Decentralisation: Legislative and Policy Framework – an Overview**

### **2.1 Institutional Framework and Forms of Decentralisation**

In Mozambique two different contents of and approaches to decentralisation coexist, cast in the Mozambican constitution since its partial amendment in 1996 and specific legislation (Law 2/2007, 3/2004): devolution or democratic decentralisation, and deconcentration or administrative decentralisation. The first is legally and in terms of policy framed as the development of municipalities. These are bestowed with a certain fiscal and administrative autonomy and have regular elections for mayors and assemblies, while the latter, the local bodies of the (central) state (OLEs), are subordinated institutions with little autonomy, but with some deconcentrated managerial and administrative functions.

Figure 3 gives a simple overview over the structure of local government (before the increase in the number of districts).

The two components of decentralisation were and are part of the established policy discourse and the programmes of consecutive governments, including that of the present Nyusi government. There it is part of Pillar 1 ('consolidation of democratic rule of law, good governance and decentralisation'),<sup>51</sup> one of three pillars

---

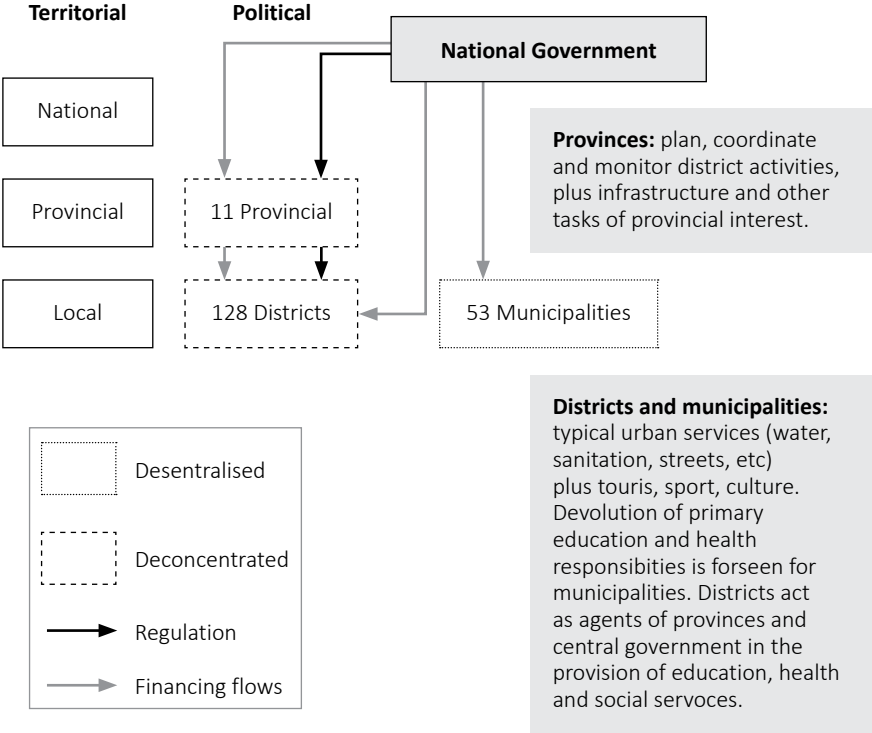
51 Specifically related to decentralisation, the Five-Year Plan of the Nyusi government defines the following objective: 'Continue the reform and capacity development of the local administrations, municipalities and provincial assemblies'.

supporting the implementation of the government’s Five-Year Plan.<sup>52</sup> It also stresses the ‘innovation’ of integrated and intersectoral focus which attempts to avoid sectoral or vertical governance approaches.

Decentralisation also features in the PSR (2000–2010). While the topic of devolved (municipal) governments was considered outside the scope of the PSR (with the exception of the capital city Maputo), the legislation on OLEs (Law 8/2003) emerging in the early years of the PSR was also not duly reflected in the Terms of Reference of the ongoing functional reviews of the key ministries, having had the status of a cross-cutting theme like HIV/AIDS. However, the functional analyses triggered some changes at local government level regarding administrative and managerial deconcentration. As a result, the former district directorates doubly subordinated to the line ministries, and the sectoral directories in the provincial

52 Its priorities are: a) the consolidation of national unity, peace and sovereignty; b) Human and social capital development; c) Promotion of employment and improvement of productivity and competitiveness; d) Economic and social infrastructure development and, finally, e) Ensuring sustainable and transparent management of natural and environmental resources.

Figure 3: Structure of territorial administration



Source: World Bank, 2014: 108

government were regrouped into four to five district services. Also, the district governments received more managerial authority and financial resources to manage human resources. Finally, the district's role in planning and budgeting was formally recognised (i.e. the elaboration of five-year strategic district plans and annual plans and budgets),<sup>53</sup> together with the obligation of the district governments to consult with citizens' groups via Consultative Councils (CC) at district level and below.

## 2.2 Decentralisation Strategy and Gradualism

Only 14 years after the commencement of the decentralisation process in Mozambique, the government, under donor pressure in the budget support framework and the Decentralisation Working Group, formulated a Decentralisation Policy and Strategy (*Política e Estratégia Nacional de Descentralização*, or PEND), approved in 2012 and considered valid at present.<sup>54</sup> The absence of a strategic and programmatic document with a clearly set out hierarchy of objectives, targets and options made it difficult to monitor any progress made in decentralisation and assess its impact, notably on service delivery, budgeting and financial management and participation of citizens in local government.

The term 'gradualism' played a prominent role in the decentralisation debate. In its technical, policy dimension, it means following a cautious path to and sequencing of decentralisation steps, contrary to a 'big bang approach'. It implies reviewing and gradually building, step by step, upon experiences gained with a first phase of decentralisation, to avoid the risks of a potentially 'treacherous road with potholes', notably regarding fiscal decentralisation (Shah & Chaudry, 2004).

But in the Mozambican debate, *gradualismo*, enshrined in the decentralisation legislation, was used as a wide-open, flexible and non-committal approach by government to decentralisation that served the purpose of political rhetoric and opportunities (Buur, 2009). It served to justify the postponement – or acceleration – of the process whenever it suited the informal rules of the game set by Fre-namo.

It was also meant to link and bring together the two vectors of decentralisation, devolution and deconcentration, in the sense of gradually expanding the devolved local governments in number, scope and resources. One type of gradualism therefore holds that an increasing number of municipalities are being created, the respective territorial units, i.e. district centres (*vilas*), being taken out of the deconcentrated units of OLEs. As a result, the number of municipalities increased from 33 (1997) to 43 (2008) and stood at 53 in 2014. The second type of gradualism means the gradual transfer of functions and resources presently held by OLEs, i.e. the

53 Plano Estratégico de Desenvolvimento Distrital and Plano Económico e Social e Orçamento Distrital (PESOD).

54 Interview with senior official, MAEFP, Maputo, 20/10/2015.

government, to the municipalities, especially in the field of primary education and health, upon request and in line with the stipulations with a legal decree for that transfer. So far, only a few municipalities (e.g. Maputo, Matola, Xai-Xai, Chokwe, Pemba, Beira) have received such functions and resources, and are producing very mixed results.

### 2.3 Main Events and Timeline

Table 5 gives the timeline of decentralisation in Mozambique.

Table 5: Decentralisation in Mozambique, 1994–2015: Timeline and events

Year	Devolution	Deconcentration	Fiscal decentralisation
1994–1998	<ul style="list-style-type: none"> <li>Municipal legislation for both urban and rural areas (Law 3/1994)</li> <li>Gradualism</li> <li>Constitutional amendment (1996)</li> <li>Municipal legislative package (1997)</li> <li>33 municipalities created (1997)</li> <li>Municipal elections, Renamo boycott (1998)</li> </ul>	<ul style="list-style-type: none"> <li>PPFD pilot in Nampula Province</li> </ul>	<ul style="list-style-type: none"> <li>Municipal finance law (1997)</li> <li>Intergovernmental municipal fiscal relations</li> <li>FCA and FIAA</li> </ul>
1999–2006	<ul style="list-style-type: none"> <li>Alternation of municipal government: five Renamo-run municipal governments (2003)</li> <li>Technical and administrative municipal services regulated (Decree 51/2004)</li> <li>Representative of central government in municipalities (Decree 65/2003)</li> </ul>	<ul style="list-style-type: none"> <li>LOLE and bylaws</li> <li>District government with services and with human resources management (6 &amp; 5/2006)</li> <li>CCLs formally established</li> <li>Participatory planning = PEDDs</li> <li>Provincial observatories and CSO platforms</li> </ul>	<ul style="list-style-type: none"> <li>District as budgetary unit – PESOD</li> <li>OIIL/FDD</li> </ul>
2007–2009	<ul style="list-style-type: none"> <li>Decree 33/2006 – transfer of functions and resources from OLE to municipalities</li> <li>Legislation on management of urban land</li> <li>10 new municipalities ‘Vilas’ (2008); Total: 43</li> <li>Municipal tutelage passes from central to provincial government (governor)</li> <li>3rd municipal elections – weakened opposition</li> </ul>	<ul style="list-style-type: none"> <li>Provincial parliaments established and elected (2009)</li> <li>TA decentralised to provincial level (1st instance)</li> </ul>	<ul style="list-style-type: none"> <li>Law 1/2008: Reform of municipal finance law with broadening of tax base (<i>Código Tributário Autárquico</i>)</li> <li>OLE’s sectoral funds (health, education, roads, water)</li> <li>FDD in all districts (Decree 90/2009)</li> </ul>

Year	Devolution	Deconcentration	Fiscal decentralisation
2010–2015	<ul style="list-style-type: none"> <li>• Municipalities with UGEA for procurement</li> <li>• SGM developed, tested and shelved</li> <li>• PEND</li> <li>• PERPU (for provincial capitals only)</li> <li>• 10 new municipalities (2013); Total: 53</li> <li>• 4th municipal elections 2013 – opposition reaffirms</li> </ul>	<ul style="list-style-type: none"> <li>• PNPF</li> <li>• <i>Sistema de Monitoria de Desenvolvimento Distrital</i> (SMoDD; District Development Monitoring System)</li> <li>• <i>Lei da Divisão Territorial</i></li> </ul>	<ul style="list-style-type: none"> <li>• District services as UGBs linked to e-SISTAFE</li> <li>• UGEAs in all districts</li> </ul>

Source: based on Macuane (2014)

Notes: PPF = *Programa de Planificação e Finanças Descentralizadas*/Programme of Decentralised Planning and Finance; LOLE = *Lei dos Órgãos Locais do Estado*/English translation; CCL = ???; PEDD = *Plano Estratégico de Desenvolvimento Distrital*/Strategic District Development Plan; OIIL = *Orçamento de Investimento de Iniciativa Local*/Budget for Local Investment Initiatives; FDD = *Fundo de Desenvolvimento Distrital*/District Development Fund; TA = *Tribunal Administrativo*/Administrative Tribunal; UGEA = *Unidade de Gestão Executiva de Aquisições*/Procurement Management Unit; SGM = *Sistema de Gestão Municipal*/Municipal Financial Management System; PERPU = *Programa Estratégico de Redução da Pobreza Urbana*/Strategic Urban Poverty Reduction Programme; UGB = *Unidade Gestora Beneficiária*/Beneficiary Management Unit.

## 2.4 Redefining the Scope: Further Legislation

In 2012, the Basic Law on the Organisation and Functioning of the Public Administration 7/2012 (*Lei de Base de Organização e Funcionamento da Administração Pública*, or LEBOFA) was enacted, unnoticed by the public. This piece of legislation has far-reaching implications. It not only defines the structure, principles and rules of the game governing the Mozambican public administration, with an emphasis on its top-down hierarchical structure (Article 16) and the ‘unity of action and directive powers’ vested in the central government (Article 8), but also redefines decentralisation by considerably widening and diluting its scope. This may be a result of the Portuguese understanding of the word *autarquia*, i.e. institutions that are managed or governed independently. A Portuguese speaker or lawyer may not understand why that terminology is attracting the following criticism. However, this needs to be explained and the point made that territorial ‘*autarquia*’ should not be mixed up with other types of ‘*autarquias*’.

As can be expected, deconcentration is defined in relation to the principle of delegation or transfer of powers, originating from higher levels of state authority to lower levels (Article 5). However, it is not considered a form of decentralisation.

In Section VIII (Article 67), decentralisation is understood as encompassing not only the municipalities (and excluding OLEs), but also other public entities. The ‘basket’ of decentralised units thus includes:



- *Autarquias Locais* (municipalities);
- The entities of the indirect state administration with administrative and financial autonomy, under government tutelage. These are enumerated in Article 74, e.g. the Central Bank, public institutes,<sup>55</sup> public foundations created by the Council of Ministers, public funds<sup>56</sup> and state-owned enterprises (SOEs);<sup>57</sup>
- Public institutions of higher education (e.g. *Universidade Eduardo Mondlane*, or UEM); and
- Public associations, e.g. the Association of War Veterans (*Associação dos Combatentes da Luta de Libertação Nacional*, or ACLLN).

This very wide understanding of decentralisation lumps municipalities together with a variety of ‘minor public entities’ (Article 6) created by the state, including profit-making ones and the central monetary authority. These are said to be ‘different’ or separate (Article 6) from the state and its administration, which maintains oversight and tutelage functions. From the point of view of the efficiency of local government and service delivery in the Mozambican public administrative system, this lumping together of municipalities with entities with an utterly different scope and mission is unfortunate. It not only cements an artificial division between *autarquia* and state, as if the latter would not have classic state functions of production and distribution of local goods and services at local level. It also prevents the necessary thinking of decentralisation as a process of service delivery in a system of subsidiarity, in which functions and resources are allocated to that level of state administration where the comparative advantage is highest in terms of cost efficiency, budget management and participation of citizens, and where the decentralised function is reassigned to the higher level only when the lower government level fails to produce the expected outcomes. In such a system, local competencies, authority and resources for service delivery may be defined and legally framed as exclusive, complementary to those of higher-level governments or competing with them. Finally, by excluding deconcentration, respectively delegation, as a form of decentralisation, and by mixing ‘*alhos com bugalhos*’ (‘garlic and acorns’), the law appears to be using confusing terminology, contrary to the established and widely used concepts.

From a decentralisation perspective, this piece of legislation is also problematic since it breathes the spirit of centralism and, even in its phrasing, emulates

55 E.g. the Water Regulating Council (*Conselho de Regulação do Abastecimento de Água*, or CRA).

56 Examples are the various sectoral development funds in the fields of housing and habitation (*Fundo de Fomento de Habitação*, or FFH), agriculture (*Fundo de Fomento Agrário*, or FFA), fisheries (*Fundo de Fomento Pesqueiro*, or FFP) or water (*Fundo de Investimento e Património de Água*, or FIPAG).

57 Such as the electricity utility EDM, or the national railways (*Caminhos de Ferro de Moçambique*, or CFM).

terminology which reminds the reader of the principle of ‘democratic centralism’ characteristic of Frelimo’s socialist phase and enshrined in the NODEAC Decree of 1977.<sup>58</sup> LEBOFA uses the terms ‘citizens’ and ‘those administered’ interchangeably. While it accepts modern notions of citizenship, citizens’ participation in decision-making and the role of citizens and CSOs in the supervision and monitoring of government actions on the one hand, and their rights of access to information on the other, it does so in a patriarchal and prescriptive way for individuals and groups of people. Political parties are explicitly excluded from being part of collegial bodies of the public administration tasked with participatory decision-making and monitoring of state activity (Article 14). This not only reflects a blind spot concerning Frelimo’s domination of the decision-making bodies in the public administration, but is directed against the opposition parties. It confirms their exclusion as political entities in public life from participatory processes of local government management at the local level of the OLEs.

## 2.5 Redrawing of Municipal Boundaries?

The recent creation of new districts, an additional 24 to the initial 128, some of which coincide with municipal boundaries, can also be interpreted as a move to limit the roles and powers of municipalities in favour of OLEs. As analysed above, the boundaries between districts and municipalities are not geographically demarcated and are hence contested. The research for this study and the interviews produced evidence that the present bifurcated model of decentralisation is highly conflictual. Representatives of municipal and district governments feel that the model led to an ‘amputation’ of their respective territory, and the district administrators lament the fiscal fragmentation due to devolution, in that the ‘commanding heights’ of the local economy and revenue base in the urban centre of the district (*vila sede*) was transferred to the newly created municipalities. Now the struggle appears to be focused on municipal boundaries. At the National Conference of District Administrators (9–11 December 2015) in Nacala, the minister of MAEFP, Carmelita Namashulua, encouraged the district administrators to denounce and curb alleged ‘abuses’ by municipal governments in general and those governed by the MDM opposition by making use of the legal powers invested in them. The minister is quoted as saying: ‘The municipality can never pose itself against the power of the state, which is in the hands of the administrator’.<sup>59</sup> She is also quoted as saying that the municipal boundaries were ‘out of date’ and would be readjusted according to a bill on territorial boundaries drawn up in her ministry to be submitted to the AR

58 For example, NODEAC of 1977 speaks of ‘unidade e concentração da direcção política’ (unity and concentration of political directive power), whereas LEBOFA (2012) uses the term ‘unidade de acção e poderes de direcção’ (unity of action and directive powers) in the hands of the central state authority.

59 <http://allafrica.com/stories/201512140158.html>.

for legislation. If approved, this bill, which at the time of writing had been tabled at the Council of Ministers, would result in limiting the territorial boundaries of several municipalities in favour of the district administration. Municipal revenue would be affected in two ways: firstly, the OSR base would be diminished (in favour of the district), and secondly, the FCA transfers would also be lessened since the size of municipal territory (together with population) is one of the criteria in the allocation formula of FCA. It remains to be seen what the political impact of the new law is likely to be, should it be enacted.

The redefinition of municipal boundaries together with earlier claims that municipalities were often unable to meet their service delivery obligations are part of a discourse aimed at reverting municipal powers and territory to the district. From a decentralisation process point of view, this represents a reversal of the principle of gradualism, or a regression, since the principle of gradualism as defined by law is that of progression in the number of municipalities and the local government functions and resources attributed to them.

## **2.6 Outcomes**

Regarding an assessment of the outcomes, the only 'official' and comprehensive attempt to gauge the impact of decentralisation (in the sense of municipalisation) and to identify its achievements, challenges and bottlenecks was a study financed by some 'decentralisation donors' (including the World Bank and the German Agency for International Cooperation [*Gesellschaft für Internationale Zusammenarbeit*, or GIZ]) in collaboration with the then Ministry of State Administration (*Ministério de Administração Estatal*, or MAE). The study was published a year after its completion (ANAMM & World Bank, 2009). It concludes that there has been a modest improvement in service delivery, but that there is still a long way to go with regards to improving service delivery, better management of key areas of municipal activity (financial and fiscal management) and urban planning and land-use management. It also suggests that the municipalities are underresourced and need to have more resources, using their own tax base and through transfers, if they want to make a qualitative leap forward.

More recent studies (Weimer, 2012b; Weimer & Reaud, 2014) by and large confirm these conclusions, but also argue that despite the decentralisation rhetoric and some progress made in service delivery, there has been a clear lack of political interest from the ruling coalition of the Frelimo elites in advancing with devolution. Instead, they prefer the deconcentration of management approach, which maintains, in the last instance, the clout of the central state over decision-making and resource allocation and distribution. This preference also implied a partial recentralisation. While maintaining a populist decentralisation rhetoric, the formal and informal rules of the game for decentralisation were altered in favour of a return to the more centralist

practice of government. The ruling party and its government's preference, particularly during the two mandates of President Guebuza, is for top-down administrative decentralisation, i.e. delegation and deconcentrated local governments subordinated to the central state, rather than devolution. In a way, this has closed the circle back to the mid-1990s, with the difference that constitutionally embedded municipalities have survived, albeit with reduced space to manoeuvre.

The deconcentration approach and its outcome was not properly assessed and evaluated in a comprehensive manner. Only the support projects for the distinct phases of the decentralised planning and financing programmes were partially subject to assessments and evaluations by various partners. The PNPFD was never finally evaluated by all supporting stakeholders together. The World Bank's final assessment was only completed at the end of 2015 (World Bank, 2015). It is therefore difficult to draw a sober conclusion on what legislation 8/2003 on OLE and the various support projects for decentralised district planning and financing and the money spent on them really produced in terms of relevance, value for money and impact, particularly regarding service delivery.

### **3 Devolution or Democratic Decentralisation? Municipalities**

#### **3.1 Introduction**

To date, 53 municipalities have been created in three phases (1997: 33; 2008: 10; 2013: 10). Another 121 district centres (*vila-sede*) could be turned into municipalities, under the assumption that all urban areas, i.e. cities, towns and district centres, are priorities for municipalisation, given their endowment with minimum conditions making them eligible. Working on that assumption, this means that so far less than one-third of the potential total of municipalities has been established.

Another type of *autarquia* is already covered by the legislation: the *povoações*. In constitutional terms, they correspond to the territorial area of the administrative centre (*sede*) of the administrative posts. This type of *autarquia* is unlikely to be created soon, for various reasons. On the one hand, their territorial and administrative space is not completely geographically defined (delimited) to date and there is at present little political inclination by central government to make their establishment a priority in the government's plans and programmes (see Part IV, Section 2).<sup>60</sup>

#### **3.2 Municipal Elections**

Multiparty local government elections for mayor and the municipal assembly have been held regularly since the first municipal election in 1998. The latter should

---

<sup>60</sup> Interview with senior official, MAEFP, Maputo, 20/10/2015.

have occurred in 1996, but was delayed three times given the reshaping of the institutional framework for decentralisation, with the formal intention to make the decentralisation legislation compatible with the constitution, but informally to limit the opposition's role in local government (see below). The Renamo opposition not only abstained from voting in favour of the municipal legislative package (*Pacote Autárquica*) in Parliament in 1997, but also boycotted the 1998 elections (as it did the 2013 municipal elections). The voter participation was extremely low in 1997 (15%), but increased thereafter: to 28% in 2004, 46% in 2008 and steadying in 2013 at the 2008 level (46%), i.e. below the 50% mark also observed in the national elections in 2009 and 2014. Alternation of municipal governments through elections was observed in several municipalities. In 2004, Renamo won the municipal elections in Nacala, Angoche, Ilha de Moçambique, Beira and Marromeu, and in 2008 MDM won in Beira and Quelimane, adding Nampula City and Gurue in the 2013 municipal elections, only after a second electoral round in the case of the latter.<sup>61</sup> These were necessary after major irregularities were discovered in favour of the dominant party.

It should also be noted that sitting mayors were changed during their mandates, not by elections but by what transpired to be 'informal instructions' from the headquarters of the dominant party, executed by the MAE. This was the case in the municipalities in Cuamba, Quelimane and Pemba, where the mayors declared that they were forced to retire from their functions for health reasons. In all three towns, by-elections were held in December 2011. For a more profound analysis of local government elections and 'municipal regime change', its causes and consequences, the reader is referred to Nuvunga (2012) and to Do Rosário (2012) for the illustrative case of double regime change in Ilha de Moçambique.

### 3.3 Functions and Resources

The legal framework is enshrined in the constitution under Title XIV *Poder Local* (local powers), in the basic law on autonomous local governments (2/1997) and in other specific legislation<sup>62</sup> and foresees a democratic model of separation of legislative from executive powers. The former is embodied by the Municipal Assembly (*Assembleia Municipal*, or AM), the latter by the directly elected mayor (*Presidente do Conselho Municipal*, or PCM) and the Municipal Council (*Conselho Municipal*, or CM), whose members, defined by law according to the size or category of the municipality, are chosen by the mayor. The AM's leading role is to discuss, suggest changes and approve the annual municipal action plan and budget (*Plano Annual*

61 [http://www.cip.org.mz/election2013/ndoc/133\\_Mozambique\\_Bulletin\\_54\\_local\\_elections\\_part-1-of-2.pdf](http://www.cip.org.mz/election2013/ndoc/133_Mozambique_Bulletin_54_local_elections_part-1-of-2.pdf).

62 Key pieces of legislation are Law 2/1997 (basic law), Law 7/1997 (on government tutelage) and Law 11/1997 (on municipal finances and patrimony). The latter was replaced by Law 1/2008, which was followed up with Regulation 63/2008 on the Municipal Tax Code because of a municipal tax reform in 2007/2008. For details on other pieces of relevant legislation and decrees by the Council of Ministers, see Chiziane (2008, 2011).

*de Actividades e Orçamento*, or PAO) and the annual municipal accounts (*Conta da Gerência*, or CdG), as well as elaborate and approve the municipal statutes, i.e. the rules and regulations which define the interaction between the municipal government and the citizen. The AM's regular sessions are public.

The functions attributed to municipalities by Law 2/1997 are in the following areas, in which they are supposed to satisfy their citizens' demand for public service provision (see also ANAMM, 2016):

- Socioeconomic development;
- Environment, basic sanitation, and quality of life;
- Public services in water supplies;
- (Primary) health;
- (Primary) education;
- Culture, leisure and sports;
- Municipal policing (public security);
- Urbanisation, construction, habitation.

However, *de facto*, not all responsibilities have been translated into devolved functions with the corresponding resources. So far, the municipalities execute the following key functions (ANAMM, 2016):

- Organisation and construction of markets;
- Licensing of local economic activities;
- Management of municipal land, including issuing land-use licences (DUAT and construction licences);
- Construction and maintenance of roads;
- Management of solid waste;
- Municipal policing;
- Management of cemeteries.

Only in exceptional cases are municipalities involved in the management of water supplies, urban electrification and primary health and education services. This topic is discussed further in the stakeholder analysis in Part III.

The municipalities finance the execution of their functions and annual PAOs through three main sources of finance: transfers from central government, OSR and donations/aid. In principle, they are also entitled to credit (from both suppliers and financial institutions), which must, however, be duly authorised by the Ministry of Finance. Few municipalities have benefited from credit financing, and not necessarily in a transparent way. Municipal finances are discussed in Section B, 5.5.

### 3.4 International Support

Concerning international support for municipalisation, various donor-financed support projects have been targeting selected municipalities since the second half of the 1990s (see Borowczak & Weimer, 2012). Despite an initial array of smaller projects, some without strategic orientation, targeting a few municipalities selected by the respective donor and with little alignment and coordination amongst them, the support has now been concentrated into the following main support programmes:

- *Programa de Cidades e Mudanças Climáticas* (PCMC),<sup>63</sup> financed by the World Bank (with minor participation from the government of Mozambique (MAEFP) with an amount of up to US\$120 million. Running from March 2012 to December 2017, it covers 19 municipalities in southern and central Mozambique (World Bank, 2012). For several reasons, the programme started only in 2014. Technical assistance is provided by a consultancy firm.<sup>64</sup>
- *Programa de Desenvolvimento Municipal* (PRODEM; Programme for Municipal Development), gradually supporting 23 municipalities in northern Mozambique, runs from 2015 to 2017, with an indicative financial envelope of US\$26 million pool-funded by the Danish International Development Agency (DANIDA), Irish AID, Swiss Development Cooperation (SDC) and Swedish International Development Agency (SIDA). An extension into a second phase, until the end of 2019, depends, among other factors, on whether the international partners accept the recommendation of an external mid-term evaluation to do so. The review was completed in early 2017. Project management and technical assistance are provided by an international consulting company.<sup>65</sup>
- The GIZ-financed programme Decentralisation for Rural Development (2014–2018), which provides technical assistance to selected municipal and district governments in the provinces of Manica, Sofala and Inhambane in the field of Good Financial Governance. It is associated with the *Programa de Desenvolvimento Integrado de Autarquias e as Zonas Rurais Circunjacentes* (Integrated Programme for the Development of Municipalities and Surrounding Areas, or PRODIA), financed by the financial aid branch of *Kreditanstalt für Wiederaufbau* (KfW), a German development cooperation. Implemented by a consulting company, it foresees the establishment of a Fund for Municipal Development, i.e. financing investments in infrastructure.
- The recently divulged World Bank Country Partnership Framework (CPF) for 2017–2021 foresees, under objective 10 (promoting inclusive urbanisation

63 Cities and Climate Change Programme (3CP).

64 Cowater, Canada.

65 Cowi Austral, Maputo/Copenhagen.

and decentralisation), activities which aim to ‘Contribut[e] to inclusive urbanization and decentralisation and enhanc[e] accountability of local governments through policy reform, institutional development and pro poor investment’ (IDA/IFC/MIGA, 2017, p. 32).

MAEFP’s idea is to have all these programmes eventually merge into one National Programme of Urbanisation and Municipalisation under its leadership. However, from the point of view of project managers involved in two of the above programmes, the ministry, and particularly the National Directorate of Municipal Development (*Direcção Nacional de Desenvolvimento Autarquico*, or DNDA), has not always demonstrated ownership and the necessary leadership qualities, let alone the technical capacity to coordinate and oversee such a programme.<sup>66</sup>

## 4 Deconcentration/Administrative Decentralisation: OLEs

### 4.1 Institutional Framework

The legal framework for the non-devolved forms of local administration and their deconcentrated units, i.e. the law on OLEs, was enacted in 2003 (Law 8/2003) with the bylaw on its regulation following in 2005 (Decree 11/2015). Together with Decree 6/2006, which structures the deconcentrated service provision, this led to the operationalisation of the OLE law, referred to as LOLE. It foresees ‘typical’ local government functions, e.g. the provision of educational and health services, and reorganises and bundles the former district directorates of the line ministries into four to five district services. These are:

- District Services of Economic Activities (*Serviços Distritais de Atividades Económicas*, or SDAE);<sup>67</sup>
- District Services of Planning and Infrastructure (*Serviços Distritais de Planificação e Infra-estruturas*, or SDPI);
- District Services for Education, Youth and Technology (*Serviços Distritais de Educação, Juventude e Tecnologia*);
- District Services for Health, Women and Social Welfare (*Serviços Distritais de Saúde, Mulheres e Acção Social*, or SDSMS);
- District services composed of up to two former district directorates to be defined according to specific local needs (e.g. fisheries in coastal districts), in consultation with the provincial government.

<sup>66</sup> Interview with members of management team in PRODEM and in PCMC, Maputo, 7/2/1916 and 10/2/1996.

<sup>67</sup> Thus, for example, the SDAE is a merger of the district directorates of agriculture and of commerce and industry.



These changes, however, are not of a structural nature covered by the constitution. Therefore, the coming to power of the Nyusi administration and its merger of ministries at central government level had repercussions for the district governments: the services needed reshuffling to reflect the new ministerial mergers, a task which took more than one year.<sup>68</sup>

The factors which triggered the operationalisation of deconcentration bylaws included the results of the 2003 municipal elections, which produced five municipal governments run by Renamo, as well as the coming to power of Emilio Guebuza, who in 2004 had won the presidential elections. Guebuza, a known sceptic of the devolution approach to decentralisation, a staunch supporter of centralist control, as well as critical of Renamo inroads into the political economy and the security apparatus following the 1992 GPA (Igreja, 2015), is said to have taken a 'personal interest' (Scott et al., 2011, p. 18) in pushing through the OLE legislation to strengthen control of central government over subnational administrative units.

The nine years between the establishment of the first municipalities and the OLE legislation becoming functional were seen, on the one hand, as a period of gaining experience with the new municipal forms of local government. The general expectation was that, based on that experience, more municipalities with increasing functions and resources would be established, according to the principle of gradualism. On the other, it took time to conceive of and design a piece of legislation which would be compatible both with the 2005 constitution and the municipal legislation of 1997. A further challenge was to reflect on the role of the provinces as intermediary institutions at the meso level of public administration, a process which was discontinued by including provincial governments in the LOLE, maintaining their constitutional role as subordinated OLE entities charged with executing central government decisions, as per Article 114 of the constitution. Articles 262, 263 and 264 define the OLEs' main function as representing the state at local level for administration and socioeconomic development of the respective territorial units as well as guaranteeing national integrity and unity.<sup>69</sup>

The passing of the OLE legislation, also covering provinces, strengthens the central government by deconcentrating or delegating management functions, on the one hand, but maintaining control and command over policy programming and execution, as well as the budget, on the other. Article 2 of Law 8/2003 alludes to the principle of a vertically integrated hierarchical structure, a point reinforced by the more recent Decree 21/2015 and by LEBOFA (7/2012).

---

68 Interview with Antonio Mapure, Permanent Secretary of the Cabo Delgado Provincial Government, 6/10/2015.

69 Also reflected in Article 2 of Law 8/2003.

## 4.2 Changes Observed

The impact on service delivery by OLEs remains limited given their lack of institutional autonomy, a noteworthy revenue base and investment funding. The central state and SOEs, via the delegated local agencies, remain responsible for the delivery of public services through the deconcentrated local government units of territorial administration. The degree of decentralisation of functions and resources thus remains limited. A public expenditure survey conducted by a World Bank team in 2014 concludes that despite the district governments having nominal functions of local service provision in the field of education, health, water and sanitation, solid waste management, agriculture and rural development, 'the services provided are at very basic levels or are almost non-existent, because districts are mostly in rural areas and due to lack of resources' (World Bank, 2014, p. 112). Most of the deconcentrated spending is used for personnel costs and the purchase of fuel, goods and services, i.e. the recurrent budget items. Our own analysis of health and water and sanitation in Part III, Section 2.4, and other studies, e.g. on agriculture and rural development (Forquilha, 2015; World Bank, 2014), confirm these conclusions. An exception is the education sector which receives the largest share of sectoral spending, reflecting deconcentration of the payroll to the district level. The World Bank study considers the delegation of educational personnel and payroll management to the district governments a major achievement of the deconcentration reform of 2003.

Other noteworthy achievements attributable to the LOLE are the systematic mainstreaming of participatory district strategic and operational development planning, i.e. the production of the PEDD and the annual PESOD. The consultation processes leading to the production of these basic planning documents are subject to the participation of the CCs at district and subdistrict levels, together with representatives of CSOs and the formally recognised Community Authorities, established by Decree 15/2000. CSO-driven Development Observatories and NGO fora at provincial level are involved in a monitoring function. The systematic introduction of PEDDs, PESODs and community consultation was complemented by capacity-building support (training manuals, etc.) provided by the PNPFD and its predecessor projects, as well as by defining the district as a budgetary unit in the budgetary management system (e-SISTAFE) and as the basis for (bottom-up) development planning. The introduction of land-use planning (PDUT) about the law on territorial management is another major achievement.

As studies show (e.g. Forquilha, 2009; Forquilha & Orre, 2012), the CCs are often influenced by both the officially recognised community leaders at district level and below, and by community representatives with close links to the ruling party and/or proxy organisations such as the Mozambican Women's Organisation (*Organização da Mulher Moçambicana*). Under the discourse of decentralisation, their participation

in local government activities and planning reflects, on the one hand, a struggle for enhancing political clientilism and elite capture. On the other hand, it is also seen as an attempt to articulate the genuine interests of rural communities, who have little voice in a centralist setting and a state that is distant and sometimes absent. The institutional involvement of political parties other than Frelimo in local politics and planning is not foreseen by LOLE.

In line with evaluations of the impact of the deconcentration reform (A Politécnica, 2010; Scott et al., 2011) we can conclude that despite its institutional and financial constraints, the deconcentration process contributed to some notable changes at district and subdistrict levels. A balance would take the following factors into consideration:

- The establishment of local government structures which are more integrated and cost efficient, but not necessarily aligned to local needs;
- The possibility of recruiting staff locally, which is happening in the case of provincial and district governments and particularly in the education sector;
- Decentralised management of FDD, sometimes referred to as OIIL (see Part II, Section B, 5.3), and of parts of the recurrent sectoral budgets (e.g. in education), as well as a limited part of capital expenditure, e.g. in the case of road construction and maintenance. The district administrators' collective claim to be given more responsibility for managing investment funds, e.g. for school buildings, road construction and maintenance,<sup>70</sup> shows that they are crucially aware of insufficient funding for service delivery;
- The strengthening of the strategic planning process at the local level through more participation of local communities in the preparation and approval of the district strategic plans and annual plans and budgets;
- The establishment of local CCs at the subprovincial levels, including in all 152-district government and lower level bodies (administrative posts and villages) and the involvement of CSOs in district planning;
- The institutionalisation of participatory mechanisms of monitoring and accountability in resource allocation, financial and human resources management and public service delivery. In this context, various initiatives merit special mention, including the CIP to track district government expenditure and the provincial CSO platforms and development observatories;
- An increase in the transfers of financial resources from central to district governments, at the cost of provinces (see Section B, 5.1).

---

<sup>70</sup> On the occasion of the National Meeting of Local Governments, held in Nacala in December 2015. See <http://opais.sapo.mz/index.php/politica/63-politica/38803-administradores-dos-distritos-querem-gestao-do-fundo-de-estradas-e-de-escolas.html>.

From the point of view of practitioners with experience in local administration and government, the major impediments to the better performance of subprovincial OLEs are fourfold.<sup>71</sup>

Firstly, the organisational structure of the district services is inadequate for effective service delivery. The main reasons are the merging of functional responsibilities in the district services while supervision is maintained by two different entities, as well as the fact that the management of financial resources is not done by the services themselves. Instead, it is done by the permanent secretary of the district government since, with few exceptions, those services do not have the status of a UGB in the e-SISTAFE and are not yet linked to an e-SISTAFE terminal. This causes high transaction costs.

Secondly, by design the district government reflects in its structure a sectoral, top-down approach and not an integrated, horizontal approach to local government, limiting its discretionary power in decision-making. This point was particularly stressed by the advisor to PNPFD in Nampula Province, who emphasised that the recent approval of the organisational structure of the provincial government (Decree 21/2015) will have the effect of further exacerbating this shortcoming.

Thirdly, as already mentioned, there is a severe shortage of funding for investment necessary for enhancing public services and the mobility of staff required for reaching out to remote areas.

Fourthly, the technical quality and institutional capacities of district governments and services, including administrators, are limited. This is a result of politically motivated nominations and frequent transfers of key staff, as well as insufficient technical competence, rigour and professionalism. Systematic work on district statistics and annual comprehensive analytical reports appears an exception.

One could add the limited, yet growing, capacity of districts in land-use planning, land management and cadastral services, a crucial point from the point of view of both local communities and national and foreign investors. Effective decentralisation of land-use management instruments is limited to some districts, municipalities and provincial geographical and cadastral services (*Serviços Provinciais de Geografia e Cadastro*, or SPGC) in northern and central provinces (Cabo Delgado, Nampula, Niassa and Zambezia) which benefited from technical assistance provided by the US-financed Millennium Challenge Account (MCA) up to 2013.

### **4.3 International Support**

International support for deconcentration and capacity building for district governments was provided through the PNPFD<sup>72</sup> from 2010 to 2015. This national

---

<sup>71</sup> Interviews with former Minister of State Administration, 29/09/2015, and with senior official, Provincial Directorate for Planning and Finance (*Direcção Provincial de Plano e Finanças*, or DPPF), Provincial Government of Nampula, 13/10/2015.

<sup>72</sup> See Appendix for details.

programme was based on previous experiences gained in three regional PPFs, using a well-designed and thoroughly tested approach which was piloted by the United Nations Capital Development Fund in Nampula Province, supported by SDC and the Embassy of the Kingdom of The Netherlands (EKN).<sup>73</sup> The PNPFD was financed by SDC, Ireland and the World Bank (all common-fund donors), as well as the GIZ and United Nations Development Programme (UNDP) as non-common pool partners with an estimated US\$50.5 million. Executed by a programme management unit hosted in the Ministry of Planning and Development (*Ministério de Planificação e Desenvolvimento*, or MPD), the initial national driving forces of the PPF and the PNPFD were the national directors of Budget and of Local Administration in the then Ministry of Finance (MF) and the MAE, respectively.<sup>74</sup>

Based on interviews,<sup>75</sup> the mid-term evaluation of 2013 (Metier, 2013) and the final evaluation report produced by the World Bank (2015), the results and impact of PNPFD can be summarised as follows:

- The overall attainment of the planned results was mixed, or in the words of the World Bank report, ‘moderately satisfactory’.
- The programme’s strongest points were identified as the capacity-building support to mainstream district planning, namely the PEDD, PESOD and PDUT, leading to best practice; the high degree of PESOD budget execution and the introduction and mainstreaming of the SMODD, focusing on the degree of implementation of the PEDD and PESOD targets. Other achievements were the local execution of public work contracts managed by district UGEAs and approved by the TA, i.e. advances in external control of spending, as well as the management of knowledge and documentation and dissemination of information.
- The weak points are the less than effectively structured organisation of CCs and their deficient interaction with the district government in matters of planning, monitoring and information sharing; the insufficient link of district budgetary management to e-SISTAFE; weak internal control and less than targeted collection of local revenue; and the untimely submission of annual financial accounts to the TA.
- While the World Bank evaluation considers government ownership as a critical factor accounting for the moderate success, one of the interviewees was highly critical of the absence of leadership and support by the senior management of

---

73 For an analysis of these and other donor-funded decentralisation support programmes, see Borowczak and Weimer (2012).

74 In 2015, MPD and MF were merged to form the MEF.

75 Interviews with former technical advisor to PNPFD, UNDP, 30/09/2015; senior official, DPPP, Provincial Government of Nampula, 13/10/2015; and senior official, *Direção Nacional do Plano e Orçamento*, MEF, 08/12/2015.

the ministry to the PNPFD in phases where such support would have been necessary, e.g. concerning a national system which links, through e-SISTAFE, the planning process to budgeting. Establishing that link is one of the present priorities of the MEF.

Of concern is the missing link between the planning, budgeting and service delivery, which PNPFD did not manage to establish. This is attributed, on the one hand, to the missing link between planning and budgeting, and between the PESOD elaborated at local level and the planning and budgeting process in the framework of the Social and Economic Plan (*Plano Económico Social*, or PES) and the annual State Budget (*Orçamento do Estado*, or OE), elaborated and decided upon by central government, on the other. The PESODs, collected and reviewed by the provincial government and transmitted to central government, are not necessarily reflected in the PES and OE; nor are the budgets for the districts allocated through e-SISTAFE.

Another factor which explains the lack of service delivery capacity is the fact that rural development, cross-sectoral and service delivery-oriented by nature, was institutionally not part of PNPFD, although initially it was part, as a national directorate, of the same institution (MPD). It had migrated there from the Ministry of Agriculture, only to be transferred in 2010 from MPD to MAE and, in 2015, from there to the Ministry of Land, Environment and Rural Development (*Ministério da Terra, Ambiente e Desenvolvimento Rural*, or MITADER). This institutional migration shows that cross-sectoral thinking, action and discussion on rural areas, where most Mozambicans live, has no apparent institutional home. Institutional instability also means programme, budget and service instability.

Finally, one of the shortcomings which explains the modest impact of PNPFD on service delivery is related to the change in the nature of the FDD. Originally designed as part of the PPF approach to finance public infrastructure as per the priorities in the PEDD and PESOD, in 2006 it was given a completely different logic by President Guebuza, who transformed it into a fund for individual livelihood support on a project and credit basis, despite the fact that all management instructions for the original FDD had already been shared with the district governments by MF and MPD. Because of this, the whole PNPFD completely lacked the underlying rationale of its original design aimed at providing services and contributing to local employment and income generation (see section on FDD below). From the critical perspective of one of the 'founding fathers' of the PPF approach, the PNPFD was therefore a failure and did not do much to either promote decentralisation or local economic development.<sup>76</sup>

---

76 Interview with senior official, MEF, Maputo, 02/11/2015.

A successor programme to PNPFD is desirable, from the point of view of officials in both MEF and MAEFP. The deputy national director for Planning and Budget in MEF stresses the need to address three issues in any successor programme.<sup>77</sup> The first is the missing link between PESOD and e-SISTAFE, and between planning and budgeting, across the hierarchy of public administration, i.e. from local to central level. This implies, in practice, a fully-fledged, integrated decentralisation of the PFM system in planning, budgeting, budget execution and its consolidation. Secondly, there is a need to consider the introduction of, and emphasis on, a performance-based component, to encourage districts to improve on their fiscal management and accountability practice. Finally, a territorial perspective of service delivery entails both municipalities and district governments as key actors, with both meriting support for coordinated planning and investment. This last issue is pertinent, since both districts and municipalities compete for resources and service delivery functions, exacerbating a conflictual situation between the two. This may constitute a major challenge – or opportunity – to redesign the Mozambican system of local government. It would also reduce the existing conflict potential and competition between district and municipal governments which is a direct result of, and intrinsic to, the chosen bifurcated approach to decentralisation, in which the original unitary approach to territorial (district) government foreseen by Law 3/1994 was abandoned for political reasons.

One may add to this agenda the argument in favour of increased revenue resources for district governments, as argued, for example, by the World Bank's public expenditure analysis (World Bank, 2014) and claimed by district administrators, and/or a return to the original logic of the FDD. Considering this, we now turn to the rules of the game pertaining to fiscal decentralisation.

## **5 Fiscal Decentralisation**

### **5.1 Introduction**

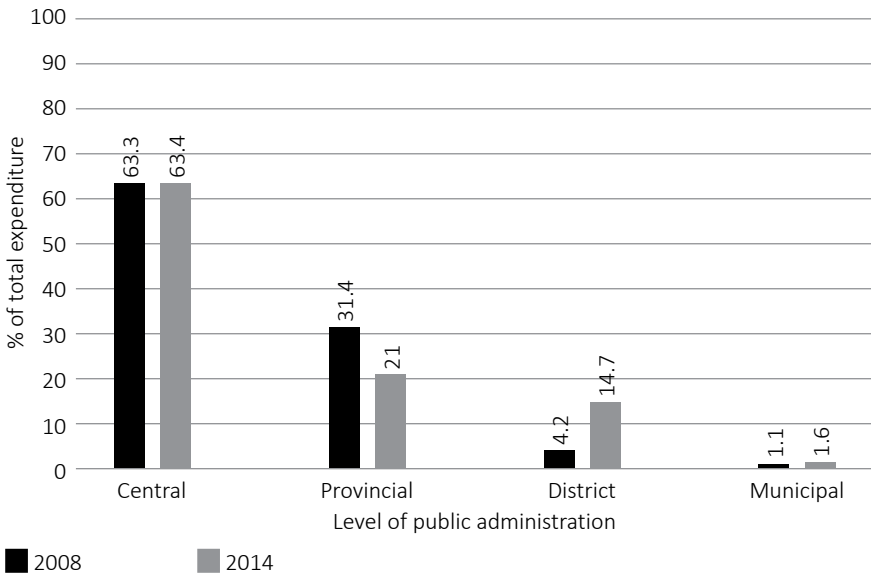
Decentralisation of functions to lower levels of government without the decentralisation of resources makes little sense, despite the observation that this often happens. For reasons of history and the nature of their rent-seeking political economy and clientelist systems, many African governments are inclined to decentralise certain functions of government and service delivery, but to maintain control of the available fiscal resources. Mozambique is no exception.

Figure 4 shows that decentralisation of budget resources (recurrent and capital expenditure) over the past seven years only happened in a significant way from provincial to district level, without changing the resources allocated to the central

---

<sup>77</sup> Interview with senior official, National Directorate of Planning and Budget, Maputo, 08/12/2015.

Figure 4: Total expenditure by level of public administration, 2008 and 2014 (%)



Source: REO, 2008, 2014

government and only allowing for an incremental change regarding municipalities. During the period selected for comparison, the provincial governments lost 10% of their 2008 budget, whereas the districts gained 10%.

Two conceptually different components, which often occur in a complementary combination in an intergovernmental fiscal system, may be distinguished as being part of fiscal decentralisation. The first is the decentralisation of part of the national tax base to the lower levels of government. It gives the local authority the task to organise itself to be able to make use of it by administrating, collecting, budgeting and accounting for their OSR. The latter usually consists of two types of revenue: fiscal revenue, such as taxes on vehicles, property, etc. and non-fiscal revenue, such as licence and user fees.<sup>78</sup>

The intergovernmental fiscal transfers from central to local budgets represent the second component in the intergovernmental fiscal system. In it, the central government periodically transfers a certain determined percentage of its total budget to lower levels of government, based on a legislated formula for allocation and distribution. This may be done in the form of block grants or general-purpose grants, or as conditioned grants, i.e. transfers for a determined use and purpose (e.g. road construction, building schools, school feeding programmes), or both.

<sup>78</sup> For an excellent overview of Mozambique's tax system, see ACIS (2011).



In the case of Mozambique, an intergovernmental fiscal system only exists in relation to the municipalities, based on legislation proper, i.e. a legal entitlement, and a revenue sharing formula or a legally enshrined percentage. This is part of the municipal finance Law 11/1997 and its subsequent reform in 2008, which produced Law 1/2008 and the municipal revenue code (*Código Tributário Autárquico*) enshrined in Decree 63/2008. It contains the above-mentioned components typical for such a system (MAP Consultoria, 2017; Nguenha, Raich & Weimer, 2012).

It should be noted that the data for assessing the municipal intergovernmental fiscal system are scattered and not always coherent. The municipal budgets and their annual accounts (*Conta de Gerência*, or CDG) are not systematically published or made available on municipal or national websites in the rare cases where they exist. The MEF's data on FCA and FIIA transferred to municipalities appear to not be systematically harmonized with that reflected in the municipal budget documents. This leads to inaccuracies in the databases (MAP Consultoria, 2017). Further, not all transfers to municipalities or other forms of financing are fully reflected in the municipal budgets and accounts. A case in point are the transfers to the newly created municipalities (in 2013), which received funding from central government for basic municipal infrastructure and equipment (offices, etc.). These are systematically reflected in the national budget and traceable through e-SISTAFE, but much less systematically so in the beneficiaries' budgets. The same is true for contributions in kind (e.g. buses for municipal transport) acquired via central government and 'donated' to certain municipalities, as well as for credits authorised by central government for certain municipalities. In the same vein, it is not easy to know exactly the formula according to which the 'decentralised part' of the Road Fund (*Fundo de Estradas*, or FE) is distributed among municipalities and what amounts are budgeted. This extra support, often granted informally to municipalities, and the allocation criteria are not systematically documented and made publicly available at either central government level or in the municipal budgets. We need therefore to assume that the data used for the analysis of municipal finances in Section 5.5 below is incomplete and does not necessarily show the real and full picture of fiscal decentralisation to municipalities.

Concerning the relative weight of transfers and investments made by actors (autonomous funds such as FE, *Administração de Infraestruturas de Água e Saneamento* (Administration of Water and Sanitation Infrastructures, or AIAS); *Fundo de Desenvolvimento dos Transportes e Comunicações* (Transport and Communication Development Fund, or FTC) who do not use the intergovernmental transfer system, this is estimated to have averaged around a minimum of 30% of all transfers to all municipalities in the period 2011 to 2014 (MAP Consultoria, 2017). This recent study thus contributes to a more comprehensive assessment of the intergovernmental transfer system. Its main conclusions are reflected in Section 5.5.

## 5.2 OLE Fiscal Resources (1): Focus on Districts

The OLEs are not part of an intergovernmental fiscal system in the sense alluded to above.<sup>79</sup> They receive their budgetary resources from central government as annual *dotações* (allocations) defined by the MEF, which are part of the state budget (*Orçamento do Estado*, or OE) and approved by the AR, not by a local assembly, as is the case in the municipalities. There is no legal entitlement, since the OLEs are organically part of the direct administration under the central government hierarchy (LEBOFA, Section VII). The MEF uses a formula to determine the annual allocations. In the case of the provinces the weighted allocation criteria are population size (70%) and poverty as measured by a multidimensional indicator (30%) (see Rosenfeld, 2012).<sup>80</sup> In the case of calculating the FDD per district, the criteria are population (30%), size of territory (20%), own revenue collection (15%) and poverty levels (30%) (World Bank, 2014, p. 111).

As noted in the previous section, the budgetary priorities defined in the local PESOD are not necessarily reflected in the budget envelope available to districts for financing recurrent expenditure. The OLE budgets are delivered through the e-SISTAFE to the OLEs, which receive an annual initial transfer and budgetary ‘reinforcement’ when necessary or available. This online system linked to the Unified Treasury Account (*Conta Único do Tesouro*) permits the tracking of revenue transfers and expenditure at local level by central government according to various classifiers (e.g. economic, functional, by funding source, etc., including the territorial one for the OLEs). The OLEs have hardly any revenue base of their own, as can be seen from Table 6.

Table 6: Structure of own revenues for provinces and districts, 2012

Subnational level and type of revenue	Million MT	%
<b>Province</b>		
Provincial own-revenue collection ( <i>receita própria</i> )	402	1.4
Provincial shared-revenue collection ( <i>receitas consignadas</i> )	301	1.1
Provincial transfers ( <i>dotações</i> )	27 792	97.5
<b>Total</b>	<b>28 494</b>	<b>100.0</b>
<b>District</b>		
District own-revenue collection ( <i>receita própria</i> )	90	0.5
District transfers ( <i>dotações</i> )	20 117	99.6
<b>Total</b>	<b>20 208</b>	<b>100.0</b>

Source: World Bank, 2014, p. 116) modified by authors

<sup>79</sup> This opinion differs from that of the authors of the World Bank expenditure review.

<sup>80</sup> According to the World Bank (2014, p. 112), ‘the dimensions used to calculate multi-dimensional poverty are: consumption (30%), potable water (15%), sanitation (15%), health (20%) and education (20%)’.

The OLEs own-source revenues consist of the National Reconstruction Tax (*Imposto de Reconstrução Nacional*, or IRN) dating back to 1987 (Decree 4/1987), of fees for licences (e.g. for bicycles, timber felling, charcoal production, trading) as well as conditioned revenue (e.g. user fees charged to patients at hospitals). Theoretically, the IRN, a simple poll or head tax on the economically active part of the population,<sup>81</sup> is to be collected annually at district level and shared between the district and the provinces. But in practice, the IRN is not only outdated, but also hardly collected. It costs more to collect than it yields in revenue and it is quite unpopular since it reminds citizens of the forced head taxation during colonial times. Its contribution to national revenue is negligible and the ATM is considering discontinuing IRN collection altogether.<sup>82</sup>

The major part of other, non-fiscal sources of revenue collected, including user and licence fees, needs to be transferred to the national tax authority, since the OLEs have no fiscal autonomy.

There is a clear need to increase revenue for district governments to safeguard their key function of basic service provision. This costs excessive amounts given the large territories they must cover, with the cost structure across the district (and provinces) hardly known and not explicitly taken into consideration in the central government's resource allocations. There are various hypothetical ways of increasing district revenue. The World Bank (2014) suggests two modalities. The first is an increased effort by the district administration to collect and administer licence and user fees. In our opinion, these should be retained at district level and not transferred to provincial and central government, as is presently the case. The second proposal is to extend the municipal tax reform of 2008 to districts, i.e. to allow them to have their own tax base. The World Bank study is quite clear: 'by implementing a formula-based approach, provinces and districts would potentially have greater autonomy to deliver public services in line with local needs' (World Bank, 2014, p. 123). From a legal point, this would require giving them that financial autonomy – an idea that was contained in the initial decentralisation legislation of Law 3/1994. From a technical and institutional point of view, the districts would have to invest in minimum revenue administration of their own, or would have to forge a cooperative relationship with the ATM, who would oversee the technical aspects of tax administration on behalf of the districts.

### 5.3 The District Development Fund

A major source of finance for the districts is the *Fundo de Desenvolvimento Distrital* (FDD). As shown in the sections above, a district financing facility was established

81 Its municipal equivalent is the *Imposto Pessoal Autárquico* (IPA).

82 [http://macua.blogs.com/moambique\\_para\\_todos/2009/12/imposto-de-reconstru%C3%A7%C3%A3o-em-vias-de-elimina%C3%A7%C3%A3o.html](http://macua.blogs.com/moambique_para_todos/2009/12/imposto-de-reconstru%C3%A7%C3%A3o-em-vias-de-elimina%C3%A7%C3%A3o.html).

in 2006 in the form of OIIL, with an initial across-the-board annual endowment of 7 million MT for each of the districts. This followed the enactment of LOLE, the recognition of the district as central for bottom-up planning and as a budgetary unit, as well as the personal political interest of President Guebuza in promoting a deconcentrated form of local government. It was renamed FDD in 2009 by Decree 90/2009, in which the allocation criteria were also defined. The FDD funding is also transferred via e-SISTAFE. The funds are to be used for poverty reduction through private livelihood activities in the form of projects to be submitted to, and approved by, the district government upon the recommendation of an evaluation commission (*Comissão Técnica de Avaliação de Projectos*, or CTAP) and with members of the district CC having a say in the decision-making process. The disbursements are made by the district administration based on credit, which, once repaid, would feed the FDD, turning it into a rotational funding facility. The interest rates vary between 3% and 7% per month or 36–84% per year (MAE, 2011).

The municipal equivalent to the FDD is PERPU, which, following the same *modus operandi*, targets urban poverty in the provincial capitals. In fiscal terminology, this represents a conditioned grant to the municipality which then transforms it into a private loan to the beneficiary with an approved project. Over the past nine years, up to US\$450 million was spent on the FDD, US\$200 million between 2006 and 2011, equivalent to around 2% of the budget (Sande, 2011).

The establishment of the FDD is an achievement attributable to the deconcentration process, according to some interviewees, but other observers consider it a failure. The former see merit in the fact that the FDD provided the district with an important source of revenue. They recognise that the FDD produced some tangible effects on poverty reduction and employment creation (Metier, 2009), despite some of the shortcomings (discussed below). There is the understanding that these weaknesses can be eliminated over time and the FDD can, and should, in principle be maintained and improved.

The more critical voices provide three arguments.<sup>83</sup> Firstly, the original purpose of the FDD to provide funding for local infrastructure development and public goods and services emanating from the PEDD and PESOD was altered. As shown above, the public investments and works projects financed by FDD were to be preferentially executed by local contractors, with the desired positive effect on local employment and income generation to reduce poverty. However, since President Guebuza's decision, announced during a PAI in Gaza Province in 2006, this logic was substituted by one aimed at complementing or 'reinforcing' private livelihood initiatives and projects, based on a revolving credit administered by the district government. This not only virtually

---

83 Interviews with senior official, MEF, Maputo, 02/11/2015, and John Barnes, former senior advisor, PNPFD, Maputo, 30/09/2015.

turned the district administration into a local development bank – to the dismay of national private finance institutions for rural agriculture-based activities such as GAPI (a rural development finance facility) – but also led to numerous projects supported by FDD which were not economically viable and/or were of a consumptive rather than investment nature. Thus, from an investment perspective, precious resources were wasted. Diverse studies have shown that many FDD beneficiaries often were directly or indirectly linked to the ruling party (Forquilha & Orre, 2012; Sande, 2011) and that the rate of repayment of the credit was very low, below 10% of the credit volume in both the FDD (Matusse & Pimentel, 2013; Metier, 2009) and the PERPU. This means that the underlying assumption of a revolving credit system was, and remains, flawed. To increase the repayment rate, some district governments resorted to threatening the use of coercive measures to assure debt repayments by beneficiaries, with negligible effect.

Based on the more critical views on the FDD, we concur with Forquilha and Orre (2012) that this facility was turned into a politically driven public financing mechanism for enhancing Frelimo's clientelist local networks and for the 'buying of votes in elections'.<sup>84</sup> In a comparative perspective, the FDD, its purpose and *modus operandi* more resemble a politically driven discretionary rural constituency and livelihood fund aimed at keeping ruling parties in power, a modality practised in some countries in Asia and the Pacific and supported by China and Taiwan,<sup>85</sup> rather than a deconcentrated investment and services-funding facility for district governments, as the term suggests.

The future of the FDD appears uncertain for some of the reasons addressed above, but also for the fiscal crises the Nyusi government faces in the years to come. From an analytical perspective, the FDD only marginally contributed to its objective of poverty reduction and failed in sustaining the rotational character of the credit scheme, given the low repayment rates. It also did not entirely produce the expected political effects of influencing rural voting patterns in favour of Frelimo, at least in those provinces in which Renamo won without a constituency funding facility.

Most interviewees, including senior functionaries in MAEFP and MEF, were sceptical regarding the continuation of the FDD in its present form. Feasible alternative scenarios include a return to the original FDD purpose of financing district infrastructure and public works in line with PEDD and PESOD priorities,<sup>86</sup> and reallocating the FDD finances, or parts thereof, for rural development (under MITADER) or for increasing the volume of the decentralised Road Fund. This indicates a converging of opinion towards recognition of the need to increase public

---

84 Interview with former senior official, MAE, Maputo, 12/10/2015.

85 For example, in the case of Solomon Islands, the Rural Constituency Livelihood Fund (RCLF) financial endowment for financing local constituencies, financed by the Republic of China (ROC), i.e. Taiwan, is much larger than the budgetary transfers from central government to local governments. See Weimer (2013).

86 A point made also at the Grande Fórum MOZEF0 held in December 2015. See <http://opais.sapo.mz/index.php/economia/38-economia/38683-construcao-de-infraestruturas-devia-ter-um-programa-semlelhante-ao-7-milhoes.html>.

resources to districts for producing public investments and goods, the present fiscal constraints permitting.

#### **5.4 OLE Fiscal Resources (2): Focus on Provinces**

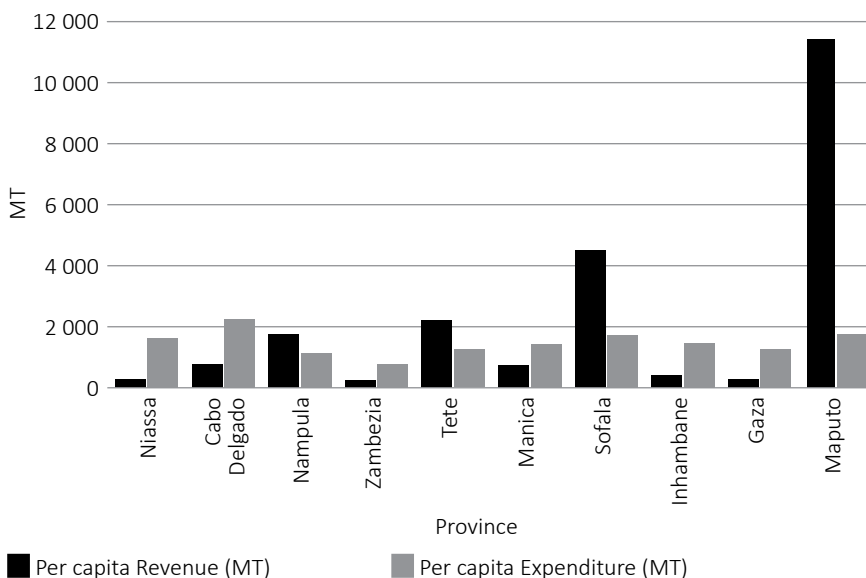
In this section, we analyse the geographical distribution of revenue generation and expenditure by province. The regional disparities and unequal distribution of resources among provinces have been of concern to government and Parliament. This also provides a background to better understand the politics in the initiative by the opposition parties to claim more autonomy for some provinces (see Section C, 2.3).

We define total expenditure as domestic and externally financed annual expenditure for public investment and recurrent expenditure (salaries and services). The term 'overall revenue' refers to all fiscal revenue generated by the ATM (all national direct and indirect taxes, trade levies and fees), except municipal OSR. In what follows, per capita expenditure and revenue per province is analysed, with the assumption of an annual population growth of 2.4% in line with INE statistics (INE, 2015).

The following analysis of revenue by province suffers from the non-availability of disaggregated revenue data by source of revenue per province. It was not possible to obtain these data from the ATM. If it had been available, it would have enabled the authors to exclude the port-based trade-related revenues (customs, export levies, etc.) which distort the overall picture of revenue generation given that these sources are location specific, i.e. are generated in a few major ports and entry/exit points for merchandise and services. These locations are Maputo, Matola, Beira and Nacala. It also would have allowed more accurate demonstration of the geographical origin of the revenues arising from mineral extraction. Thus, the following considerations and figures are illustrations rather than an exhaustive analysis. Nevertheless, they show the inequalities in the per capita values between provinces regarding both revenue and expenditure. Figure 5 gives values for the last year for which data are available (2014).

Figure 5 shows that Maputo Province has the highest per capita revenue. If Maputo City had been included, its per capita revenue would be even higher, above 74 000 MT. The lowest per capita values are registered for Niassa, Zambezia, Inhambane and Gaza provinces. The prominence of Maputo is explained by the fact that the cities of Maputo and Matola are where central government resides and the ATM has a strong presence, but also where most of the large enterprises operating in Mozambique's provinces and districts, especially megaprojects, are registered and pay taxes. As shown above, this is a structural feature of Mozambique's political and economic geography. These cities are also the major ports of the country and entry points for imported goods, particularly from South Africa. Sofala, too, has high per capita revenue collection, given Beira Port and the Beira Corridor (important for trade with the landlocked neighbouring countries).

Figure 5: Per capita expenditure and per capita revenue by province, 2014 (MT)\*



\* Excluding Maputo City

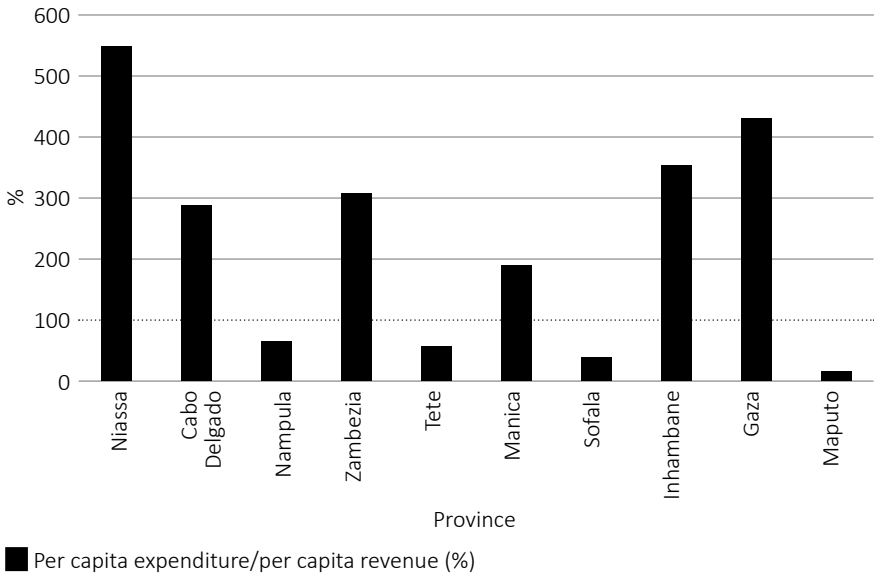
Source: ATM and MEF

Zambezia, Niassa and Gaza have the lowest per capita revenue, of less than 300 MT. The concentration of revenue collection in the capital Maputo and Maputo Province is a reason for reflecting on incentives to decentralise the registration of enterprises to those provinces where they operate, and create the public administrative capacity for this and their taxation, or for ‘de-Maputising’ the Mozambican public administration. This is also in the interest of the private sector, which at least partially supports more autonomous provinces. As it stands now, Maputo is the centre where most fiscal benefits of economic activity throughout the country accrue. In this, it has replaced Lisbon as the hub of income accrual generated in the then colony of Mozambique.

Analysing the pattern of per capital spending by province, we can discern the distribution patterns of the budget and provincial inequalities. Per capita expenditure in 2014 was highest in Cabo Delgado, Maputo and Niassa, and lowest in Zambezia and Nampula.

In comparing per capita revenue with per capita expenditure, we can illustrate the net transfer of fiscal resources per province. In Figure 6, the percentage of per capita expenditure over per capita revenue is given for all provinces. A rate of 100% means that the revenue generated in this province contributes in equivalent terms to the expenditure allocated to this province. A value above 100% implies that the

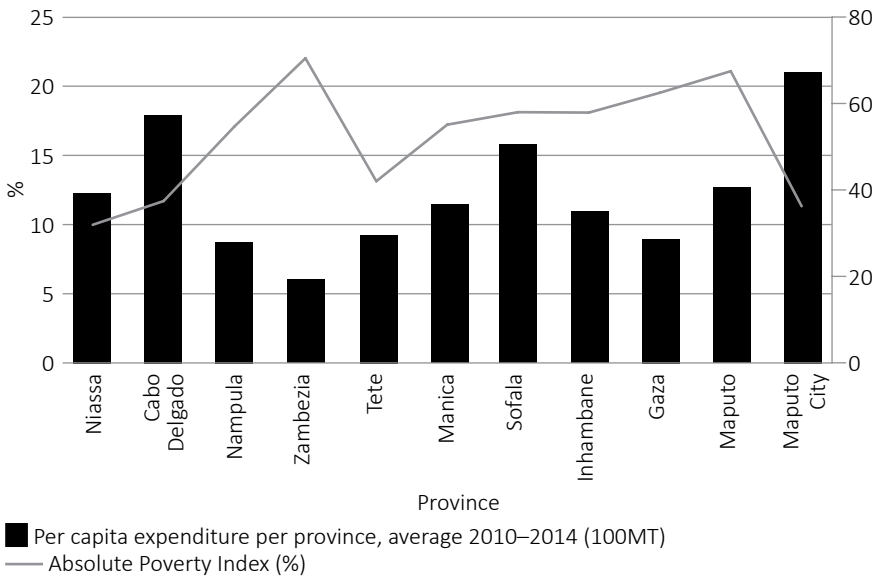
Figure 6: Ratio per capita expenditure/per capita revenue by province (averages 2010–2014) (%)\*



Source: ATM, Annual State Accounts (*Conta Geral do Estado*, or CGE)

\* Excluding Maputo City

Figure 7: Per capita expenditure and poverty levels by province



Source : CGE, MPD



allocation of expenditure (per capita) to a province is above the revenue generated by that province, whereas a value below 100% means that the province's revenue generation is above the (per capita) expenditure allocated to it. In the first case, the province is a net receiver of resources, while in the second case it is a net financier of expenditure.

Figure 6 shows that the provinces of Niassa, Gaza, Inhambane, Zambezia, Cabo Delgado and Manica are net fiscal beneficiaries, whereas Nampula, Tete, Sofala and Maputo (Province) are net losers.

If we include the absolute poverty line from the 2007 survey in our analysis, we see that the distribution of expenditure per capita does not reflect the poverty patterns, a conclusion also drawn in the World Bank expenditure survey of 2014. Figure 7 shows a stark contrast between Zambezia, the province with the highest poverty levels and lowest per capita expenditure, and Maputo City and Cabo Delgado Province with the inverse picture.

In the authors' opinion, this pattern, constant during the past years, reflects the consequences of the incremental annual allocation of provincial budgets, but not the distributional functions of the budget process and structural inequality. In the incremental budgeting approach, the previous (structural) distortions are carried forward and cost differences between provinces in the production of public services and the running of provincial governments are not fully considered. A solution could be a 'zero budgeting approach' or an 'extraordinary one-off budget exercise' (McCoy & Cunamizana, 2008, p. 21) linked to a costing exercise, which would allow readjustment of the distribution pattern for resource allocation.

Given the stark differences between provinces in resource availability, on the one hand, and between endowments of natural resources (mineral, energy, agricultural, water, etc.) on the other, a case can also be made for a formula-based interprovincial compensation fund. Contemporary African history provides many chapters which show that without equilibration mechanisms between provinces with an abundance of resource wealth (e.g. Cabo Delgado in the case of Mozambique) and less well-endowed provinces (e.g. Gaza), the risk of regional tensions, civil war and even separatism is real and high. It is not by coincidence that the Renamo bill aiming at the establishment of autonomous provinces contains the proposal that 50% of the revenue generated by extractive industries in a province should remain in that province. And senior Frelimo politicians in Cabo Delgado Province, acutely aware of the potential 'political curse' of the province's gas wealth in terms of increased conflict and struggles over access to a share of it, have studied cases of conflicts leading to separatist tendencies, to draw lessons from those experiences for domestic safeguards

against conflicts around the distribution of benefits and the delimitation of boundaries emanating from resource extraction.<sup>87</sup>

Such an interprovincial compensation fund facility would in our opinion need to be part of a coherent, integrated, intergovernmental fiscal system covering all subnational units of the Mozambican public administration, i.e. provinces, districts and municipalities.

## 5.5 Municipal Finances

### 5.5.1 Allocation Criteria and Trends

As shown in the introduction to this section, municipal finances benefit from a mature intergovernmental fiscal system which combines transfers with an own tax base. The picture, however, is incomplete since there are other types of transfers and investments into public services at municipal level that are not systematically covered by municipal financial statistics (MAP Consultoria, 2017).

The transfers have four subcomponents, namely the annual General-Purpose Grant (GPG, or FCA) which is limited by law to 1.5% of the national fiscal revenue, the FIIA, the Urban Poverty Reduction Fund (for 10 provincial capitals and Maputo City only) and conditioned grants, such as a part of the National Road Fund.

Table 7 summarises the main elements of the grant system and the criteria for their calculation.

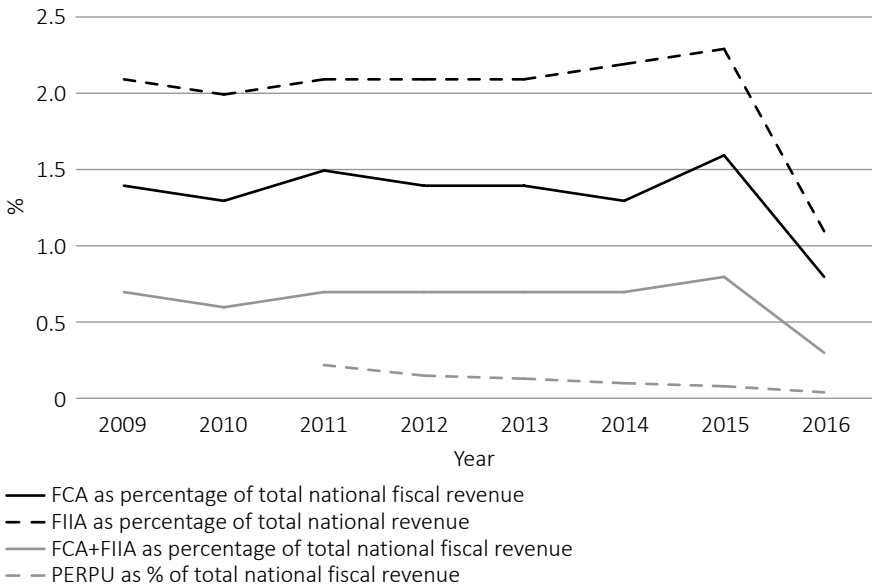
<sup>87</sup> Interview with member (Frelimo) of the Provincial Assembly of Cabo Delgado, 06/10/2015. The interviewee was part of a delegation that visited Angola, Nigeria and Tanzania/Zanzibar on a study visit.

Table 7: Criteria for resource allocation to municipalities

Source of financing	Criteria and weighting for resource allocation
Municipal Compensation Fund (FCA)	Population (75%) and size of territory (25%)
Investment Fund for Local Initiatives (FIIA)	No formula, but used in analogy to FCA
Strategic Programme for the Reduction of Urban Poverty (PERPU) for 11 municipalities	Fixed aspect: 55% of total resources are distributed equally. Variable aspect: size of urban territory (10%), population (40%), urban food poverty (40%) and collection of local revenue (10%)
Road Fund	Density of the road network in each municipality and typology of each municipality, e.g. city or village + discretionary criteria
Other sector grants	Discretionary and <i>ad hoc</i> basis

Source: World Bank (2014), MAP Consultoria (2017)

Figure 8: Transfers to municipalities as % of national fiscal revenue, 2006–2016



Source: authors, based on data from ATM and CGE

Figure 8 shows the revenue allocation by central government to municipalities over the past nine years.

The reader can see that until 2015 the municipalities received the total percentage of FCA transfers they are entitled to only on two occasions, namely in 2008 and 2011, with a slight decline observed after 2008. Figure 8 also shows that the total transfers of both FCA and FIIA are at most 2.3% of national fiscal revenue. If the total Mozambican budget, i.e. national fiscal revenue budget support, was considered, the percentage transferred to municipalities would be less (around 1% in the case of FCA). This puts Mozambique into the same bracket as Burkina Faso, but not with its peers in the region and East Africa, in which local governments have a considerably higher share of national expenditure: Botswana <10%, Ethiopia 40%, Tanzania 27%, Uganda >40% (Dickovick & Riedl, 2014).

From 2015 onwards, there is a drastic drop in transfers of all categories, due to the fiscal and economic crises the country is experiencing caused by the odious debts and economic downturn. The fiscal fragility of municipalities is further increased, jeopardising not only their already weak sustainability but also their viability (MAP Consultoria, 2017).

The Municipal Tax Code defines the following sources as part of the broad municipal tax base or OSR:

- Municipal Poll (Head) Tax (*Imposto Pessoal Autárquico*, or IPA);
- Municipal Property Tax (*Imposto Predial Autárquico*, or IPRA);
- Municipal Vehicle Tax (*Imposto Autárquico sobre Veículos*, or IAV);
- Municipal Property Transaction Tax (*Imposto Autárquico da Sisa*, or IASISA);
- Area improvement levy (*Contribuição de Melhorias*);
- Non-fiscal revenue sources such as licencing fees and the Fees on Economic Activity (*Taxas por Actividade Económica*, or TAE).<sup>88</sup> The municipal *taxa* for the DUAT licence and the annual fee paid for land use, the *foro* or *foral*, are part of this category;
- User fees for municipal services (e.g. markets and fairs, water and solid waste collection fees).

In all municipalities, the OSR has a considerable own-source revenue potential but is underutilised, with considerable variations across the municipalities. Table 8 shows the revenue collection effort of all municipalities grouped by province, measured as the OSR as percentage of total government transfers.

<sup>88</sup> The term *taxa* (fee) in this source is misleading. Judging by its features and the way it is calculated and collected in many municipalities, this source should be considered a tax on business activities. As such, it is like the *Imposto Simplificado para Pequenos Contribuintes* (ISPC) collected from small businesses and the informal sector by the ATM. The risk of double taxation of small businesses in municipalities is high (see section below).

Table 8: Revenue collection by municipalities\* as % of government transfers, 2014

Province	No. of municipalities	OSR as % of total government transfers
Niassa	5	24.7
Cabo Delgado	5	80.5
Nampula	7	50.6
Zambezia	6	28.2
Tete	4	100.8
Manica	5	56.7
Sofala	5	93.8
Inhambane	5	44.1
Gaza	6	56.5
Maputo Province	4	68.3
Average per province	5.2	60.4
Maputo City	1	316.5

\* Grouped by province

Source: CGE, 2015, *Anexos Informativos*

While the five municipalities of Niassa and the six in Zambezia show a low average collection effort, i.e. dependent on a large degree on government transfers, those in Tete and Sofala perform much better, with a ratio of 100% and 94%, respectively. The others' efforts yield between 40% and 60% of those amounts transferred by central government. Maputo is obviously a special case given its broad tax base, professional human resources endowment and the technical backing of the World Bank-supported Pro-Maputo project.

### 5.5.2 Fiscal Transfers and Own Source Revenue

The recent study on intergovernmental transfers, commissioned by MEF and financed by GIZ (MAP Consultoria, 2017), looked at a sample of 16 municipalities and used the municipal accounts as sources for its database. It largely confirms the above analysis, and brings to light further details of the dynamics of fiscal transfers and the development of OSR:

- a. The relative weight of transfers is higher in the case of *vilas* than that of towns of category B, C and D.
- b. The structure of transfers, by type, is dominated by FCA, followed by FIIA, the transfers of the Road Fund (FE) and PERPU. We note, though, that PERPU, although transferred via the e-SISTAFE does not represent a fiscal conditioned grant which benefits the municipal budget. The municipal governments of provincial capitals represent only the *bona fide* manager of a revolving fund for urban poverty reduction which benefits individuals. They must submit livelihood project proposals to the CM, which, once approved, receive a credit to finance their project. With the notable exception of Beira, which created a municipal finance institution to manage the PERPU funds, the challenges to manage PERPU properly are the same as in the case of FDD (see Section 5.3). The dependence on block grants, used for financing municipal salaries and other recurrent expenditure, has unfavourable consequences for administrative efficiency and performance as well as horizontal accountability to the local taxpayer.
- c. The annual average per capita transfers for the period 2009–2015 are low ( $\leq$ US\$10), with the average annual per capita OSR constituting only half of that amount. In comparison, the average annual per capita expenditure is around US\$14. During that period, the OSR showed a slight upwards trend.
- d. Concerning OSR, municipalities depend to a much larger extent on non-fiscal sources of revenue than fiscal revenue. Local government taxes represented, on average between 2009 and 2015, only 16% of total annual municipal revenue.

- e. From 2013 onwards, a category labelled ‘other revenue’ gains importance. This residual category includes transfers from state bodies and public entities (*transferências de organismos do Estado e entidades públicas*), revenue from capital (*receitas de capital*) and extraordinary transfers (*transferências extraordinárias*). Since it is not entirely clear what this category means in terms of fiscal origin and purpose, it would be necessary to have disaggregated data available. This category may include subsidies of the treasury for unsustainable municipal public transport enterprises, and *ad hoc* transfers to assist municipalities to cope with the consequences of natural disasters, etc.
- f. The average annual growth rates of all grants have been in the two-digit range, except for transfers for infrastructure investment (*transferências para Investimentos em Infra-estruturas*), defined to include capital transfers in addition to the FIIA and including the FE. From the point of view of the municipal response capacity to the challenge of increasing demand for public infrastructure and services due to the high urbanisation rate, this trend is of major concern.
- g. From 2015 onwards, all types of transfers (except PERPU) show a declining trend, with a considerable drop for all in 2016 (see Figure 8).
- h. Also, donations and foreign-supported project financing show a considerable decline.
- i. The *vila* type of municipalities depend much more on grants than the *autarquias* of all other categories, showing a much smaller OSR mobilisation capacity. This is certainly due to a comparatively small economic and fiscal base. This is specifically true for the new municipalities enacted in 2013, which therefore received extra transfers for infrastructure and equipment on a discretionary and *ad hoc* basis. This raises the fiscal issue of special treatment of a certain category of municipalities, not foreseen in the legislation, which is premised on the assumption that the formula-based equalisation mechanism takes care of differences in size and population. As we argue in the conclusion to this subsection, there is, indeed, a case for reviewing the equalisation formula.
- j. Although the municipalities of the *vila* type receive a higher transfer per capita than all other types of municipalities, their capacity for investment into public services remains critically low. With the considerable drop of transfers since 2015 and the high inflation rate, *vilas* will particularly have severe difficulties in providing public services. In their case, a declining trend of per capita capital expenditure can be observed, coupled with extremely low levels of OSR collection.
- k. As we have seen already, from the point of view of smaller and younger municipalities (often in remoter areas) the effects produced by the

equalisation formula used for distribution of the FCA (and, in analogy, the FIIA) is questionable. A more differentiated analysis shows that the growth pattern of the FCA per capita is significantly different between municipalities in the same category and with similar demographic and territorial features. This suggests that other, unknown distribution criteria are applied, different from those legally stipulated, i.e. territory and demography.

Table 9 summarises the main trends in municipal finances.

Table 9: Average annual growth rate of main fiscal indicators by category of municipality, 2009–2015 (%)

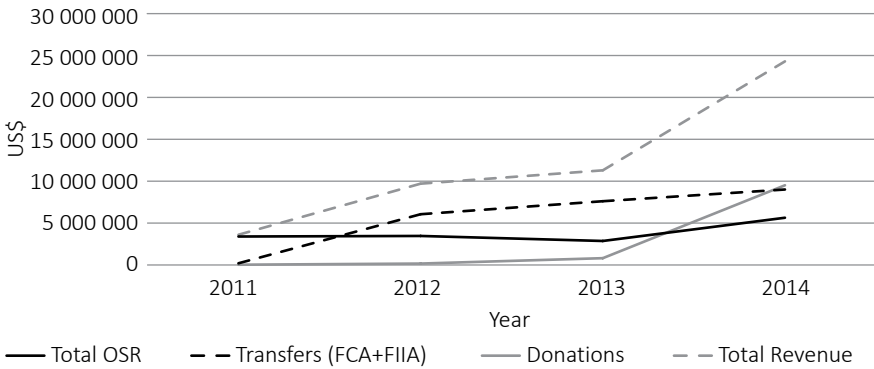
Category	Average annual growth rate (%)		
	Sample*	Towns (C&D)	Vilas
Total revenue	20.2	15.2	15.5
Total transfers	18.0	17.7	17.6
Own source revenue	17.3	14.0	18.6
Fiscal revenue (taxes)	20.4	15.2	3.6
Non-fiscal revenue (fees, etc.)	16.5	13.8	21.4
Donations and ext. project funding	12.1	-20.0	-1.0
Other revenue	161.0	92.5	14.2
Total expenditure	24.4	18.6	16.6
Recurrent expenditure	18.2	20.0	20.7
Capital expenditure	33.2	16.3	11.9

Source: MAP Consultoria (2017)

\* 16 out of 53 municipalities

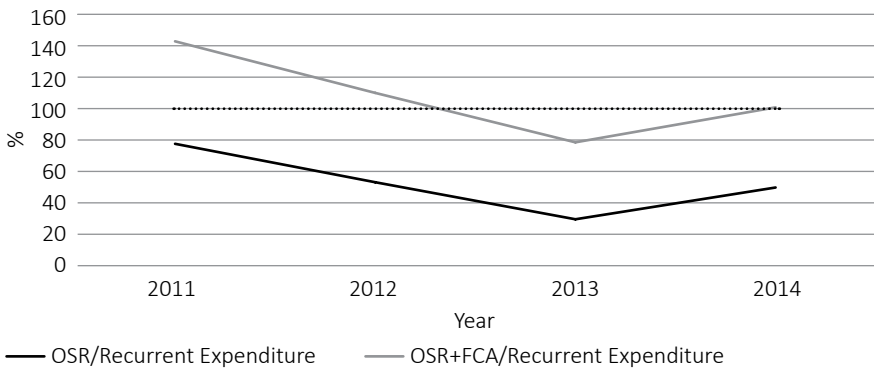
Domestic resource mobilisation and fiscal sustainability was also the focus of studies promoted by the World Bank-managed Public Private Infrastructure Advisory Facility (PPIAF). Looking at two case studies, Matola (Figures 9 and 10), a major port city and industrial and commercial centre, and Manhiça (Figures 11 and 12), an economically dynamic, agriculture-based rural town of the *vila* type, they show that despite the difference in size, the challenge of using the OSR potential is the same. In both cases, the OSR has been lower than government transfers. External support has been decisive in increasing resources at certain moments. This has serious repercussions for their fiscal sustainability, which we define as their capacity to finance their recurrent expenditure with their OSR.

Figure 9: Matola: OSR, transfers, 2011–2014 (US\$)



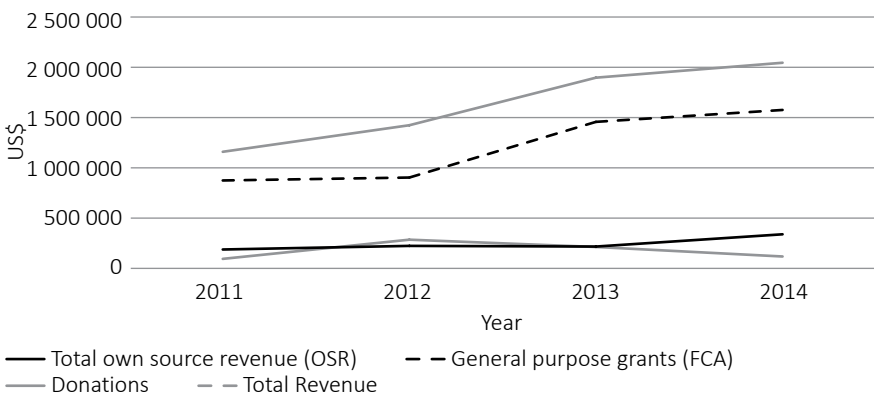
Source: authors, based on CM de Matola data (CDG)

Figure 10: CM de Matola: Fiscal sustainability (%)



Source: authors, based on CM de Matola data (CDG)

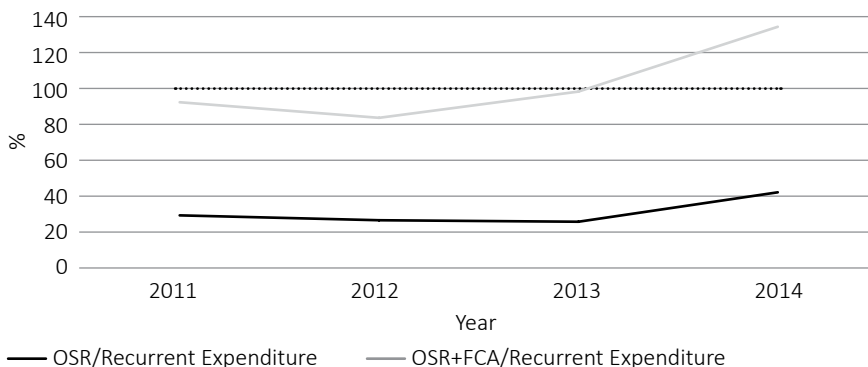
Figure 11: Manhiça: OSR, transfers, 2011–2014 (US\$)



Source: authors, based on CM de Manhiça (CDG)



Figure 12: CM de Manhica: Fiscal sustainability (%)



Source: authors, based on CM de Manhica (CDG)

If we disaggregate the OSR by sources of revenue, we find in the case of Matola for the period under observation that the most buoyant source was solid waste fees, and not IPRA, IASISA, IAV and TAE, as could be expected from a city of more than 700 000 inhabitants, the industrial centre of the country, and a city witnessing the rapid expansion of residential and industrial areas. In fact, Matola City Council only began collecting IPRA in 2014. In 2015, it engaged a private company to oversee collection and administration of most of the revenues and the necessary investment in cadastral services, hard- and software, as well as training of human resources (World Bank & PPIAF, 2015a). As can be seen from Figures 9 and 10, the CM of Matola could not have been sustained by relying on its own efforts, i.e. without the block grants from government. Even with government support, fiscal sustainability was volatile from 2012 to 2014. The dotted black line indicates the break-even point for fiscal sustainability. Figures 11 and 12 give the corresponding picture for Manhica.

Differentiated by source of revenue, Manhica's most buoyant sources are non-fiscal: revenue from market fees followed by fees from water supplies and DUAT. Although the contribution to total revenue is still marginal, the share of OSR is slowly increasing due to the CM's increased efforts, which focus on IAV, IPRA and TAE. The own tax effort is also evident in relation to external support, which only in 2012 was above the OSR yield (World Bank & PPIAF, 2015b).

Regarding Manhica's sustainability, the picture is the same as in Matola: the town would not be fiscally sustainable without the block grants it receives from the government. From 2011 to 2013, sustainability was not guaranteed, even with the government transfers. These two micro studies confirm earlier analyses which looked at a sample of 16 municipalities of varied sizes (Nguenha et al., 2012).

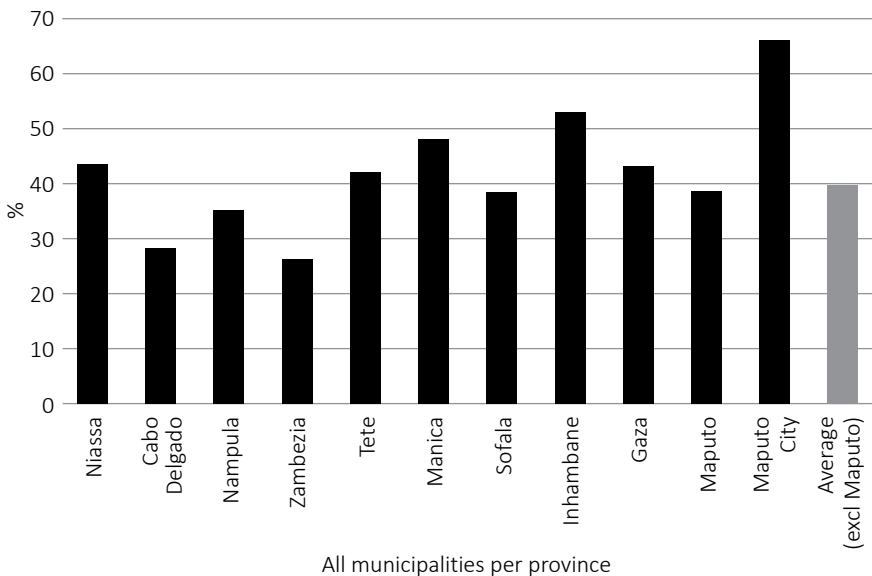
### 5.5.3 Municipal Fiscal Capacity to Deliver Public Services

Concerning the financial resources for service delivery, we analyse the municipalities' capacity for public investment, looking at their capital expenditure as a ratio of total expenditure. Again, we group municipalities by their 'host province'. Figure 13 shows the variation of their investment capacity.

We can see that, on average for 2014, all 53 municipalities used about 40% of their available resources for capital expenditure, i.e. for investment in service delivery, and 60% for recurrent budget items (salaries, services, consumables). This compares very favourably with the district governments, which spent most of their available resources on recurrent budget items, i.e. salaries. Above average performers are Maputo City – with a considerable investment capacity – and the municipalities in Niassa, Tete, Manica, Inhambane and Gaza, whereas those in the provinces of Cabo Delgado, Nampula, Zambezia, Sofala and Maputo performed less well.

Facing expectations by municipal citizens, central government and CSOs concerning improved service delivery in key areas such as solid waste and sewage/wastewater management, urban planning and urbanisation, including housing, and, increasingly, road construction and maintenance, and primary health and education, the municipalities assume their responsibilities but point out their insufficient resources. In principle, an increase in resources for public services could be effected by a combination of the following options:

Figure 13: Municipal ratio of capital expenditure vs total expenditure, 2014 (%)



Source: CGE 2015, *Anexos Informativos*

- Increase in government transfers (FCA and FIIA) and conditioned grants, e.g. for primary health care and education;
- Increased access to credit;
- Cap on recurrent budget and the payroll with gains used for capital spending;
- Increased effort in using OSR.

The first option appears justified given the fact that in international comparison with their peers, the Mozambican municipalities are underresourced. Furthermore, with the increase in the number of municipalities, the 1.5% municipal entitlement to the state budget needs to be shared with an increased number of beneficiaries. But it is not very realistic given the fiscal stress the government is facing presently (see Part II, Section C, 1) and what appears to be a lack of political enthusiasm to devolve sectoral funding for health and education. This process has moved forward slowly for various reasons, partly because of a lack of clarity on financing and the limited technical capacity in the smaller municipalities. Nevertheless, despite these caveats, responsibilities for these services are expected to gradually be handed over to some municipalities (e.g. Maputo, Matola, Beira and Pemba) but with the corresponding financial resources being retained in the sector ministries and the provincial governments, respectively.<sup>89</sup> In practice, this means that the municipal teachers or nurses are doubly subordinated to the municipal department and to the provincial government, probably to the detriment of the professional satisfaction and motivation of staff and the quality of service.

The second option, legally permitted under MEF approval, is not very realistic for the same reason of fiscal stress and the increasing debt service obligations of central government. Some municipalities, such as Matola, Nampula and Pemba, have negotiated the authorisation of credits with suppliers and banks to finance public transport (e.g. the acquisition of buses) or the acquisition of solid waste collection equipment and trucks. However, it is difficult to see the timely reimbursement of the debts by the user fees generated through such services, unless the debt is repaid by using other sources of revenue, or repayment is guaranteed and covered by central government in cases of default. Municipal credit and its authorisation is also an area that is not always managed in a transparent manner and it may involve fiduciary risks.

The third option is not realistic for contractual and legal reasons. Also, the municipalities' need to increasingly recruit well-trained, competent and technical staff to execute complex tasks is in competition with the state administration and private sector, which usually offer better salaries and benefits.

---

89 Interviews with councillor, CM de Pemba, 05/10/2015; senior officials of Cabo Delgado Provincial Directorates of Education and Health, 07/10/2015.

Thus, the last option remains – the increase of capacity and effort to tap into the considerable OSR potential of the municipalities.<sup>90</sup> However, improved performance in OSR collection and administration is hampered by the following factors, which of course vary across the municipal spectrum in terms of relative weight:

- The technical competence and capacity of municipal fiscal management and revenue administration is not sufficient in relation to the task. A survey conducted in the 13 municipalities which are part of the World Bank-supported 3CP project shows that only a minority has a good command of accounting, fiscal management, budgeting and treasury, with taxation being the area in which capacity is lowest (MAE, 2013). An efficient and effective tax administration, coupled with that of urbanisation and a cadastre, is, however, a precondition for increased revenue generation.
- Tapping into the tax potential, especially that related to property (IPRA, IASISA) and to TAE, is an issue of local political economy and touches vested interests of business people and property owners, often represented in the AM and/or with strong links to the municipal government. Any policy effort to collect or increase taxes from assets belonging to these social classes can easily be (politically) curtailed. The same is true for the collection of municipal revenue on property belonging to the state or SOEs such as the Mozambican Railways and Ports (*Caminhos de Ferro de Moçambique*, or CFM). In the absence of political will or clout, the often observed effect is the focus of municipal revenue policy on sources such as market fees, which has a regressive effect on the poorer strata of society but spares the better off.
- The present intergovernmental fiscal system does not have a performance-based component in its allocation formula for calculating the transfers, although this was initially discussed for the first municipal finance law (11/1997).

The World Bank (2014: 121f) expenditure study proposes three ways to stimulate the increase of OSR collection, namely:

- ‘Tax administration capacity should be enhanced to realize the potential of the 2008 reform’ – this would include a roll out of a PFM and revenue system tailored to the needs of municipalities or what is known as a *Sistema de Gestão Autárquico* (SGA),<sup>91</sup> linked to e-SISTAFE, presently in development by CEDSIF with support of 3CP.<sup>92</sup>

90 Assessment studies have shown that the potential, properly collected and administered, could at least double the municipal revenues. See, for example, Boex (2011) and Weimer (2012).

91 Its predecessor, the SGM (*Sistema de Gestão Municipal*), supported by P-13 and PROGOV, was developed, tested and piloted in Nacala and Mocuba municipalities between 2006 and 2010, but rejected by CEDSIF and MAE for reasons that are not entirely clear.

92 Interview with member of CEDSIF General Directorate, Maputo, 28/09/2015.

- ‘Transfers should help to correct for the differences in municipalities’ fiscal capacity, which estimates the revenues that municipalities could collect’ – this factor would add a performance criterion into the revenue-sharing formula by defining ‘fiscal capacity’ not as the revenues municipalities actually collect, ‘but what they could collect if the average tax rate for all municipalities was applied to their tax base. This means that if a local government collects less than the potential revenue the grant will not compensate for the difference’. In other words, this means rewarding those municipalities that demonstrate a larger tax effort than the average.
- ‘The municipal investment fund as well as sector and ad hoc grants should be allocated in a transparent process’ – this would contribute to increased predictability of transfers.

Another way to increase municipal revenue would be to increase its tax base by attributing the tax on informal activity, the *Imposto Simplificado para Pequenos Contribuintes* (ISPC), presently collected by the ATM, to municipalities. At present, there is a high likelihood that small businesses are taxed twice, by the CM via collection of market fees and TAE, and by the ATM, which collects the ISPC. Both produce regressive effects and do not contribute to poverty reduction, especially if double taxation occurs. This tax, a typical local government tax, could at least partly replace TAE. This issue and the potential gains for municipalities are discussed further below.

## **5.6 Towards an Integrated Intergovernmental Fiscal System including Revenue from Land Use and Mineral Extraction?**

A review of the intergovernmental fiscal system makes sense not only from the perspective of mitigating regional inequalities, discussed in the previous section. Given the present pattern of resource allocation to the districts, insufficient for providing basic services, there is a clear need to increase fiscal resources to districts.

One way of raising increased revenue at district level is taxation of land use and rents arising from land speculation. Studies have shown (DFID, 2013; World Bank & FAO, 2011) that the use of land via the system of DUAT and the *taxa* paid for it neither reflects the land’s use value and market value, nor the capacity of diverse types of users (peasants, urban residents, national and foreign investors) to pay for its use. The present way land is managed and ‘taxed’ has opened the door to speculation, land conflicts and an informal market in which land is transacted – unconstitutionally – without the communities and the state benefiting. A compelling case can therefore be made to decentralise land management and introduce levies or taxes, and review and scale the DUAT *taxa*. This would not only better reflect the type of use, the ‘market value’ of

the land, especially in urban and periurban areas and in (large-scale) land holdings for minerals, agriculture and forestry, but also increase revenue for districts and financial benefits for local communities. The World Bank and FAO (2011) study concludes that the payments derived from the current level of DUAT *taxa* for rural land 'are negligible for the DUAT holders', and 'do not affect their economic behaviour, and therefore are not an effective contributory tool for encouraging the optimal use of land', concluding that 'there is scope to increase the level of charges to more accurately reflect the value in use to the DUAT holder' (World Bank & FAO, 2011, p. 45). The study also makes a convincing case to decentralise land management and retain the revenue from land use at district and community levels when it argues that:

there are benefits to be gained from localising the allocation of the revenue. In many countries land taxes, for example, are typically local government taxes for locally provided services. One concrete way in which community rights could be demonstrably recognised, and the scope for local economic development better served, would be if the State's proportion of the revenue were reallocated for local governments (World Bank & FAO, 2011, p. 46).

The ongoing project in support of local land management, *Iniciativa para Terras Comunitárias (Community Land Initiative)*, has made concrete proposals on how to implement the visionary idea of decentralising land management for the benefit of communities and districts (Monteiro, 2014). Analogously, the generation of mineral extraction-based revenue could become a source of revenue for districts and communities in areas where projects of an extractive nature operate. It should cover all types and sizes of companies, not only the large-scale investments. At present, districts, municipalities and communities derive little benefit from extractive activities, but often have enormous costs of externalities (see case studies in Part III, Section 6.2).

In 2013, the government allocated 2.75% of the royalties generated by mining and natural gas sectors to seven localities in three resource-rich provinces. Although this is a positive step, repeated in the 2014 fiscal year, the amount represents a small percentage of overall fiscal revenue. This percentage is not fixed by a specific law but determined by government in the annual budgeting process and legislation. Thus, the practice is *ad hoc* rather than reflecting a fiscal rule. The initial budgeted amounts are not necessarily transferred to the districts in full, since the revenue base, i.e. income from royalties, is volatile to price changes in the global commodity markets. The district share of the mineral revenue is transferred to the districts via

e-SISTAFE, but there is little guidance to provincial and district governments on how to use the transferred resource revenues (e.g. as a block grant or a conditioned grant) and to what extent it affects communities. There is a legal regulation deficit since the guidelines provided to the OLEs only have the character of a ‘circular’<sup>93</sup> and not a decree or law. Interviewees complained about the lack of transparency in the allocation and use of the transferred resources, a point also made by a World Bank policy paper on this subject (Nombora, 2014: 27ff).

The World Bank paper makes a compelling case – and presents possible ‘building blocks’ and relevant international experiences – for a review and broadening of the present intergovernmental fiscal system presently restricted to municipalities. The author argues in favour of a comprehensive fiscal transfer system in which the mineral extraction revenues transferred to resource-rich districts are integrated, have the character of an entitlement and become more predictable. In a later phase, this system would be extended to non-resource-rich districts. Like the policy note on land taxation referred to above, it also recommends the inclusion of community-driven development approaches to the allocation and management of the resource revenues at the subnational level. An equally persuasive case can be made for improved transparency concerning all the extra transfers, donations and credits provided to municipalities, often informally and off-budget (see the introduction to this section).

From an analytical point of view, for effective fiscal decentralisation and a functioning, just and equitable intergovernmental fiscal system that includes revenue from land and resources and mitigates regional disparities, two minimum conditions must be in place: firstly, the construction of accountable institutions at all levels of government, and secondly, secure institutions of autonomous decision-making at the local level (Ribot et al., 2006). Neither condition is presently fully guaranteed in Mozambique’s political administrative system, despite attempts to introduce such elements in the case of municipalities and in the *modus operandi* of the FDD. These experiences could become the starting point for a reform of the present system, which would require three types of preliminary action. Firstly, the presently existing system would need a thorough evaluation coupled to an assessment of subnational revenue potential to inform a fiscal decentralisation reform. Secondly, the institutional framework, notably for districts and provinces, would need reviewing, aiming at more autonomy for the present OLEs. In this context, the initial decentralisation legislation (Law 3/1994) should be revisited. Thirdly, there would need to be a minimum political consensus between Frelimo and Renamo (and within those parties) on the desirability of such a reform. In fact, this subject matter is part of the peace negotiations between those parties (see Section C, 2.1.).

---

93 Circular 1/MPD-MF/2013, issued by the MPD and MF.

## 6 Informal Rules of the Game: The Open and Inclusive Presidency Aberta

After coming to power in the 2014 general elections in which the Frelimo party and its presidential candidate, Armando E. Guebuza, won with more than 60% of the votes – albeit with the lowest-ever voter turnout (less than 40% of registered voters) – President Guebuza introduced a new method of keeping contact with and ‘orienting’ the local electorate, party structures and governments. This method, called PAI (*Presidência Aberta e Inclusiva*),<sup>94</sup> became a centrepiece of the Guebuza presidency. It aimed at ‘guaranteeing’ the better presence of the state in rural areas through capacity building targeted at local administrations, improving the provision of public services and making local governments more accountable to the people (*Gabinete de Estudos da Presidência da República*, 2009, p. 8). Hence, PAI can be understood not only as influencing, if not driving, the decentralisation process with a focus on OLE, counting on the strong interest and ownership of the president himself, but also as an instrument of vertical monitoring of local government and party institutions. Leininger (2011) and Leininger et al. (2012) see the PAI as a potentially determining factor in central–local state and party relations and in promoting local government by fostering and consolidating clientelist relations with local stakeholders for the ruling elite.

In practical terms, PAI consisted of visits to municipalities and districts lasting between two and four days. The preferred means of travel of the president and his entourage was a fleet of up to five helicopters chartered in South Africa. These expensive visits, including logistics, meeting places and accommodation, were prepared in advance by officials of the Office of the President and the MAE. In fact, MAE was the institution charged with the preparation and follow-up of those visits. Often, the governor of the province visited, and the administrators of all districts and the mayors of all municipalities were obliged to participate in the PAI events, making it an excessively costly undertaking.

During meetings with the local government and in the popular meetings (*comícios*), the president participated in the evaluation of government programmes (*balance*), clarified the policies and programmes of his government aimed at poverty reduction and rural and infrastructural development, and presented his ideas on stimulating agricultural diversification, mechanisation, post-harvest storage, marketing and increasing productivity, for example by promoting large-scale investment in ‘green’ raw material for fuel production (*Jatropha*). It was also during a PAI event that the president announced changes in the approach to decentralisation financing in relation to the FDD (see

<sup>94</sup> This section draws on the extensive empirical study by Leininger et al. (2012).



Section 5.3 above). The president also took the opportunity to listen to the opinions, suggestions and complaints of – often preselected – members of the local population, promising ‘corrective measures’ in the case of complaints or adjustments to local development and investment priorities. In several cases, local officials in district governments, including the administrator, were dismissed and reposted elsewhere.

Because of PAI, PESODs had to be readjusted very often. This is evidenced by several interviews conducted in the context of the study by Leininger et al. (2012). MAE was charged with recording the ‘orientations’ and suggestions from the president in the form of an intersectoral matrix and also with following up their implementation. In compliance with the implementation of the *matrizes*, quick progress was expected as these had to be updated every three months. This not only led to the prioritised implementation of the *matrizes* by district administrations and their technical teams (*Equipas Técnicas Distritais*), it also meant that this process had priority over those defined in the PESOD. It resulted in strengthening the role of the central government because it made the subnational actors and district administrators accountable to the national government, and not to the local community or the CC.

Furthermore, in closed meetings, the president, in his position as president of Frelimo, gave orientation orders regarding internal party matters, e.g. in preparations of intra-party elections and of major party events or local government elections. PAI, financed by the government budget, thus served not only as a method of local government monitoring, but also as an occasion to consolidate the Frelimo party, promote and/or dismiss functionaries and resolve internal conflicts.

While PAI had the advantage of strengthening the direct link between the president and local stakeholders and the population, this method was expensive and impacted on the district budget. It ‘redoubled’ the function of local government monitoring held by MAE, the Ministry of Public Service (*Ministério da Função Pública*, or MFP) and their inspectorates, and the provincial governments. It also sidelined the SMODD introduced by the PNPFD.

In conclusion, therefore, PAI – not enshrined in the constitution or codified by law – is an informal yet expensive method used by the highest representative of both the state and the ruling party to directly influence the outcomes of decentralisation, local government activity and electoral behaviour, to the detriment of established formal procedures and legislation. PAI is hence another example of the intrinsic link between politics, administration and economics (discussed in Part II, Section A, 3 and 4), which is characteristic of a dominant centralist system.

## 7 Conclusions

### 7.1 Triggers of Decentralisation

From the rules of the game perspective, we conclude that the formal institutional framework for decentralisation was put into place in 1994, when Law 3/1994 was approved by the then still one-party (Frelimo) Parliament. The attempt to create stronger local governments resulted from recognition of what could be called a 'state deficit' (Offe, 1987) at local level. This was caused by a failed (socialist) modernisation, a nation-building project of a centralist nature, but without clear ideas of how to replace the inherited centralised and authoritarian state, which was maintained and partially enhanced, despite the Frelimo rhetoric of its 'destruction' (*escangalhamento*).<sup>95</sup> The other factor leading to decentralisation was the devastating effect of the civil war-cum-regional destabilisation war. This led to the conclusion that Frelimo, despite its claim to power and hegemonic rule, was not able to control land, people and resources with its top-down approach of 'democratic centralism'. Decentralisation thus became a carefully 'controlled option' in a strategy aiming at maintaining political and economic hegemony and regaining legitimacy. As the former minister of state administration, Aguiar Mazula, said: 'Whenever we, Frelimo and our state are in a severe crisis, we rediscover the virtues of local government'.<sup>96</sup>

### 7.2 Critical Juncture and Path Dependency

Frelimo's initiative, linked to the Rome Peace Process,<sup>97</sup> initially foresaw the phased devolution of power and resources to elected mayors and district administrators, (multiparty) local assemblies, and local governments with a high degree of fiscal, administrative and patrimonial autonomy, across the whole country, i.e. for both towns (municipalities) and districts (rural *autarquias*). This approach, however, was revised after the electoral results of the first multiparty elections in 1994 were known. They showed unexpected widespread support for the Renamo party, which represented, from a Frelimo perspective, an armed rebel group, at best, or armed bandits, at worst, contesting their hegemonic claim to power. This was unacceptable to the hardcore factions in Frelimo, who already considered the GPA of Rome as providing too many concessions to Renamo, particularly in areas essential to their self-understanding: the security apparatus, i.e. the military, the police and the state security as coercive instruments of control of people, territory and resources (Igreja,

95 Paradoxically, such modernisation cannot happen without differentiation, disaggregation and adjustment processes in the state's subsystems, including local governments (Offe, 1987).

96 Personal communication with Aguiar Mazula, at the time Minister of State Administration, Maputo, 10/03/1994.

97 Via the participation of the then minister of state administration, Aguiar Mazula (responsible for the decentralisation reform), in the government's team of negotiators.

2015). Seen from that angle, it is consequential that the decentralisation legislation was revised because of informal, behind-the-scenes negotiations within Frelimo, while the government publicly maintained its commitment to Law 3/1994 until 1996, when the constitution was amended. Therefore, 1996 and the amendment can be seen as a *critical juncture* for decentralisation in that it created the conceptual separation between *autarquias* or *poder local*, i.e. the devolved local government in urban areas, on the one hand, and deconcentrated local bodies of the state (OLEs) for the districts, on the other. As demonstrated in the sections above, the latter aimed at assuring that the central government remained in control of the levers of power, territory and resources. The resulting legislation, both for municipalities, and, six years later, for OLEs, is path-dependent on this formal (constitutional) alteration of the rules of the game, brought about informally. Now that there is again a critical juncture caused by the interplay of various factors, including armed conflict, there is a need to revisit decentralisation, its forms and thrust, as part of a political solution to the conflict.

Further, it should also be mentioned that some public services most relevant to local government were not considered for decentralisation, at least not explicitly, particularly those related to management and information systems. Thus, e-SISTAFE is managed centrally, without deconcentration to provincial level, and the administrative and territorial organisation of the ATM, the INE and the *Conservatório de Registo e Notariado* of the Ministry of Justice ignores districts and municipalities as discrete units for data collection and information provision. In addition, the management of land is only partially decentralised to municipalities, with a tendency of recentralisation during the past decade (DFID, 2013). The information asymmetry is not only tilted against the politically and economically excluded elites and the public in general,<sup>98</sup> but also against the legitimate information interests of local and provincial governments. These are often the last to learn about decisions, negotiations and contracts made at central level, e.g. on resource extraction, which affect their territory and may cause massive conflicts as evidenced in the case of coal extraction in Tete Province.

### 7.3 Conflictual Coexistence of Devolution and Deconcentration

Since then a 'two pillar model' or 'bifurcated decentralisation model' or, phrased more critically, 'a kind of [administrative] apartheid' (Galli, 2003, p. 9) approach to decentralisation has been in place (Weimer, 2012). It has produced not only a fragmented administrative local government system, but also two sets of citizens, treated differently in terms of (local) citizens' rights and duties as taxpayers,

---

98 The Law on the Right to Information (Law 34/2014 – *Lei do Direito à Informação*) was only enacted at the end of 2014, with its regulation in the form of a governmental decree approved on 13 October 2015.

voters, etc., and two ways of (formal) relations between the central and the local governments. In the case of the autonomous municipalities, these come under the tutelage of central government, whereas the OLEs are subordinated to it.

Renamo's attempts to contest Frelimo's hegemonic control over the state, people and resources in the case of municipal governments have been part of decentralisation's continued path dependence since that critical conjuncture in 1996. Although the opposition won local government elections in 2004, 2008 and 2013,<sup>99</sup> the government attempted to limit those municipalities' 'space of manoeuvre' through various legal, administrative and other means. One is Decree 65/2003, passed by the Council of Ministers after Renamo won in five municipalities. It foresees in the same municipal territory a 'municipal district' in line with LOLE, in which the district administrator features as 'representative of the state', in the *autarquia* a figure already stipulated in Law 2/1997. Other less formal measures to limit Renamo's influence in municipalities were the withdrawal of official municipal assets, e.g. office equipment, archives, before handover to the new government;<sup>100</sup> attempts to reduce municipal territory and thus its population, with negative effects on the tax base, e.g. in the case of Beira; and withholding part of the financial transfers the municipalities are entitled to.<sup>101</sup> The electoral authorities attempted on various occasions to manipulate municipal elections in favour of the ruling party, leading to a second round of municipal elections in Nampula and Gurue in the 2013 elections.

#### **7.4 Fiscal Decentralisation with Limited Resource Transfer**

As we have shown, the degree of fiscal decentralisation is limited, with little or no effects on resource allocation at central government level, but a shift of fiscal resources (for recurrent expenditure, i.e. salaries) from provinces to districts, and some improvements for municipalities. Unlike the districts, the latter benefit from a genuine intergovernmental fiscal system (with entitlement to GPGs and conditioned grants and with financial autonomy), and have a tax base of their own, enlarged by the municipal finance reform of 2008. However, the share of budget transferred to municipalities is comparatively small (1.5%) in relation to overall fiscal revenue. Two main caveats are, firstly, the marginal use the municipalities make of their own revenue potential, i.e. the neglect of fiscal revenue sources (taxes) such as property tax and property transaction tax. While increased investment in the institutional capacity

---

99 In 2004, Renamo won the municipal elections in Nacala, Angoche, Ilha de Moçambique, Beira and Marromeu, and in 2008 MDM won in Beira and Quelimane, adding Nampula City and Gurue in the 2013 municipal elections. For an analysis of 'municipal regime change', its causes and consequences, see Nuvunga (2012).

100 This happened, for example, in the Municipality of Ilha de Moçambique.

101 After the 2013 municipal elections won by MDM, the CM of Nampula received 9 million MT less than it was entitled to, equivalent to 7% less of the FCA according to government sources. The Nampula mayor, Mahamudo Amurane, confirmed having received a lower FCA amount than his predecessor in the previous fiscal year (interview 12/10/2015).

of municipal revenue administration and major tax effort could at least double the municipal revenue (Weimer, 2012), the present local political economy and power relations may mitigate against a breakthrough in increased municipal tax collection. The second caveat is the relatively poor endowment with fiscal resources for investment in public infrastructure and services. The municipalities are increasingly unable to perform their core functions.

Neither provincial nor district OLEs have a significant tax base of their own, or are part of an intergovernmental fiscal system based on a subsidiarity principle, a revenue-sharing formula and autonomy for subnational governments. They receive annual allocations on a discretionary basis, reflected in the annual OE and approved by the AR. The present patterns of resource allocation ignore the need to balance stark differences between provinces in natural resource endowment and mineral revenue potential, in poverty levels and per capita expenditure allocation and net transfers of fiscal resources. If not addressed, this state of affairs is potentially politically explosive, especially in provinces that have a strong electoral inclination towards the opposition.

### **7.5 Limited Local Service Delivery Capacity**

The district OLEs have limited budget allocation for capital expenditure, since resources are used to cover recurrent expenditure (salaries), especially in the education sector. Given the limited resources for investment in and expansion of basic public services, the available resources serve to maintain the *status quo* and make incremental improvements. A breakthrough in the expansion of rural health delivery services and supplies with medicines, the expansion of water and sanitation systems, rural development and agricultural extension services cannot be expected in the short and medium term, unless the resource allocation to districts is significantly improved. Municipalities have had some success in service delivery (infrastructure, markets, etc.) since they spent on average around 50 % of their budget on capital investment during the past years. However, outcomes are still far from those desired and expected in terms of quality and coverage. Solid waste management, urbanisation and housing, as well as road construction and maintenance, are particularly affected. Water and electricity are supplied by SOEs (FIPAG and EDM, respectively) which enter agreements with subcontractors and municipalities, but with their investment plans not necessarily harmonised with the municipal expansion plans. There is slow progress in the transfer of functions in primary education and health to municipalities in some towns and cities. However, the corresponding resources, notably for salaries and equipment, remain under control of the provincial or district governments, leading to a double subordination of nurses and teachers under municipal and OLE authority (see Part III, Section 2.4).

## 7.6 Need for a New Reform Initiative?

The 20 years of decentralisation in Mozambique, initially driven by the devolution approach, have witnessed several changes in the rules of the game in favour of the deconcentration model and a recentralisation and consolidation of the powers of the ruling party and its successive governments, to the detriment of opposition parties. What we have witnessed is a kind of rollback of the initial decentralisation process, or a move ‘from *abertura* [concerning devolution] to closure’ (Joseph, 1999). A recent comparative study on decentralisation in Africa confirms this move not only for Mozambique but for other African states as well (Dickovick & Wunsch, 2014).

The outcome of this process is, in legal and institutional terms, the fragmentation of local governments, a complex institutional and legal framework only fully known to specialists and a categorisation of Mozambican citizens into two segments: those who hold municipal citizens’ rights and those who do not enjoy the same rights. Further, many citizens, particularly in rural areas, do not exactly know which local government oversees which service or what bureaucratic matter. In terms of fiscal resources, both municipal and district governments remain underresourced in relation to their service delivery functions and their share of national budget, despite some significant gains in relation to the *status quo ante*.

Considering a contradictory decentralisation process, the recent demand for autonomous provinces and the inadequate fiscal endowment of both devolved and deconcentrated forms of subnational governments, a new decentralisation reform initiative seems to be called for. The theoretical options are discussed in Part IV, Section 3.

What could be the elements of such a reform initiative? From our point of view, there are four urgent issues a reform would need to address:

- Simplification of the institutional decentralisation framework based on a sober assessment of the experiences of the past 20 years. The aim would be to define the responsibilities and division of territorial responsibilities and functions between the local governments, as well as the vertical and horizontal dimensions of accountability, with an emphasis on the empowerment of local communities and citizens and their local leaders. A revisiting of Law 3/1994 might be useful in this context.
- A clear definition of the functions, resources and powers of provincial governments and of provincial assemblies as an intermediate government agency positioned between central and local governments.
- The design of a coherent, integrated, intergovernmental fiscal system with a revenue-sharing formula, capable of not only effective and transparent

allocation of fiscal resources to provincial, district and municipal governments in a predictable way, but also of addressing distributional issues related to differences in per capita expenditure for provinces and their endowment with mineral wealth and related revenue potential. Such a system would also need to address the generation and allocation of land-use-related sources of revenue, a subject neglected thus far, to the detriment of the interests of local governments and communities.

- The high rate of urbanisation which requires municipalities to increasingly provide public infrastructure and services. Given their structural and current challenges concerning fiscal sustainability, there is a case to be made to increase fiscal means for their function as public service providers. The cited MEF/GIZ study on fiscal transfers consequently suggests another round of reform of municipal finances, with the following components, all of them discussed above:
  - The reintroduction of a performance criterion in the formula to stimulate the mobilisation of OSR, notably fiscal revenue with property-related taxes as a main source (IPRA, IASISA). This would also imply a reduction of GPG (FCA) and eventually productive gains for the municipal administration, which would become more accountable to the local taxpayer.
  - Adjustment of the municipal tax base, with a transfer of ISPC to the municipality. This would contribute to avoiding the double taxation of poorer strata of citizens, with its regressive effects.
  - A substantial increase of conditioned grants for public infrastructures and services, complementary to FIIA. This could be financed by redirecting PERPU to its original purpose: financing infrastructure. A bias in favour of smaller and younger municipalities could be considered. Another source could be foreign aid pooled into a municipal infrastructure development fund, to be supervised by a multistakeholder body (government, the National Association of Mozambican Municipalities [*Associação Nacional de Municípios Moçambicanos*, or ANAMM], CSOs, international development partners [IDPs]) and managed by a company.

Since the elaboration of a reform proposal with those components is politically controversial and complex, the way forward would be to establish a technical commission or task force supported by national and international experts, which would present its proposals to government, Parliament and society. A more mature proposal could also be subjected to a referendum. Sceptics would deem such a proposal as hardly feasible for implementation. However, the authors consider such

an approach as a possible positive response to President Nyusi's challenge to the public, uttered on Mozambique's 40th independence anniversary in 2015, when he mentioned the need for reflection regarding the long-term vision for a prosperous country which serves its citizens.<sup>102</sup>

---

102 Mozambique: Mozambican President Wants Reflection on Next 50 Years, All Africa.com, 26 June 2015, <http://allafrica.com/stories/201506290315.html>.