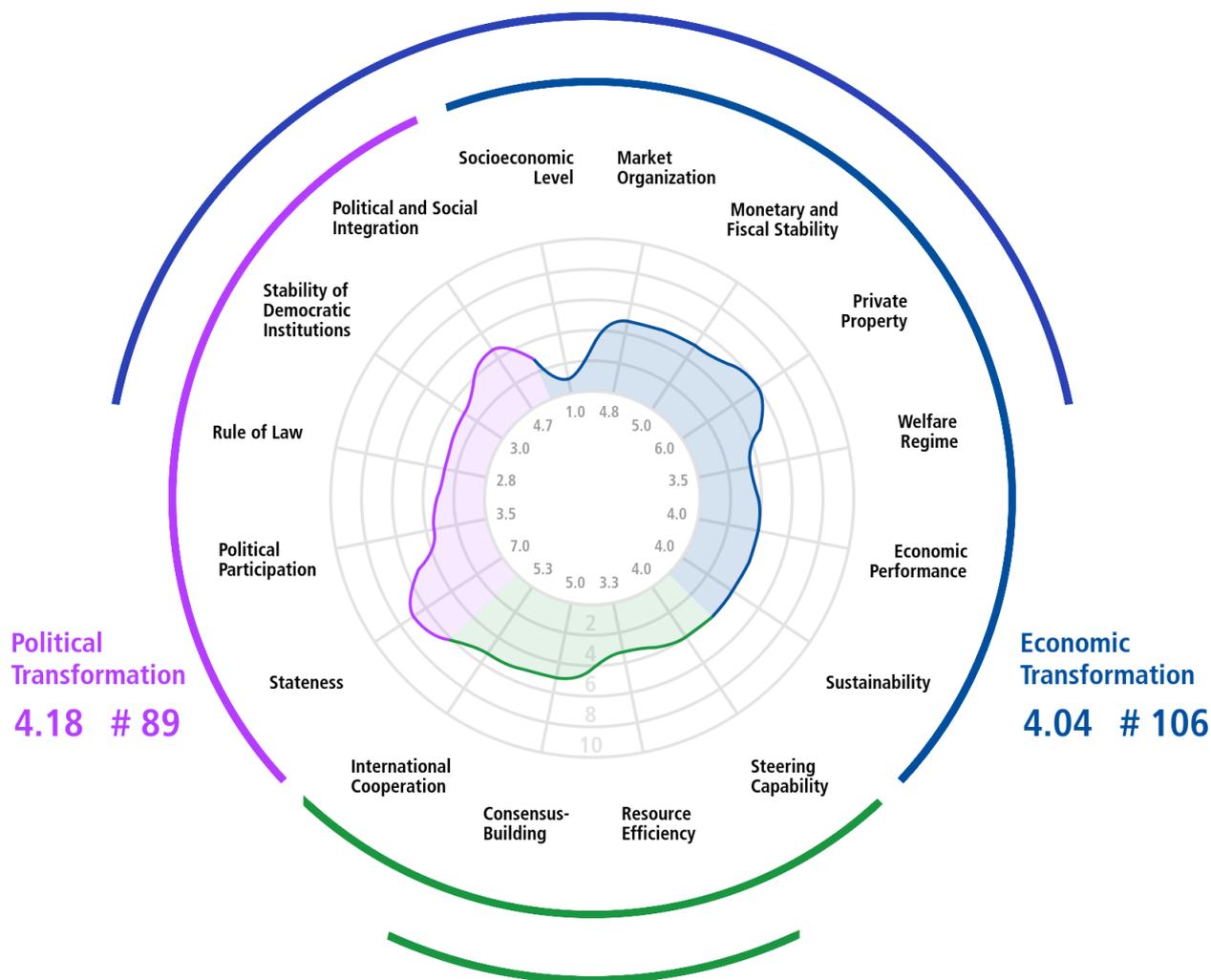


Mozambique

Status Index

4.11 # 105

on 1-10 scale out of 137



Political Transformation
4.18 # 89

Economic Transformation
4.04 # 106

Governance Index

4.21 # 91

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Mozambique. Gütersloh: Bertelsmann Stiftung, 2022.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	31.3	HDI	0.456	GDP p.c., PPP \$	1297
Pop. growth ¹	% p.a.	2.9	HDI rank of 189	181	Gini Index	54.0
Life expectancy	years	60.9	UN Education Index	0.395	Poverty ³	% 82.4
Urban population	%	37.1	Gender inequality ²	0.523	Aid per capita \$	62.8

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Mozambique no longer features high macroeconomic growth rates and its reputation among international donors with regard to its capacity to perform has diminished.

A third and hopefully lasting peace agreement was signed with RENAMO in August 2019, and the 2019 elections, though rigged, did not unleash a new wave of conflict. That said, there is a small group of armed RENAMO adherents – not linked to the party leaders – that continues to wage sporadic violent attacks. In addition, the Islamist insurgency in the north has spun out of control with several districts now under the control of militants.

Momentum for democratization was supposed to be facilitated by efforts to advance the decentralization process, which included the election of provincial governors instead of their being appointed by the central government, but this has left the opposition with little leverage in the wake of the 2019 elections. In these elections, FRELIMO strengthened its hold on power and consolidated its dominance across all levels of government. The international community and Mozambique's civil society have denounced the widespread fraud, which remained without consequences for the ruling elite.

The devastating impact of three cyclones and the humanitarian catastrophe they have wrought, as well as the COVID-19 pandemic, have brought donors somewhat reluctantly back to the table, showing a preference for project funding and in-kind assistance.

Mozambique still faces a somber fiscal situation with public debt levels at approximately 120% of GDP in 2020. Windfalls from natural resource projects have brought some respite. However, the relief is short-lived. These megaprojects, most of which are still in a nascent stage, will neither transform nor diversify the economy and they are not creating employment opportunities for the large share (23%) of unemployed youth in the country.

History and Characteristics of Transformation

In October 2019, FRELIMO candidate and incumbent President Filipe Nyusi secured a second mandate in elections that were characterized by local and international election observers as flawed and blatantly rigged. FRELIMO gained an absolute majority in parliament that will also allow the party to amend the constitution. A peace deal that had been signed with opposition party RENAMO shortly before the elections still holds. RENAMO had reverted to arms in 2013, and despite the peace deal and an initiated DDR process, an armed splinter group from the party under the leadership of General Nhongo, the Junta Militar, still continues with violent attacks in the central region. These cadres do not accept the new leadership of Ossufo Momade after the death of longtime RENAMO leader Afonso Dhlakama in 2018 and reject the peace deal as a sell-out and cooptation.

Orchestrated election fraud, a climate of intimidation and violence against voices criticizing the government, impunity, and transparency around an unparalleled “hidden-debt” scandal with large-scale involvement of executive and high-ranking FRELIMO cadres, are indicators that contradict the image that President Nyusi prefers to project of himself: as the ordinary citizen, protector of human rights, peacemaker, and managerial type who seeks to develop his country. Instead, he is increasingly perceived as power-hungry and adamantly committed to protecting his own image and interests.

Both main opposition parties represented in parliament – RENAMO and MDM – remain weak and destitute given the dominance of FRELIMO, which captures state institutions on all levels (judiciary, electoral commission, provincial governance structures). Evidently, and irrespective of the devastating economic situation resulting from the loss of donor support due to irresponsible government behavior, the political opposition could not benefit from these fallacies and present itself as a credible alternative.

Like many African states that embarked on the trajectory of electoral democracy but continued to cater to clientelist interests, the Mozambican government neglected a geographically balanced and inclusive development and the creation of perspectives and employment opportunities for its steadily increasing and overall young population. This provided fertile grounds for militant Islamists, who since 2016 have been challenging the monopoly of state power in the Northern province of Cabo Delgado. Partially homegrown but with increasing international support from IS and al-Shabaab, the insurgents, similar to those in West Africa, also link up with organized criminal networks operating in the area. The endemic corruption that reigns in Mozambique for decades, paired with large-scale impunity allowed organized crime to infiltrate the Mozambican state.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

While the government made progress in its peace process with RENAMO, it still lacks control in areas where the armed splinter group of RENAMO, the Junta Militar, destabilizes through hit and run attacks. With sufficient political will on both sides, President Nyusi and RENAMO leader Ossufo Momade had signed a peace accord in August 2019 ahead of the October elections.

Currently, the main challenge for the government's monopoly on the use of force comes from the Islamist insurgency in Cabo Delgado. The wave of terror started off with attacks on police posts in Mocimboa da Praia and has since spread into the whole province. Frequent attacks have been reported. These are characterized by decapitations and burning of villages. Perpetrators claim to act in the name of Islam. Like Boko Haram, they reject the state, advocate the boycott of state schools, and establish mosques. They call themselves Ahlu Sunnah Wa-Jamâ (ASWJ). It seems they are a genuine extremist Islamist phenomenon in Mozambique with links to foreign jihadists (Tanzania, Somalia, Kenya, Great Lakes Region), operating independently. Al-Sunnah started off as a religious group but initiated military cells in 2015. Their members seem mainly comprised of socially marginalized youth without formal employment or education. Strong support comes out of the Mwani ethnic group. Analysts believe that degrading social conditions in Mozambique's poorest province and the feeling of political marginalization led to radicalization. Illicit activities such as wood, charcoal, ivory, and ruby smuggling enable them to finance their activities. Apart from these, the establishment of the gas and oil industry plays an important role in this conflict, which has been fueled by the considerable investments made by ANADARKO and TOTAL. It is said that most local people were marginalized, excluded from local opportunities: They did not have jobs in the companies that operated in the ANADARKO project. This exclusion was carried out in parallel with the historical government social exclusion in that area. In addition,

Question
Score

Monopoly on the
use of force

5



the government at some point started to control the natural resources in that area, leaving most residents without economic resources.

The government's response has been erratic from the start and remains reactive. The government has been hesitant to call on assistance from Southern African Development Community (SADC) neighbors or the African Union (AU). Instead, it tried to regain control by bringing in private military contractors. The Russian Wagner group, which also brought boots on the ground, soon had to face casualties and left rather quickly. The South African private military contractor, Van Dyck, mainly provides intelligence and logistical support to Mozambican troops. The latter – badly trained for counter-insurgency operations and with low morale – often surrender quickly, leaving ammunition and weapons in the hands of insurgents. In August 2020, ASWJ took over the district capital Mocímboa da Praia and its strategic port, thus enlarging its maritime operational capabilities. In November 2020 and according to media reports, Mocímboa da Praia still seemed to be controlled by the militants, though Defense Minister Jaime Neto emphasized in a speech in early January 2021 that the Mozambican Navy had reclaimed control of the port. With the restricted flow of public information on the situation, the extent of control ASWJ has gained over the last years is difficult to assess.

Nation-building in Mozambique is largely shaped by the decolonization process. After independence, FRELIMO defined Mozambique as a nation and adopted Portuguese as a unifying language, bringing together all ethnic groups. Politically, FRELIMO aims to prevent the emergence of ethnoregional parties. Moreover, the Mozambican constitution prohibits parties with an ethnic or regional character. Nonetheless, some political leaders advocate for a federal system, which would allow for a more equal distribution of wealth and resources within the country.

Recent analysis of the insurgency in the north also suggests that militants exploit grievances within certain ethnic groups such as the Mwani against the Makonde ethnic group. Wealth in Cabo Delgado is concentrated in the hands of Makondes, who are well-connected and represented within FRELIMO. President Nyusi himself is of Makonde origin. However, four years after the first appearances of Islamist militants in Cabo Delgado, there is little information on the group, its origins and objectives.

Nation-building in Mozambique has been undertaken via the state and its prevalence in all corners of the country. In a situation where this presence and monopoly of power projection has been challenged, identification of citizens from these areas might also diminish over time.

State identity

9

'06 '22 10

10

1

Article 54 of the constitution guarantees the freedom of religion and underlines the laic character of the state. Building a strictly secular state also kept religious influence at bay. The law regulating religious activities dates back to 1971. But with the mushrooming of neo-evangelical churches, estimates speak of more than 1,000 non-registered congregations, and their business activities. The government plans to update the legal framework. The Brazilian Pentecostal Church Igreja Universal started out in Mozambique in 1992 and – as in Brazil – has formed a mutually beneficial relationship with politics. President Guebuza even visited the church’s headquarters in Maputo ahead of the electoral campaign. However, the denunciation of atrocities and human rights violations committed by the Defense Armed Forces in communities in Cabo Delgado has also put a strain on the relationship between FRELIMO and RENAMO. In particular, the Bishop of Pemba has been outspoken on the weaknesses of the government in a conflict that he believes has its root causes in the economic situation of the region. The extent to which his reassignment to a new post in Brazil for the end of February 2021 might also have been politically triggered remains unclear.

The Muslim community in Mozambique has been practicing a tolerant Islam for centuries. However, most Mozambican clerics are trained in Egypt, Kuwait or Saudi Arabia and return with a more fundamentalist concept of Islam than the Sufi-inspired, Swahili-based traditional Islam.

Basic administrative structures do exist in Mozambique; progress has been made but public service delivery still remains on a low level.

Access to justice still remains a challenge for most Mozambicans living outside the capital, which is home to 83% of the country’s lawyers. Provincial and district court allocation does not correspond to the demographic profile of the respective area. The province of Zambezia, for example, has only 14 courts despite the fact that 17.7% of the population lives in the province, whereas Niassa province – with 6.46% of the population – has 16 courts.

Primary health care is seen as the main responsibility and area for government intervention. About 10% of the state budget is dedicated to the health sector and over the years the government has managed to increase its share of financing through domestic resources (2019: 85%). However, investments in the health sector remain dependent on external financing. According to a national inventory undertaken in 2018, Mozambique has 1,575 primary health care posts distributed among the 153 districts and 53 municipalities. According to the WHO, fifty-four of these positions are filled by personnel with secondary level training and only seven with university-level training.

In its 2020 Voluntary National Review (VNR), the government estimated that 61.8% of Mozambicans have access to potable water. Sanitation remains low.

No interference of religious dogmas

9



1

Basic administration

5



1

The VNR has also shown that per capita spending on basic infrastructure services is below the national average in the poorest provinces. Thus, resource allocation certainly needs to be adjusted in order to foster development.

The reform of the public sector introduced with the *Estratégia Global de Reforma do Sector Público (EGRSP) 2011 to 2025* also begins to take shape. The government has developed an e-government strategy that includes an electronic government network, government portal, capacity-building, state financial administration system, Mozambique e-government communication infrastructure project, national system of civil registration, biometric driving license and motor registration systems, biometric ID card and passport and a criminal registration system.

The lockdown measures due to COVID-19 affect particularly the provision of services in the education sector, where it also implies the risk that particularly girls might not return to school. In a country where 74% of children live without electricity and only 2% have access to the Internet, online classes are thus not an option and the already weak level of learning is further exacerbated.

2 | Political Participation

The 2004 constitution of Mozambique guarantees fundamental rights and civil liberties for all its citizens. It protects the right to choose leaders through universal, direct, secret and periodic suffrage, through referenda on major national issues and through permanent democratic participation in government affairs. The right to vote is also extended to the diaspora. The constitution safeguards a two-term presidential limit. In the last elections in 2019, 26 parties and two alliances registered. Three candidates ran in the presidential elections.

Since the 1992 peace accord, Mozambique has regularly organized presidential, parliamentary and provincial elections as well as elections in the independent municipalities (*autarquias*). However, over the years the quality has deteriorated. Violent clashes, infringements on the right of assembly for all parties and a continuously imbalanced playing field have become characteristic of the country's electoral processes. Observers called the 2019 presidential, parliamentary and provincial elections the worst and the most blatantly rigged. Evidently, the ruling party FRELIMO did not want to take chances after years of mediocre governance and corruption scandals of unprecedented dimensions. First and foremost, the incumbent regime intended to secure an absolute majority for its presidential candidate Filipe Nyusi in order to avoid a second round where opposition parties could unite against the sitting president.

Large-scale electoral fraud began with the registration process and implicated the National Election Commission (CNE) as well as the administrative body, the Technical Secretariat for Elections (STAE). In opposition strongholds like Sofala

Free and fair elections

3



province, registrations were limited. Many citizens had lost their identity cards in the floods following the tropical cyclone Idai that hit particularly hard Beira and Sofala province. Authorities made it difficult for citizens to receive new cards and often did not accept alternatives, thus excluding these voters from the process. In Zambezia province about 10% of registration posts were destroyed by the cyclone and many more in provinces such as Tete and Sofala.

In the FRELIMO stronghold Gaza province, the voter rolls grew by 300,000 citizens (80% of the population/national average 47%) – an amount that did not correspond with the 2017 census and which led to the resignation of the director of the National Institute for Statistics, who declared that “he remains committed to professional ethics and international standards.”

For security reasons, voters could not go to the polls in three districts in Cabo Delgado (Mocímboa da Praia, Muidumbe and Macomia).

Within the ranks of local election observers a climate of intimidation was planted with the murder of the much-revered civil society activist Anastácio Matavel in Gaza province some days before election day. In addition, two party members, one each from FRELIMO and RENAMO became victims of politically motivated murder.

CNE and STAE, their capacities and independence were largely doubted and mistrust was not only shown to CNE members with a political party background but also to those coming from civil society.

Election campaigns by the two major opposition parties, RENAMO and MDM, were continuously obstructed by roadblocks or by the occupation of spaces identified for their rallies. As in previous elections, FRELIMO made extensive use of state resources for its campaign, distorting the level playing field. An uneven playing field also existed in the media coverage of parties and elections campaigns, with more time allocated to the ruling party.

Whereas independent local election observers underwent a cumbersome accreditation process, CNE accredited completely unknown FRELIMO-affiliated groups shortly before election day, increasing the number of local observers from 10,000 to 42,000. EU observers characterized the data tabulation process on the district level as chaotic and with a lack of scrutiny.

With his re-election in October, President Nyusi has consolidated his grip on state power and within FRELIMO. But criticism within the ranks of the party is on the rise, due to the way he handles the security crisis in Cabo Delgado, the overtly rigged elections as well as the rampant political violence. With a comfortable two-thirds parliamentary majority his government has an unprecedented power to govern.

Of increasing concern for good governance and democratic procedures are the activities of criminal networks. So-called state-embedded actors are considered to be the most influential actors in organized crime in Mozambique. Medium- and low-level corruption among public servants in key positions allows criminal networks and trades to flourish, notably rhinoceros poaching and rhino horn trafficking, the heroin trade, human smuggling and trafficking, and timber and ivory trade. In addition, at least four criminal networks established around Mozambican families who control ports and cities in the northern provinces are reported. With strong ties to the ruling party, these Mozambican “oligarchs” are protected politically and operate in parallel to the state with relative impunity.

Article 52 of the constitution guarantees every citizen the right to associate freely, although organizations pursuing xenophobic, racist or violent objectives are barred. Article 53 enshrines the right to establish and join political parties. In practice, most social groupings are organized as associations, and are regulated by Law No. 8/91, which details the right to free association, as well as by the relevant articles in the Civil Code.

Article 51 of the constitution assures the right of citizens to protest. Regulated in Law 9/91, activists are requested to inform authorities about their plans. However, in practice authorities often interpret the request to inform as an obligation to seek authorization. Particularly in times of election campaigning, the rights of opposition parties are infringed in this way.

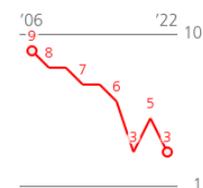
Election observers noted that the guarantee of freedom of assembly and free movement of opposition parties has been regularly violated during the 2019 election campaign. Twenty cases in which party convoys could not use specific routes or locations for campaign events were blocked had been reported by European Union observers.

Freedom of assembly continues to be frequently violated by the state bureaucracy or by the police (Polícia da República de Moçambique, PRM). Often the lack of authorization is given as a reason to dissolve demonstrations, or even to detain protesters. This was the case in December 2020 when truckers from three provinces were demonstrating and blocking roads, demanding better working conditions.

When the government introduced a state of emergency in March 2020 in the context of the pandemic, regular protest marches like the one by the Madgermanes (Mozambicans having formerly worked in the German Democratic Republic and demonstrating for arrear payments of wages and social security benefits) came to an end.

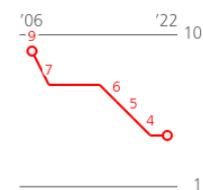
Effective power to govern

3



Association / assembly rights

4



Although the country transitioned from a state of emergency to a state of public calamity in September 2020, President Nyusi introduced new mitigation measures in order to prevent the spread of COVID-19 on February 4, 2021 (for 30 days). These also affect the freedom of assembly such as: curfew in the greater Maputo area from 9 PM to 4 AM; places of worship are closed, no religious celebrations or conferences permitted; private social events prohibited except weddings with fewer than 20 people, restriction on government events (fewer than 50 people), recreational and leisure sports and games prohibited.

Mozambique's revised 2004 constitution guarantees freedom of the press. The Supreme Mass Media Council is tasked with guaranteeing this freedom and the public's right to information. The constitution explicitly protects journalists and grants them the right not to reveal their sources. In December 2014, parliament finally passed the long-awaited Access to Information bill (ATI) that obliges public and private bodies invested with public powers to release information on request. As two studies in 2020 reported, information is often not provided without asking for a purpose; requests get lost within the bureaucracy.

Amidst a growing climate of threats and attacks against journalists and critical voices, it is feared that a new amendment to the Mozambican Penal Code – introduced by parliament in July 2019 in order to protect privacy – could be used to threaten freedom of expression. The law criminalizes privacy infringements via mobile phones, as well as the publication of images or videos without authorization by those recorded or photographed.

A new level of violence against journalists and public became visible when arsonists attacked Canal de Mozambique, planted a Molotov cocktail and destroyed the entire studio.

The proposed law on social communication aims to curtail all broadcasting of information by international channels (exception for sports, music, soap operas). It also aims to restrict the presence of foreign correspondents to two per media outlet.

Press freedom already had been limited in terms of access for journalists to conflict zones. When President Nyusi – in a speech to the Defense Armed Forces – criticized the media, later justifying his criticism as an effort to prevent disinformation.

Along the same lines, British journalist Tom Bowker was expelled from the country in February 2021 and barred from entering for ten years based on the allegation that the agency for which he worked – Zitamar News, renowned for its reporting on the conflict in Cabo Delgado – had not been established properly.

Freedom of expression



3 | Rule of Law

Although the Mozambican constitution in Article 134 provides for a separation of powers, the executive, legislative and the judiciary are all subjugated to the dominant party FRELIMO. Formally, office holders are independent but as they are at the same time high-ranking party members, party influence remains supreme. During elections, lines continue to be blurred and state resources are used by the ruling party for campaign purposes without hesitation.

It appears that FRELIMO is the state and the state is FRELIMO. The supposedly independent Electoral Commission (CNE) had been packed with FRELIMO members from top to bottom, and the inclusion of RENAMO agents was often denied without consequences.

The parliament has become a rubber-stamp. It cannot question the president, nor does it critically debate initiatives by the executive. These characteristics have been reinforced with the absolute majority that FRELIMO gained in the October 2019 elections. Not only are formal institutional checks and balances absent but the president has gained the power to amend the constitution, including extension of term limits.

At the outset of the pandemic, the government declared a state of emergency on April 1, 2020, which was extended several times. From August 5 to September 6, the president declared a new state of emergency, which was not approved by parliament and was thus claimed to be unconstitutional. It was replaced by an unlimited State of Public Disaster in line with the disaster management legislation, which had been amended by parliament.

The judiciary's financial and material dependence on the government exacerbate its weakness. The judiciary is itself packed with political appointees. What applies to the horizontal separation of powers equally holds true to the vertical separation. Decentralized power structures remain dependent from the central level financially but also politically as governors are elected as first on the party list. The most recent laws on decentralized governance structures – Law 4/2019 and 5/2019 (May 31) – do not define sufficiently the inter-institutional relations between the elected governor of a province and the secretary of state of the province appointed by the president. De facto, these laws negate the democratic purpose of the latest reforms of decentralization by creating parallel structures.

Separation of powers

2

'06 '22 10



The independence of the judiciary is tainted by the lack of separation of powers and political interference in the form of undue influences, inducements, pressures, threats or interferences, which occur directly or indirectly. Membership in the ruling party is a de facto prerequisite for access to the public administration and any career in the justice system.

But also institutionally, the system and its independence remain weak, as neither the inspector of the judiciary as an internal control organ, nor the Conselho Superior da Magistratura Judicial, the organ in charge of organizational and disciplinary measures, has sufficient resources financially and materially. Impunity remains a serious problem in the judicial system. It is related to weak capacities but also to existing levels of political influence and corruption. Mozambique's judiciary has the reputation of being highly corrupt. Trials for minor crimes can usually be circumvented by bribing judges or judicial workers. Even people accused of major crimes, including those related to grand corruption and homicide, have been reported to have been released thanks to defendants' personal connections with judges or with the assistance of bribery.

The way investigations into politically motivated crimes are handled indicates that neither the prosecuting agencies, including the attorney general, nor the judiciary are independent and free from political influence. In 2019, the attorney general brought charges against 28 suspects linked to the hidden debt scandal, inter alia one of the sons of former President Guebuza. However, it is suspected that this was done with awareness of the threat that extradition of former Finance Minister Chang – in jail in South Africa – to the United States could constitute for other high-ranking FRELIMO and government officials. So far, none of the accused has been on trial.

With the hidden debt scandal and the inertia of the prosecutor to hold the culprits accountable, the image of Mozambique has been tainted. After a slow start of investigations, 28 suspects related to the “hidden debt” scandal were detained, among them one son of former President Guebuza, his political adviser for more than 10 years, as well as his personal secretary. Also, the former governor of the central bank features among the group of prominent detainees. To date no trial proceedings have started. Public information remains scarce and when news comes out, it is often triggered by court cases elsewhere – in the United States or the United Kingdom. In recent weeks particular pressure mounted on President Nyusi after the owner of the Lebanese shipbuilding company Privinvest, implicated in the “hidden debt” scandal, declared that payments to Nyusi and FRELIMO in 2014 had been campaign donations in line with the party financing law.

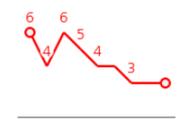
Irrespective of these recent arrests of high-profile figures, many others remain in their positions and continue with their businesses.

After the United States had issued an arrest warrant for former Mozambican Minister of Finance Manuel Chang at the end of 2018 and asked for his extradition,

Independent judiciary

3

'06 '22 10



Prosecution of office abuse

3

'06 '22 10



Mozambican authorities negotiated for months with the South African government, where Manuel Chang had been detained in December 2018. But it has only been in November 2020 that the Mozambican Attorney of State officially brought up charges against the former Minister. In February 2021 the extradition of Chang still remains in the hands of the South African Minister of Justice.

Considering the deep entanglement of Mozambican present and past office holders in the hidden-debt scandal, the court battles in the UK also highlight the deeply entrenched lack of accountability within the ruling elite.

A court case against the president of the National Institute for Social Security (INSS) and the former president of the Confederation of Economic Associations of Mozambique was opened, as INSS money (€1.2 million) had been used to purchase four aircraft. The INSS also featured at the center of the detainment and accusations against the former minister of labor, Helena Taipo. She is accused of having received 1.4 million euros as kickbacks for contracts related to the INSS or construction works by the ministry.

The main infringements on civil liberties occur in relation to freedom of expression and press freedom. Intimidations and arbitrary detentions of journalists happen frequently. An overall climate of fear has emerged. Social activists, academics and human rights defenders increasingly prefer to remain silent on bad governance or corruption within the ruling elite.

It seems that during the state of emergency (April to September 2020) the police (PRM) restricted the rights of citizens without scale, and even did not hesitate to arrest children in the city of Nampula in violation of emergency measures. Demands by civil society and human rights organizations for investigations into abusive behavior remained unanswered. Disproportionate display of brutality and increased use of lethal force by PRM are of rising concern and are not only related to the specific pandemic situation but are nurtured by general impunity.

Human rights violations undertaken by national security forces in the fight against insurgents in Cabo Delgado remain without reprimand. Thus, the population does not only fear brutal attacks by militants but also retaliation by security forces directed against militants as well as communities suspected of collaboration.

The measures that the government of Mozambique introduced with the state of emergency in order to control COVID-19 have been in line with the constitution. Freedom of movement within Mozambique had been possible. No severe lockdown had been introduced. The state of emergency has always been time-limited, albeit extended several times.

Civil rights

3



4 | Stability of Democratic Institutions

The role of parliament as a control organ of government has become more difficult with the absolute majority by FRELIMO 184 (of 250) after the 2019 elections. The opposition RENAMO, with 60 parliamentary seats, and MDM with six are in their weakest position. As the “hidden debt” scandal has shown, the executive does not feel accountable to parliament and does not hesitate to bypass it. The proportional system based on party lists has contributed to a de-linkage of members of parliament from the public.

Also striking is the lack of implementation of sound legal frameworks in key areas (such as corruption) that have been elaborated by parliament but fall short of implementation by government. The lack of consequences in violation of rules and regulations also highlights the weak justice system.

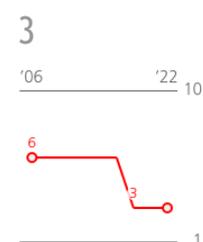
Public administration remains highly politicized and in the perception of most Mozambicans (63% based on Afrobarometer data), there is no difference between the state and FRELIMO as a party.

The direct election of mayors of so-called autonomous cities (autarquias) has been abolished. Instead, the mayor is elected via the party list as *primus inter pares*, thus limiting the option of a democratic choice by citizens. Also, 20 years after the first independent local governance structures were introduced, their performance is still hampered by various structural factors. First, parallel responsibilities with district institutions still exist. Second, local structures still depend on intergovernmental transfers. Third, the resources allocated often do not correspond with the mandates and responsibilities, thus limiting effective governance on the local level.

FRELIMO, the ruling party since independence, has used the democratic framework established after 1994 to foster its own interests. Democratic institutions are dominated and usurped by the party nomenklatura. Under the presidency of Guebuza, a small circle captured the party, the state and its economic activities. In the beginning of his presidency, Nyusi had been perceived as weak and without the independent power base within FRELIMO needed to re-install democratic accountability. The shadow of his predecessor was still there.

Particularly in the security sector, constant reshuffling concerning the military, the leadership of the police as well as the intelligence service has been observed. Although the appointment of a young, in security matters completely inexperienced civilian and former member of parliament, Jaime Bessa Neto, as minister of defense could be read as a sign of civilian oversight on the military in times of conflict, it rather raises the suspicion that the president himself makes the decisions and needs a rather unambitious portfolio holder.

Performance of democratic institutions



Commitment to democratic institutions



The National Electoral Commission (CNE), the main organ responsible for organizing free and fair elections, remains under scrutiny from independent civil society. Irrespective of the fact that seven members of the political body come from civil society as does their current president, it is the way those members are selected by parties represented in parliament that leads to criticism and calls into question their independence. Moreover, the practices of the elected members really show that each member is serving the interests of their party.

5 | Political and Social Integration

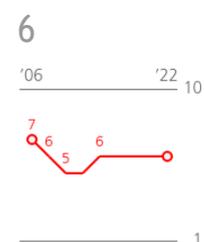
Mozambique introduced in 1992 a presidential, multiparty system to replace the one-party system that had prevailed since independence. Until 2009, its main characteristic was its bipolar nature, with FRELIMO and RENAMO opposing each other. Between 1999 and 2009, the system was increasingly dominated by FRELIMO. In 2009 FRELIMO secured landslide victories. In the parliamentary election, FRELIMO won 75.06% of the vote and 191 seats. It seemed that RENAMO, due its auto-destructive attitudes, had become increasingly marginalized. It was only able to win 17.88% of the vote and 51 seats in the 2009 parliamentary election.

However, the party landscape changed with the emergence of Democratic Movement of Mozambique (MDM) in 2009. MDM won eight parliamentary seats in the National Assembly in 2009. This was due to MDM's good performance in the municipalities it was governing (Beira, Quelimane). In these municipalities, MDM had demonstrated that it was able to deliver services to the people effectively. Therefore, it did not come as a surprise that MDM succeeded in the November 2013 local elections and benefited in addition from the boycott by RENAMO. MDM earned seats in 51 out of 53 municipal councils and held the position of mayor in Beira, Nampula and Quelimane cities. MDM even managed to win a substantial number of seats in the municipal assembly of Maputo city, a well-established FRELIMO stronghold. In total, FRELIMO won 50 cities and MDM won three cities out of 53.

Important parameters for the state of the Mozambican party system changed in 2018. The sudden death of Afonso Dhlakama, who had led the party in a rather autocratic style for almost 40 years, brought about new and positive dynamics within RENAMO. The party under Ossufo Momade attracted and welcomed back former members with political clout. A new RENAMO leadership was elected for the first time in an open and transparent process in which four candidates contested the party presidency.

The 2018 local elections demonstrated again that MDM is not able to capture frustrated FRELIMO voters to extend its base. The party had already lost the position of mayor in Nampula when the incumbent Mahamudu Amurane was murdered in 2017 and RENAMO won the position.

Party system



Even though MDM is losing ground it plays an important role as an opposition party. Contrary to RENAMO, it does not have the legacy of being party to a civil war. Although it only managed to retain power in Beira, it has won seats in most of the municipal councils and can play a constructive role by providing an alternative voice of opposition. In some municipal councils, it can even tip the balance so that RENAMO can take over the council presidency.

However, the sudden loss of MDM's president and mayor of Beira in February 2021 diminishes the party's political capital further. Daviz Simango had been well respected as a political figure of integrity, charisma and with true democratic convictions.

In the general elections of 2019 MDM had only managed to capture 2.4% of the votes and lost 11 parliamentary seats. Evidently neither MDM nor RENAMO were able to capitalize on the bad governance by the government. In 2019 RENAMO lost 29 parliamentary seats and only secured 24% of votes. Yes, elections were rigged and most likely FRELIMO would not have garnered an absolute majority in free and fair elections, but with an abstention rate of more than 49%, opposition parties also could have tapped into this potential of disillusioned voters.

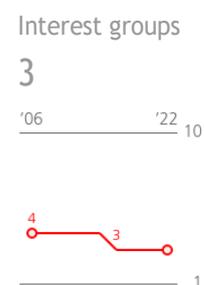
Especially painful for the opposition is the loss of all provinces in which they had been holding the position of governor so far. For the first time an elected position, FRELIMO held power in all of the 11 provinces.

During the presidency of Armando Guebuza, FRELIMO elite interest groups held the state and the economy hostage. For civil society and interest groups, it became extremely difficult to fulfill their representative mandates.

Particularly in the sociopolitical field, this has changed with a weaker government that has been constantly under political and economic pressure since coming into power in 2015.

Private sector organizations are becoming more vocal and critical of the government. For the Association of Touristic Operators (Associação de Agentes de Viagens e Operadores Turísticos de Moçambique, AVITUM), the security situation in the north is seen as an increasing problem for the sector. Although the atrocities are taking place in remote areas, it taints the reputation of the country and impacts business opportunities.

For the Mozambican Business Association, the mining and gas sector development are unique opportunities for Mozambican small-to-medium enterprises (SMEs) to adapt to the market and to operate in the context of a favorable local content policy by the government. In this regard, the Confederação das Associações Económicas de Moçambique (CTA) tries to hold government to account in order to provide a much-needed policy context.



Labor organizations in particular still fail to adequately articulate their members' interests. In 2020 the government and the employers suspended the negotiation of an increase to the minimum salary in all sectors, including public service. This happened without resistance by labor unions, which also remained silent when members of the parliament increased their salaries, and former members of parliament (some of them still serving) received a so-called reintegration bonus after having served two years as members of parliament.

Especially in the current context of excessive natural resource exploitation, in which labor plays a strong role, one might expect to find much stronger organizations mediating between the interests of citizens, businesses and the state. In all these cases labor organizations remain silent, as they are still by and large dominated by the ruling party. Their lobby goals, however, also find their limits in the socioeconomic realities of the country.

The latest survey data on citizens' approval of democratic norms and procedures dates back to 2018, thus before the last general elections in October 2019. In the latter, voter turnout had been at 51%, substantially higher than in previous elections (2014: 48.64%; 2009: 44.63%) when disenchantment of the electorate was also reflected in low rates of voter participation. Mozambicans want to see democracy. According to the 2018 Afrobarometer dataset, 61% see elections as the only way to choose a leadership, and 57% prefer democracy to any other kind of government. The democratic disposition of Mozambicans is also reflected in their support for a multiparty system (58%).

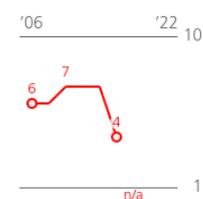
The reality does not match their values: Only 18% consider Mozambique a full democracy, and for 64% deficiencies are still there or even growing. Freedom of speech is seen as endangered, equally the affiliation with parties other than the ruling party.

Somewhat contradictory is the affirmation of trust into democratic institutions such as the president, parliament, and the courts, while at the same time there are concerns about their implications in corrupt practices.

As the discussions and pro-government positions on social media have demonstrated in the wake of the demission of public health specialist Helder Martins from the scientific advisory body on COVID-19, citizens trust their government in the management of the pandemic.

Approval of
democracy

n/a



Although the government runs an ambitious social protection program (National Strategy for Basic Social Security 2016-2024), informal self-help networks are essential for the approximately 15 million Mozambicans living in extreme poverty. Self-help organizations are the key actors in coping with challenges such as natural disasters, HIV/AIDS, orphanage and rural to urban migration. Relations of social capital within the local and or religious community, the extended family, friends and neighbors are also essential in the context of the immense informal economy and the need for microfinance initiatives.

However, social capital, and with it the level of trust among the population, are under strain by a) an increased political polarization since the conflict between FRELIMO and RENAMO became virulent and violent again; and b) a deteriorating security situation in the northern provinces. Already during the civil war, a decline in social capital had been noted and documented in selected case studies.

In the realm of the disastrous cyclones of 2019, the veracity of acts of solidarity and in particular international assistance efforts were questioned on social media.

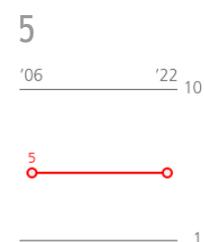
As in other countries the pandemic in Mozambique has reinforced existing schisms within society and between scientists and political actors. The most prominent case has been the demission of Helder Martins from the Commission for the Prevention of and Action against COVID-19 in February 2021, who cited the lack of transparency and public engagement of the commission and actions taken by government for political considerations. His departure from the commission stirred public debates on social media.

II. Economic Transformation

6 | Level of Socioeconomic Development

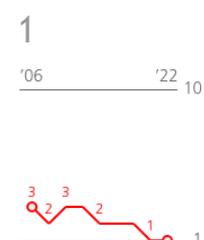
Since 2016 Mozambique's economy experiences a substantial slowdown due to falling market prices of natural resources, reduced foreign direct investment (FDI), suspension of direct budget assistance by donors and a depreciation of the national currency. But even the previous decade of growth rates of 7% to 8% did not initiate a structural transformation and industrialization of the economy. The economy remains dependent on the exploration of raw materials and the agricultural sector. With reduced economic growth, income inequality by regional standards – already high – has been increasing. In sub-Saharan Africa, Mozambique counts among the countries with the highest levels of inequality and a Gini index of 45.6. Disparities among the well-off and the most disadvantaged households are growing along with regional asymmetries.

Social capital



Question
Score

Socioeconomic
barriers



Although the national data by now is almost to be considered outdated as the last household budget survey has been undertaken in 2014/2015, it nevertheless can be assumed that the macroeconomic decline in recent years has not substantially altered the picture. In 2014/2015, 46.1 % of Mozambicans lived below the poverty line. Poverty in Mozambique is also multidimensional and not only relates to monetary poverty. Food insecurity is exacerbated by recurrent climate-related natural disasters (floods, droughts, cyclones).

Women are disproportionately affected, as are children, people with disabilities and the elderly. Poverty in Mozambique also has a regional pattern and affects mainly provinces in the center and north such as Zambezia and Nampula.

Mozambique's human development index (HDI) for 2019 has been 0.456. But an inequality adjusted HDI brings it down to 0.316. Irrespective of the representation of women in Mozambican leadership positions, the gender inequality index still places Mozambique toward the bottom end, ranking 127 out of 162 countries.

The outbreak of COVID-19 forced the government to close its borders and to declare a state of emergency in April 2020 with schools, industrial and commercial facilities closed. These restrictions had a negative effect on income and affected particularly already vulnerable households, small and informal businesses in urban areas. According to World Bank data, approximately 80% of the labor force is operating in the informal sector. Many informal retail firms are owned by women, who either lost their supply chains when travel to South Africa became impossible or lost customers due to shrinking consuming power.

In the first months of the pandemic the government estimated that the unemployment rate could rise by 7% to 10% (at 20% in the beginning of 2020).

For the large share of Mozambicans in rural areas living off subsistence farming, the immediate effects had not been as harsh as for the informally employed or unemployed urban dwellers. Only 13% of smallholder farmers actually sell their products in markets. However, for them the main impact of COVID-19 relates to access and quality of health services, and disruption of remittances from relatives who suddenly lose employment.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	13219.1	14845.9	15291.4	14021.4
GDP growth	%	3.7	3.4	2.3	-1.3
Inflation (CPI)	%	15.1	3.9	2.8	-
Unemployment	%	3.3	3.2	3.2	3.4
Foreign direct investment	% of GDP	17.5	18.0	14.3	-
Export growth	%	3.9	47.9	-10.7	-
Import growth	%	-12.9	43.4	0.0	-
Current account balance	\$ M	-2585.5	-4500.8	-3022.3	-3812.8
Public debt	% of GDP	99.6	107.1	105.4	128.5
External debt	\$ M	15821.7	18678.7	20110.3	20932.3
Total debt service	\$ M	450.8	547.2	865.0	1558.7
Net lending/borrowing	% of GDP	1.5	-4.0	2.2	-
Tax revenue	% of GDP	22.2	21.4	27.1	-
Government consumption	% of GDP	24.6	21.8	21.7	-
Public education spending	% of GDP	5.5	5.5	6.2	-
Public health spending	% of GDP	1.7	1.7	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.0	1.3	1.4	1.1

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market based competition is enshrined in Art. 97 of the constitution (2004). The government seeks foreign investment in order to boost the economy and to create much-needed jobs. With the exception of strategic sectors related to national security all business sectors are open but foreign and domestic investments need the approval of the government.

In general, the investment law does not differentiate between local or foreign investors or limits foreign ownership or control of companies. However, two groundbreaking regulations were introduced in 2011 and 2014 respectively. Law No 15/2011, the so-called Megaprojects Law, demands that Mozambicans be a partner in public-private partnerships, large-scale ventures and business concession in a range of 5% to 20% of the equity capital of the project company. In addition, in 2014 Law 14/2014, the so-called Petroleum Law, was passed. It affirms in its Art. 4.1 the regulatory authority of the government in the exploration, production, transportation, trade, refinery and transformation of liquid hydrocarbons and their by-products, including petrochemical activities. The same law set up in its Art. 4.6 the state-owned company ENH that owns up to 15% of oil and gas shares in the country and which is the sole representative for investment in the oil and gas industry.

When it comes to employment practices, rules are stricter. Foreign workers can only be hired when there are not sufficient Mozambican workers with the specific qualifications, and quotas for foreign workers as a percentage of the labor force in a private company are enforced.

Despite these efforts, the informal sector remains dominant, has been increasing as a result of the economic crisis and is expected to grow further due to the pandemic. Before the pandemic, approximately 65% of GNP was generated by informal businesses. The formal sector accounted for 32% of employment opportunities.

In the World Bank's 2020 report on the Ease of Doing Business, Mozambique lowered its ranking to 138 out of 190 from the previous year, when it had been positioned at 135. Although the government improved the process of getting a construction permit or access to electricity, there is still a lot of red tape to go through when starting a business (rank 176) or when trying to execute contracts (rank 168). Equally, the access to funding particularly for SMEs remains difficult, placing the country toward the tail end when compared to others (rank 165).

Corruption prevails and distorts the playing field. In addition, and particularly for foreign investors, the business culture of covering illicit activities with ordinary business activities constitutes a serious risk.

Market
organization

4

'06 '22 10



1

Mozambique passed a competition law (Law No. 10/2013) in 2013 and established a Competition Regulation Authority (ARC) on paper. The law provides Mozambique with a modern competition enforcement system. It applies to both private companies and state-owned enterprises and covers all productive economic activities in Mozambique. It prohibits agreements and practices that restrict competition horizontally (cartel building) and vertically (between companies and suppliers of customers). The law also prohibits abusive practices by dominant market actors. This includes, for example, the refusal to grant access to essential infrastructure and the unjustified termination of a business relationship.

The new law introduces merger control in Mozambique.

However, to this day the oversight body ARC has not been established although this has become more urgent than ever, in the context of the African Continental Free Trade Area. This substantial and unexplained delay causes concern and raises the suspicion that the non-existence of such an oversight body allows the political elite to continue to follow through on their economic interests particularly in sectors such as aviation.

During the COVID-19 pandemic the government started to monitor the prices of essential goods in order to avoid price gouging. In the agricultural sector new subsidies were introduced, as well as new subsidized credit lines for strategic sectors such as agriculture, fisheries, tourism, transport and forests.

Mozambique's main objective in trade policy is to create an environment that enhances the competitiveness of domestic products internationally and in the region.

In its recent reform processes, Mozambique has streamlined customs procedures to benefit foreign traders. The country's ratification and implementation of the Trade Facilitation Agreement in 2016 as well as the one-stop electronic window for customs transactions facilitate trade. A lack of predictability of its tariff regime is often cited as an impediment.

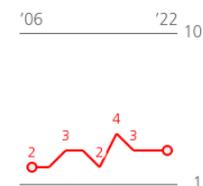
Mozambique is a member of the SADC Free Trade area; 99.6% of duties for goods from SADC countries are at zero.

Since 2018 Mozambique has benefitted from the EU-SADC Economic Partnership. However, its limited export base and low level of manufactured goods limit benefits. Under the EU- Economic Partnership Agreement (EPA) Mozambique has to exempt 74% of imports from the EU from tariffs within a ten-year framework. As these revenues so far have been substantial for the state budget, the country is allowed to maintain 26% of duties.

Mozambique does not apply tariff quotas. Its Most Favored Nation tariff rates have remained unchanged in recent years. Its simple average tariff rate is 10%, with slightly higher rates on agricultural products (13.4%) than on non-agricultural products (9.5%).

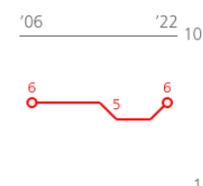
Competition policy

3



Liberalization of foreign trade

6



Taking into account the vulnerable structure of Mozambique's economy, the government has been reluctant in the past to join a Tripartite Free Trade Area (TFTA) that unites the 26 member countries of SADC, Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC), and it certainly will remain so in relation to the African Continental Free Trade Area.

The real income gains for Mozambique by the Africa Continental Free Trade Area (AfCFTA) will be minimal, approximately 2% (compared to the Ivory Coast with estimates of 14%). Already today Mozambique has very low tariffs on imports from AfCFTA countries and would have to reduce its non-tariff barriers substantially within the next decade. Export expansion is not expected. When agricultural tariffs are eliminated, it might even come to a reduction in welfare in the country.

Mozambique has been able to increase the financial inclusion of its population substantially due to the digitalization of banking services and financial platforms by telecommunications companies such as M-Pesa by Vodacom and Mkesh by Mcel. The vast coverage of Mozambique by telecommunication networks and the widespread use of mobile phones made it possible for functions of the banking sector such as transfers, payments of goods and services, deposits and withdrawals to be done far away from the next bank.

Although the central bank, Banco de Moçambique (BOM), fulfills its regulatory role and tries to address vulnerabilities, the banking sector remains volatile and is subject to concentration.

In 2018, after BOM already had fined about 20 financial institutions for breach of anti-money-laundering and terrorism financing laws, it set out a Code of Conduct for Credit Institutions and Financial Companies (2/GBM/2018) specifying their obligations to provide information and data protection to clients, and to block abusive contracts.

In order to liberalize foreign exchange transactions, BOM abolished the previous pre-authorization for capital operations by commercial banks.

In compliance with the Basel-III agreement, BOM already had introduced – with 08/GBM/2017 – an adjustment of the solvency ratio for banks from 8% to 12% by 2020. The sector as such developed solidly and at the end of 2019 stood at a solvency ratio of 21.6%.

According to an assessment by KPMG, Mozambican commercial banks managed overall – through cost containment, a relatively stable inflation and high net interest margins – to raise their profits by 28% in 2018. Only five out of the 19 registered banks finished with a negative balance.

With regulation 10/GBM/2018, the central bank created a checklist that allows it to identify banking institutions that could pose a systemic risk to the Mozambican banking system. Already in the past, BOM had to take over the defunct bank MOZA (2017). But with the Banco Nacional de Investimentos (BNI) it has another toxic

Banking system

6

'06 '22 10



1

bank in its system, which not only has a high ratio of re-financing through debt (54.28%, national average is 26.21%) but also a high percentage of non-performing loans (28%) in its portfolio.

The rating agency Fitch forecasted for 2020 a 6.7% increase of credits by Mozambican banks. However, availability of capital remains limited due to the limited activas by banks as well as the extensive borrowing by the Mozambican government in recent years.

8 | Monetary and fiscal stability

In the aftermath of the disclosure of the hidden debt scandal, the economic downward spiral and loss of donor support, the central bank had to embark on a tight monetary policy in order to reign in a spiking inflation rate (25% in 2016) and a national currency that had devalued to the U.S. dollar by 50%. The strict policies paid off and inflation dropped to 3.9% in 2018 and 3.5% in 2019. It also allowed the central bank to ease lending interest rates, which had peaked at 23.25% in 2016, de facto depriving the private sector of financing solutions. End of 2019 interbank lending rates stood at 12.75%, and still remain among the highest in Africa.

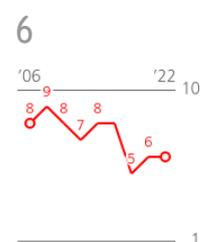
The overall impact of natural disasters on inflation has been localized. In Beira, one of the cities most affected by cyclone Idai in 2019, food prices increased by 10.3% as agricultural outputs were destroyed. However, due to the limited integration of the local economy into the national market, it did not affect the overall positive trend.

The depreciation of the national currency metical against the U.S. dollar continued. However, in comparison to other currencies in the SADC region, it remained at a fairly stable depreciation level of 5% in 2019. During the pandemic the depreciation of the metical against the U.S. dollar increased by 10%. This is seen mainly as a result of economic uncertainties and risks within the national economy and the overall performance of the U.S. dollar in the international market.

Despite the difficult environment, the central bank managed to increase the international reserves, which by the end of January 2021 covered imports of goods and services of up to six months.

Mozambique's fiscal situation is still tainted by the hidden debt crisis. In addition, both tropical cyclones, Idai and Kenneth, sent shock-waves through the economy in 2019. FDI flows particularly to the resource rich Northern provinces are coming in reluctantly due to a deteriorating security situation. In this challenging context, the government tried to maintain macroeconomic and financial stability. Albeit still classified as a "substantial risk" by rating agencies, the government at least managed to project stability.

Monetary stability



Fiscal stability



With additional demands for support to the economy after the natural disasters stroke, the country remains heavily indebted. Public debt stands at 120% of GDP in 2020. With general loans from multilateral institutions and donor countries mainly blocked, and access to the private capital market almost nonexistent, the government mainly relies on the domestic capital market issuing treasury bonds inter alia. Domestic debt levels increased by 15% between 2019 and 2020. Nevertheless, external debt still remains the largest part of public debt at 79%, of which 56% are loans from bilateral donors.

Whereas the government of Mozambique was seeking debt relief from bilateral donors such as China (and not just the suspension of payments as authorized by the G-20) in order to free funds for addressing the COVID-19 pandemic, it did not touch the so-called Eurobonds, debt service obligations in the private capital market, and issued in order to generate additional resources after the hidden debt scandal.

In addition to debt relief and suspension, donors were asked to assist with a financing package of \$700 million in order to deal with the economic impact of the pandemic. The additional funds were meant to finance a) tax exemptions in support of families and the health sector, and b) increased government expenditures in response to the health crisis, incl. cash transfers and subsidies to the poorest households, micro-enterprises and SMEs.

9 | Private Property

Mozambican law protects property rights in relation to buildings and movable property. Ownership of land remains the exclusive right of the state (Lei de Terras, 19/1997), but land-use concessions are given for periods of up to 50 years with the option to renew. These concessions substitute land titles but are not accepted by financial institutions as collaterals.

Irrespective of the question of ownership, Mozambique's land governance system is sound. This allows for strong protection of community-based land rights, community consultation with respect to partnerships with investors, and secure rights to land for investors. But as in many other cases, the de jure existing framework is insufficiently implemented. For example, only about 10% of the communities have registered property rights.

Since 2000, Mozambique also has the necessary laws in place to protect intellectual property rights and allowing for recourse to criminal or administrative tribunals in cases of alleged intellectual property right violations. However, enforcement of intellectual property rights by the responsible National Inspectorate for Economic Activities (INAE) remains sporadic.

Property rights

6

'06 _____ '22 10



1

Industrial property protection has been enshrined in Decree 47/2015 and Mozambique equally signed up to the respective international and regional accords for industrial property protection.

In Mozambique, legal and operational frameworks are far more favorable to multinationals and megaprojects than to the ordinary private sector company. Currently Mozambique's private sector is dominated by individual entrepreneurs (93%) and micro-enterprises (6.6%). Although FDI directed to SMEs creates far more employment than megaprojects, the number of SMEs remains insignificant (0.02% of enterprises, employing between 50 and 100 workers). In rhetoric the government supports SMEs, but very little is seen on the ground.

In 2018, the government broadened the definition of state-owned enterprises in order to include all public enterprises and those where the state is a shareholder.

An amended law (Law 3/2018, June 19) is clearly a response to the scandal involving ATUM and the need to enhance transparency and accountability around state-owned enterprises.

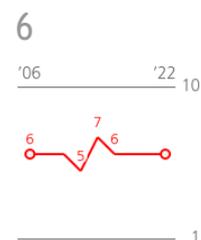
The privatization of former state-owned enterprises progresses slowly. According to the institute for state enterprises, Instituto de Gestão das Participações do Estado (IGEPE), about 50% of companies in the hands of the state or with state participation could be subject to privatization (in total 113). However, most public enterprises are not necessarily sustainable.

10 | Welfare Regime

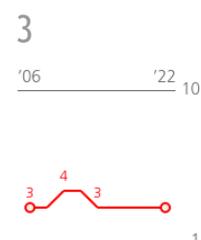
In 2016, parliament approved the National Basic Social Security Strategy 2016 to 2024. The strategy, based on the principles of solidarity, universality and equity aims to reinforce consumption, autonomy and resilience. Its approach shifts the focus from the family to the individual. Although the budget allocation for social protection has been continuously increasing (1.9% of the state budget in 2020, in 1.8% in 2019), the target set out (2.23% of GDP) will not be met if budget allocations are not substantially increased. But an increased budget will not be sufficient on its own. As a 2020 report has outlined, allocations and expenditure are not aligned and the execution rate over the past five years has worsened. In 2019 only 79% of the allocated budget for social protection were spent.

Financing for the social protection sector in Mozambique comes from domestic resources (taxes, tariffs, internal credits) or from external bilateral project funds. Until 2015 general budget support by donors such as the United Kingdom's Department for International Development (DFID) or the Dutch government also funded parts of the program. After the devastation by cyclones, donors restarted their funding and directed it to emergency support programs.

Private enterprise



Social safety nets



In 2020, the programs run by the National Institute INAS covered 608,724 households about 22% of those in need. Per capita spending on the poor has been Mt 464 in 2020 (\$6.25 per year) Although the value of subsidies is supposed to be adapted annually, this has not been done since 2018.

It is to be expected that the number of vulnerable Mozambicans will grow due to the COVID-19 pandemic. And it will be an additional challenge to identify those who have become needy only recently. Government estimates came up with about 990,000 new beneficiaries of cash transfers, victims of the negative socioeconomic impacts stemming from control measure for the spread of the virus. At the time of writing a funding gap of about \$158 million existed for the COVID-19 social protection response plan.

Article 66 of the constitution prohibits discrimination based on race, sex, ethnic origin, place of birth, religion, educational level, social position and the legal status of parents or profession. Article 57 specifically addresses gender equality between men and women.

Legal and programmatic frameworks in support of women have been put in place, awareness-raising campaigns have been launched and gender parity in education has become a prime objective. The latest legislative achievements have been the Law for Preventing and Ending Child Marriages (Law No. 19/2019 of October 22) as well as the revision of the Law of Succession (Law No. 23/2019 of December 23) that identifies widows as the main beneficiary. The age of consent for marriage has been established at 18 years, and child marriages have been criminalized. In addition, the Ministerial order that prevented pregnant students from attending daytime classes at school was revoked in 2018.

Women make up 52.3% of the labor force.

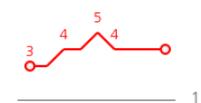
In the political sphere, Mozambique has continuously increased the percentage of women in decision-making positions although it does not have a quota system. In 2020, 37.6% members of parliament have been women. Nine of the 22 cabinet members are women (ministers). On the provincial level, three of the 10 elected governors are women and 35% of the members of the Provincial Assemblies are women. In addition, the leadership of the Assembly of the Republic, the Administrative Court and the Constitutional Council are held by women. In the Civil Service, women represent 39% of the staff. However, these figures reflect an urban reality closely linked to the local elites.

Despite all the efforts, prevailing socio-cultural factors still lead to exclusion of women and girls from the political and socioeconomic life and limit their participation in various spheres of society. One in two women is illiterate, as the average schooling years for women remains at 2.5 years (4.6 for men). High primary school enrollment rates (92%) do not improve the situation so far, due to high dropout

Equal opportunity

4

'06 '22 10



rates and bad quality of teaching. In rural areas 62.4% of women are illiterate. Most women are employed in the informal and agricultural sectors as unskilled workers or subsistence farmers.

In 2019, Mozambique ranked 127 out of 162 in the Gender Inequality Index.

11 | Economic Performance

The slow recovery of Mozambique's distressed economy noted in 2018 (3.5% of GDP growth; 2017:3.3%) has been stalled by two cyclones that hit the country in 2019 and reduced GDP growth to 1.9%. The economy remains highly vulnerable to climate-related shocks as these disrupt supply chains for megaprojects, destroy infrastructure and destroy the output of subsistence agriculture.

In 2020 the economy contracted further to a negative rate of -0.5% according to first estimates by the IMF.

With FDI in mining contracting, FDI inflows decreased from \$2.7 billion in 2018 to \$2.2 billion (-18.2%) in 2019. FDI continues to be hampered by poor governance, an unstable political and security environment, inadequate transport and port infrastructure, vulnerability to natural disasters, and the current sovereign debt crisis.

GDP per capita based on PPP was \$1,279 in 2020, down from \$1,302 in 2019.

In the fall of 2020 an estimated 43.578 workers lost their jobs in the formal economy due to the pandemic. Most of them had been employed by small and medium-sized enterprises.

Unemployment rates remain high, particularly among youth (about 30%), as low skill levels prevent their integration into the formal labor market and also hamper productivity. At the same time, population growth remains high.

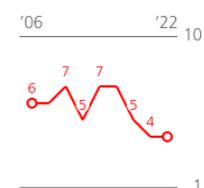
Mozambique's economic outlook is often painted in a rosy picture as offshore gas discoveries could lead to a diversification of the economy, the transformation of subsistence agriculture into agroindustry and could generate higher revenues along with enhanced macroeconomic stability. However, none of the megaprojects has delivered any trickle-down effect so far.

On the contrary, the current account deficit widened in 2019 to 54.2% of GDP (up from 29.5% in 2018) and approximately 65% in 2020 as large investment projects increased the imports of capital goods and services.

Fiscal strains and tight monetary policies substantially decreased public investment apart from emergency measures in the context of natural disasters and COVID-19. Irrespective of the fact that the country is reducing its debt-to-GDP ratio, improving tax collection, and reaching debt restructuring agreements, Mozambique's debt

Output strength

4



carrying capacity remains weak. Mozambique's eligibility for the G20 initiative provided short-term debt service relief. However, in order to enhance its debt sustainability, the government would need to further diversify its economy, broadening its export base and applying a prudent borrowing strategy.

12 | Sustainability

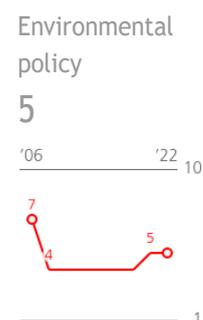
With the ambitious goal to become the third biggest exporter of natural gas by 2035, the government also is aware of the environmental impact this will have. In a study undertaken in cooperation with the UN, main challenges and capacity-building needs in relation to sustainable management have been identified. The extent to which these recommendations will be taken up and implemented still remains to be seen. As in many other areas, the government of Mozambique is good at developing a legal framework with the assistance of donors and international organizations. Over the years the government has developed a set of policies (e.g., Action plan for a Green Economy; regulation on carbon emissions and deforestation, REDD+; national climate adaptation and mitigation strategy) and has taken action in order to generate revenues for environmental protection.

With an increased frequency of natural disasters resulting from climate change, there is a growing concern in the country about environmental issues.

In alignment with the SDGs, the government committed to the goal of universal access to affordable and sustainable energy by 2030. In its new five-year plan (PQG) 2020-2024 the government estimates that by 2024 64% of the population will have access to electricity (2019: 24%). For those who cannot afford to pay market prices, a policy of social tariffs under the National Energy Program for All has been introduced.

Access to electricity also reduces the use of firewood and coal as energy sources for cooking in rural areas and addresses forest degradation. Mozambique has a large potential for renewable energy by hydroelectric power (Cahora Bassa dam).

According to the Afrobarometer survey (2018) 40% of Mozambicans are aware of climate change and 12% have in-depth knowledge. Also, for the government, prevention, early warning, adaptation and mitigation of climate change are key subjects in education and population awareness.



The main challenges for Mozambique's education sector are demographic growth, the corruption within the system and the loss of external donor support after the "hidden debt" scandal. Education in Mozambique remains a public domain; less than 5% attend private schools.

Enrollment rates have been increased substantially over the last two decades, from 55% in 2000 to 93% in 2019. The state budget dedicated 5.5% to education and 0.3% to R&D, resulting in a score of 0.395 in the UN Education Index.

In May 2020 the government presented its Strategic Plan for Education 2020-2029, a comprehensive document that includes a mandate for education at the preschool level. Most likely due to the low education levels and high levels of analphabetism (39%, census data 2017) the strategy encompasses neither tertiary education (delinked in a separate document) nor visions for research and development. With the approval of Law 18/2018 December 28, the obligation to attend school has been extended to nine years. This implies that more secondary school teachers will be needed immediately. In the past, the demand for enhanced capacities in secondary education (classrooms and teachers) due to demographic developments was resolved to the detriment of installations used by the primary sector. Large classes (ratio of 64.2 students/teacher) impact negatively on the quality of education and often prolong the time students need to accomplish their primary education. Dropout rates remain high in Mozambique (60%) and way above the African average of around 35%.

The skills, knowledge, and training of teachers have been a problem for decades.

In relation to budget allocations, the government fulfills the regional parameters set by SADC and increased in its 2020 budget allocation for education from 23% (2019) to 27%. The focus is set on district-level expenditures, particularly hardware (school building, desks, etc.).

The problems affecting basic education also can be found in vocational training. Often the content is insufficiently geared toward the needs of the labor market. Poor qualifications, equally in the ICT field, limit employment opportunities and increase youth unemployment rates year by year.

A recent mapping of research and innovation in Mozambique (2021) has identified substantial shortcomings particularly in the areas strategically most important for the economy: agriculture (e.g., adaptation to climate change, food security) and oil and gas (e.g., training of engineers across the value chains).

Education policy /
R&D

3

'06 _____ '22 10



Governance

I. Level of Difficulty

Despite its geographical location and a long coastline with port facilities in the south (Maputo) and center (Beira and Nacala), Mozambique is only slowly transforming into an access point for landlocked neighboring countries such as Botswana, Malawi, Zambia, and Zimbabwe. The necessary infrastructure development relies on donor support or private sector engagement and is hampered by a deteriorating security situation in the center and north.

Mozambique's structural constraints are manifold with only minor signs of improvement in some areas and a severe deterioration in others.

Multidimensional poverty has increased in the period 2016-2018 and might even have affected around 60% of the population in 2020. After two cyclones in 2019, the country experienced another devastating cyclone, Eloise, in early 2021. The frequency of natural disasters increases at a speed that hardly allows the national resilience capacities to catch up.

The diversification of the economy and the formalization of previously informal clusters remain constrained by the small segment of skilled labor and the low level of education within the population.

In order to prevent a complete breakdown of an already fragile health system, the government took bold measures even before the first cases of COVID-19 emerged. Although the country has seen a new spike in cases since December 2020, it still remains on a low level of about 50,000 reported cases by mid-February 2021. In late March 2020 President Nyusi declared a state of emergency that was then extended consecutively for months. In order to prevent the spread of the virus, cross-border movements were restricted; public and private events were banned; non-essential shops closed. The government started to monitor the prices of essential goods in order to prevent price gouging. One also re-directed the industrial sector to the production of supplies for the prevention or mitigation of the spread of the virus.

These measures as well as the general situation had severe repercussions. The tourism sector almost came to a complete standstill and contracted by 87%. Industry and trade declined by 20% and 19.1% respectively. In the tourism industry, 21.9% of workers lost their jobs; in the industrial sector 12.4% became unemployed.

Structural
constraints

8



1

Civil society is growing and becoming more vocal and critical.

There are three broader categories. The largest group consists of community-based organizations, which in general have weak organizational capacities and a chronic lack of funding. They often provide essential services in places where state structures remain absent or lack capacity. Those are also the most vulnerable when clashing with the interests of political actors.

A second group can be characterized as issue-based (e.g., health, climate change, poverty reduction) and is also mainly service-oriented.

In the urban sphere and mainly in Maputo, there is a third group of elite-based, academically oriented organizations. They are interlocutors for many donors and enjoy international support. They often engage in monitoring and advocacy and aim for enhanced government accountability.

Many organizations organize around platforms that aim to hold the government to account, to participate in official dialogues, and to uphold civil rights. Particularly this segment of civil society seems to have become more vocal and outspoken during the term of President Nyusi. Often the platforms have developed dynamics of their own and imply the risk of competing with their own members for funds and influence.

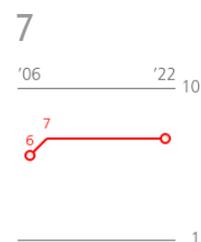
This overall space granted to civil society nevertheless finds its limits when it comes to topics such as human rights violations or natural resource management. These areas are often controlled by the government and any civil society member who tries to criticize the government may risk their life.

Although a third and hopefully lasting peace agreement has been signed with RENAMO in August 2019, and elections, albeit rigged, did not trigger a new wave of conflict, a small group of armed RENAMO adherents – delinked from the party leaders – continue their quest with sporadic violent attacks. They claim that the last peace agreement did not respect and include their revendications. Moreover, this group rejects the new RENAMO leader as a valid interlocutor of the party.

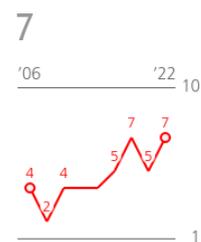
Disarmament and reintegration of RENAMO fighters remains a slow and cumbersome process also due to lack of funding.

The Islamist insurgency in the north has spun out of control with militants having taken over control of besieged districts. Whereas the conflict between FRELIMO and RENAMO never has been based much on ethnic or religious cleavages, it seems that the Islamist insurgents spreading terror and violence in Cabo Delgado might bring a religious connotation to this emerging conflict, although it would be incorrect to label it as a religiously motivated one. What is clear now from this conflict is that the insurgents are using religion to spread their terror, but it is not a conflict based on religion as such.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

Although the government sets some general priorities but external shocks (such as natural catastrophes, including floods) the priorities cannot be further developed.

In addition, the government did not succeed in assessing priorities and trade-offs in the composition of investment. Some policy measures are unrealistic. For example, instead of focusing on SME sector development, one reached for the low-hanging fruits of extractive megaprojects, which stimulated growth in joblessness. Rules of prudent revenue management were discarded and one engaged in dubious projects for which secret loans were taken out with government backing. FRELIMO elites indebted future generations of Mozambicans.

As various law projects over the last couple of years have shown, the government often lacks a coherent approach to harmonizing new laws with existing ones. Although two key government priorities have been economic diversification and job creation, the approach to local content policies necessary for promoting SMEs in the extractive industry sector remains weak.

However, in defense of the government of President Nyusi, one must note that he started his first term on the worst possible footing: unsustainable debts, elimination of large-scale donor support, dissolution of the 1992 peace agreement by RENAMO, the emergence of Islamist insurgents terrorizing Cabo Delgado, as well as natural disasters culminating in the three cyclones and a pandemic.

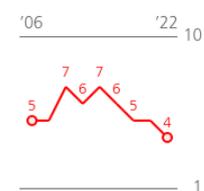
In such a context, and for any government of a developing country, prioritization becomes a challenge. First, much of the state budget was deviated to military security due to the problems in the center and north. Consequently, social sectors, such as education and social security, were left behind. When the pandemic struck the government first showed a good response to COVID-19. But soon the health sector experienced shortages of protective material, lack of COVID-19 tests, lack of equipment and material for health staff. This problem was ameliorated after Mozambique received donations from several countries.

All in all, after years of economic growth rates of 7% to 10%, the opportunity to transform the economy and the country into a developmental state was missed.

Question
Score

Prioritization

4



When President Nyusi came to power in 2015 he presented an ambitious agenda. Much of it remains to be realized in his second mandate. Employment creation, infrastructure development as well as rural development featured high on the agenda. Job creation, which depends on industrialization and skills development, has been further jeopardized by the impact of COVID-19. Vulnerability to natural disasters has not been reduced and the means required for adaptation measures was used for emergency assistance and recovery after cyclones and floods. Inroads toward eradicating poverty are hampered by demographic developments and shrinking public investments.

Despite increased budgets for education, the quality of education has not changed much. Anti-corruption rhetoric and legal frameworks have not shown results, as untouchables within FRELIMO remain. As a former minister of defense, President Nyusi had promised to invest in capacity-building for the FADM. These, so far, have not proven apt to address either the Islamist insurgency in the north or the Junta Militar, a deserted military wing of RENAMO.

Policy review processes, which often are instigated and obligated by donors, do not necessarily translate into improved policy implementation or governance performance.

The “hidden debt” scandal should have been seen as a wake-up call to those in power. However, and according to Mozambican civil society, the lack of transparency and accountability persists. FRELIMO’s strategy to ride out the scandal until the staff turnaround in the international community has made the scandal a subject of the past, providing propaganda camouflaging the real state of affairs and allowing business to continue as usual, has paid off. In the wake of natural and humanitarian disasters, including COVID-19 and the terrorist threat in the north, donors have returned and even turn a blind eye to rigged elections.

The capture of the strategically important port-city Mocímboa da Praia in Cabo Delgado in August 2020 by Islamist terrorists has shown that the government has not been able to adapt its strategies or military operations to a threat that has been rising since early 2017. The recruitment of private military companies to enhance the capacities of one’s own weak and dysfunctional military is rather an act of desperation than innovation.

In relation to the conflict with RENAMO and ahead of the peace deal signed in 2019, the government had realized that an uncompromising execution of violence does not resolve the core problems and started to make concessions for the sake of peace and stability.

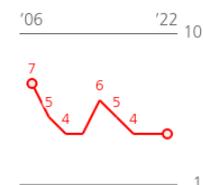
Implementation

4



Policy learning

4



15 | Resource Efficiency

State expenditure for 2021 has been set at 32% of GDP and is slightly lower than in 2020. Of concern remains the high percentage of operating costs (64.65%) of which 56.3% are staff expenditures. 22.59% of the state budgets are allocated to investment expenditures. According to deliberations in parliament on the 2021 budget about 10.13% of the state, expenditure is considered to be goods and services mainly reserved for medical supplies for the National Health System in the COVID-19 pandemic.

The fiscal deficit has widened to 7.2% of GDP in 2020 and the country retains its CCC rating by agencies such as Fitch. The financing picture remains tight as direct budget support has been suspended since the “hidden debt” scandal. Donor support mainly relates to direct project grants. The only relief came through the Rapid Credit Facility of the IMF and the Debt Service Suspension Initiative by the G-20.

By now the arrears on the two loans taken out by the former state-owned enterprises Proindicus and MAM (both dissolved under local law in the meantime) have built up to an outstanding amount of \$1 billion and arrears of about \$1 billion (about 13% of 2019 GDP). No principal or interest payment has been undertaken and the Mozambican government still challenges the validity of both state guarantees in UK courts.

The third loan to the Mozambique Tuna Company (Ematum) has already been converted into a bond. Initially, the government intended to pay by using the revenues from the liquefied natural gas (LNG) projects in the Rovuma Basin. This would have committed prospective revenues even before any LNG had been explored (to be started in 2022). Under immense pressure by Mozambican society, the government backtracked and offered creditors adjusted interest rates from 5% in the first five years and 9% afterward. This re-structured debt will bind the Mozambican government until 2031.

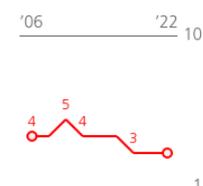
Objectives for President Nyusi’s second term starting in January 2020 have become more modest albeit not less challenging. Although agriculture still features prominently on the government’s agenda, industrialization, infrastructure development, and sectors such as energy, tourism, and fisheries are considered important policy areas for generating employment, particularly among the youth.

Considering that education is equally central and the health sector has gained additional prominence during the pandemic, it will remain a challenge for the government to balance all of these policy goals.

Critics from the political opposition and civil society highlighted that the 2021 budget does not reflect Mozambican realities and particularly falls short on the needs for

Efficient use of assets

3



Policy coordination

4



social protection measures which are aggravated by the pandemic. It projects economic growth of 2.1% when it is expected that the economy will have contracted in 2020 by -1.2%.

Policy coherence would also necessitate – in the context of decentralization – a balanced distribution of funding between central, provincial, and local levels, as well as a distribution among decentralized entities based on their needs. This exercise doesn't feature in the budget of 2021.

On an operational level and in order to facilitate the process of developing and implementing integrated and coherent policies, the government has established the SDG National Reference Group. In addition, the government also assumes that the National

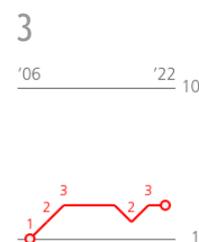
Development Strategy, the government's Five-Year Program, and the Economic and Social Plan contribute to coherence between medium and long-term policies and annual

programming and budgeting.

Rhetorically, the promotion of public integrity and the fight against corruption, money-laundering and terrorism have been high on the political agenda.

The Strategic Plan to Fight Corruption and the Public Administration Reform and Development Strategy (ERDAP), whose aim is to strengthen the integrity in public administration, are promoted as milestones. However, the government itself has to recognize that despite a comprehensive legislative and institutional framework to address corruption, effective and consistent implementation raises concerns. In order to address governance and corruption vulnerabilities, a diagnosis on transparency, governance, and corruption was conducted in 2019, inspiring a set of reforms that can be decisive in restoring confidence in governance by citizens and the international community.

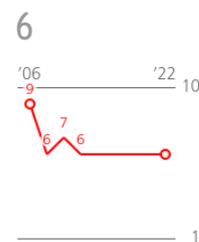
Anti-corruption policy



16 | Consensus-Building

Although President Nyusi started off with a reformist aura and had gained substantial support in the first months of his presidency, trust and confidence in his democratic disposition and capacity to pursue democratic reforms received a serious blow with the “hidden debt” scandal. For two years, it seemed that – despite donor pressure – impunity would reign. The way elections were rigged strategically even raised eyebrows within some old cadres of FRELIMO. Together with the impunity for high-level corruption and politically motivated murders, as well as the shrinking space for independent and critical voices, this shows the true disposition of the president. Interests in national security become an easy excuse for infringements on human

Consensus on goals



rights and civil liberties. Certainly, laudations on democracy will continue to be sung by the FRELIMO choir and for its donor audience. But knowing that neither unprecedented levels of corruption nor blatantly rigged elections bring about any substantial and long-term consequences in relations to major donors, the main political actors in Mozambique will continue with a façade democracy that increasingly displays autocratic features.

The focus of the governing elite remains on promoting the interests of Mozambican businesses, many of which are in the hands of FRELIMO members. Market-economic principles are endorsed by all political actors, including the opposition, but used to their own advantage. Instead of focusing on SME development, the establishment of job creation through the establishment of in-country value chains, the ruling elite puts all eggs into one basket – the natural resource-driven megaprojects which not only de-link economic growth from communities but also further disconnect the ruling elite with its population.

FRELIMO has a highly secretive and centralized organizational culture. Considerable emphasis is placed on following the instructions of the hierarchy, as repeated purges of party members who have failed to follow orders have demonstrated. The latest prominent incident occurred when the son of independence fighter and first president of independent Mozambique Samora Machel challenged President Nyusi and was reprimanded for running as mayor of Maputo in competition with the selected FRELIMO candidate.

Although President Nyusi started off on a weak footing with the “hidden debt” scandal overshadowing his first mandate, he nevertheless managed to consolidate his power base and dismantle the influence of his predecessor. Many, even those within the ranks of FRELIMO, are shocked by the level of violence the current regime displays toward critics.

But contrary to other African countries, where parties succumb to their leader, FRELIMO has always managed to uphold internal checks and balances. The fact that it took Nyusi several days in January 2020 to get his cabinet approved by the Political Commission of the party is revealing. Particularly his preferred choice for prime minister was rejected, inter alia his close confidant Celso Correia.

In relation to the most prominent anti-democratic actors currently active in Mozambique – the Islamist insurgents in Cabo Delgado – the call for dialogue is often reiterated. However, with objectives unclear, with support and leadership structures opaque, it is difficult to specify options for dialogue and co-optation or integration in a medium-term perspective.

With the emergence of the Junta Militar on RENAMO’s side in the wake of the August 2019 peace agreement, a traditional anti-democratic spoiler appeared over which RENAMO seems to have marginal control. In late August 2019, the self-

Anti-democratic actors



proclaimed commander of the military wing, General Nhongo threatened to bring the war to the country if elections would take place before any negotiations were undertaken with him. He refused to take part in the DDR process for the armed wing of RENAMO and continued to destabilize the transport corridor in Central Mozambique throughout 2020 with armed attacks.

FRELIMO was initially created as a national liberation movement. RENAMO drew its support mainly from the social and political cleavages within FRELIMO during the struggle for independence, while following some nationalist framework. After the war, these war-induced cleavages became a driving force behind the development of Mozambique's two-party system, manifesting as south versus center, the ethnic Shangaan versus the Ndau, and the centralized socialist state versus traditional rural authorities. Although these cleavages played out in the party system, they were never institutionalized in the postwar political structure. The dominance of FRELIMO prevails even without rigged elections, as the electorate generally does not view opposition parties and particularly RENAMO as alternatives. The political appetite for a proper decentralization process remains weak.

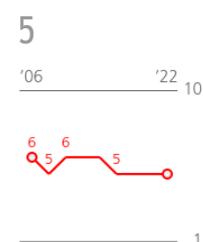
The DDR process for RENAMO veterans that has been an element in the last peace agreement from 2019, has experienced substantial delays since its beginning. Therefore, its effectiveness as an instrument in future conflict prevention cannot be assessed, yet.

With the new natural resource exploration projects, a new cleavage evolves between a small group of Mozambicans benefiting from the deals and surrounding communities characterized by large-scale poverty. Despite a deteriorating security situation, Nyusi's government had denied the real dimension of the threat posed by Islamist insurgents for months and thus hoped to secure much-needed FDI for its projects.

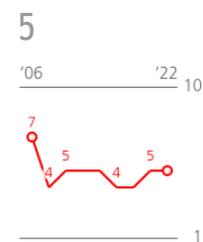
Over the last decades, the government has come to appreciate the input generated by civil society and established avenues of participation and dialogue with policymakers in development programs. However, this openness toward civil society organizations (CSOs) does not include critical voices emanating from traditional parts of organized society such as the churches or the independent media.

By invitation from the government the following formats have been established: the Open and Inclusive Presidency (PAI), which was a presidential initiative of Guebuza promoting the evaluation and consultation on the performance of district governmental institutions; Development Observatory (OD) for the process of drafting and monitoring the poverty reduction strategy papers; as well as institutions for community participation and consultation (IPCCs), which are community participation mechanisms at the district level, composed of local councils, local committees, and local forums. The National Development Observatory also became the main platform for thematic focus group discussions around Mozambique's 2020

Cleavage /
conflict
management



Civil society
participation



VNR. Civil society was engaged along the VNR process and provided a specific report drawing on data collected from a citizen perception survey. CSOs are also used for awareness-raising and advocacy work around Agenda 2030.

In general, the efficacy and viability of consultative councils and development observatories remain limited. Also, the engagement of civil society with parliament, and provincial and municipal assemblies is weak. Access to information, untimely notification of meetings, the politicization of the dialogue, and the weak representation of communities in consultative councils are striking weaknesses of the consultative structures.

In the peace negotiations between the government and RENAMO, civil society groups were allowed after they had placed their request (e.g., Parlamento Juvenil).

In relation to the deteriorating security situation in the north, the government has relied mainly on heavy-handed military strategies. Although civil society engagement is seen as an important element in effective Countering Violent Extremism (CVE) strategies, the government remains hostile to local CSOs as well as to media engagement.

After the Rome peace accords, Mozambique missed the opportunity to develop a culture of reconciliation. No official structure such as a Truth, Justice, and Reconciliation Commission had been created, nor were war atrocities addressed through other channels. RENAMO militants integrated into the defense forces or police had to face discrimination and encountered various obstacles along their career paths.

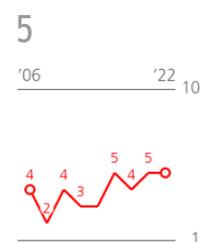
It was only under the pressure of RENAMO violence that the Council of Ministers in November 2014 approved the law to establish the Fund for Peace and National Reconciliation (Fundo de Paz e Reconciliação Nacional). After its first \$10 million for projects, the fund never was replenished and in some, like Zambezia, critics say project funds went to FRELIMO veterans and not to former RENAMO cadres.

17 | International Cooperation

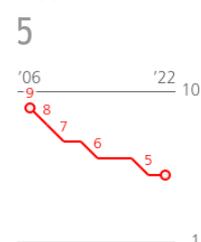
In most policy fields, Mozambique has developed strategies and action plans satisfying donor obligations. Shortfalls are first and foremost in the implementation. This phenomenon does not go unnoticed by donors, many of whom were already getting tired of words without deeds. This sentiment among the donor community certainly became aggravated by the approach the government has shown to the financial crisis triggered by the “hidden debt” scandal.

In many areas, but particularly in relation to social protection programs, the government needs to enhance its monitoring, reporting, and implementation capacity.

Reconciliation



Effective use of support



Accountability mechanisms need to be strengthened and technology needs to be applied in order to absorb more financial resources in an accountable way.

In addition, the government itself has noted in its VNR of the SDGs that coordination of different partnerships and financing arrangements needs to be improved in order to enhance efficiency and effectiveness in the context of scarce resources. The self-criticism also relates to an improved national strategic and operational planning system, which would also imply a management tool for the national SDG indicator framework.

The government also acknowledged that local participation mechanisms aimed at furthering the development agenda need to be strengthened.

The way Nyusi's government has handled the economic crisis and the hidden debt scandal has discredited his presidency. Major donors, the so-called G-14 as well as IMF and World Bank, had started to suspend their aid in 2016. However, in 2018 "aid-business" was almost back to normal. Whereas donor commitments in 2017 were still low at around \$104 million, the amounts had risen to \$525 million in 2018 and \$560 million in 2019.

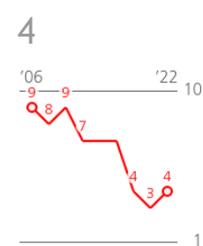
Even fraudulent elections in 2019 did not alter the picture. Admittedly, memory is short in developmental circles and particularly within multilateral organizations facing disbursement pressures.

When the humanitarian situation was aggravated by two cyclones in 2019, donors were ready to assist. But their pledges of \$1.2 billion remained short of the actual \$3.2 billion identified for damage, loss, and recovery needs by a Post-Disaster Needs Assessment (PDNA).

In the context of the COVID-19 pandemic, donors seem to prefer disbursements in-kind. When the Ministry of Health asked for \$700 million for the fight against the virus, they mainly received medical equipment and goods.

In relation to Human Rights and obligations resulting from signed protocols and recommendations formulated in its last Universal Periodic Review (2016), the government has failed to comply. Impunity for state security forces violating Human Rights during armed conflict continues. Also, high-profile murders with apparent political motivation remain unresolved.

Credibility



In relation to the deteriorating security situation in Cabo Delgado, the South African Minister of Foreign Affairs had harsh words and asked the neighbor to address the root causes of conflict, such as governance deficits, human rights violations, and the rivalries around access to resources. In early 2020 the appearance of South African private military contractors (PMCs) in the conflict area had already increased tensions as PMCs are heavily regulated in South Africa. However, in order to contain the terrorist threat to the region, the South African parliament approved the export of arms and ammunition to Mozambique. In addition, South Africa offered in 2020 to assist Mozambique in providing intelligence support, as well as coastal patrols by its navy. The offer by the South African government was met with reluctance by the Mozambican side, although the latter started discussing with Portugal very concrete military support measures (e.g., training, logistical support). Besides, the government officially recruited the South African PMC Paramount end of 2020 to provide training and equipment to its military. The repatriation of about 14,000 Mozambican mining workers by the South African government during the COVID-19 lockdown further strained relations between the two countries.

In April 2020 President Nyusi took over the Chair of SADC. A SADC meeting scheduled for January 2021 that was meant to address the security threats for the region emanating from Mozambican territory was postponed due to COVID-19. In general, SADC as well as the African Union kept silent regarding the rising terrorist threats since 2017. It has been mainly Zimbabwe that urged SADC members to revoke their mutual assistance pact in order to address the insurgency. In November 2020 Zimbabwean President Mnangagwa pledged his country's assistance. For landlocked Zimbabwe, stability in Mozambique is paramount as it relies – like Malawi – on access to the transport corridors and ports.

Although the façade of perfect family relations is maintained, relations with Tanzania are starting to sour. This relates mainly to the large influx of refugees from Cabo Delgado, the presence of terrorist groups across the border and the failure of the Mozambican government to gain control. But it also relates to the fact that Tanzania eyes the large offshore gas explorations with envy.

In September 2020 and amidst the pandemic and against international conventions, the Tanzanian government started to repatriate Mozambican refugees. Despite those developments, both sides keep up the political will to talk and cooperate. In November 2020, and after 300 people were killed by an attack on the Tanzanian border side, police chiefs of both countries met in order to discuss joint operations against the insurgent threat.

The annulment of Malawi's 2019 election by its Supreme Court due to fraud complaints and the subsequent election of the opposition leader Lazarus Chakwera were observed in Mozambique with great attention. The neighboring country where

Regional cooperation

7



1

democratic regime changes have become practice is seen as exemplary for a region where former liberation movements still tend to dominate political life.

In their first meeting, both presidents committed to revitalizing the Joint Permanent Commission, which had been dormant since 2012. Besides strengthening their economic relations (Malawi relies heavily on electricity supply from and transport corridors in Mozambique), President Nyusi also called on Malawi to join the fight against terrorism, drug-trafficking, and illegal migration in the region.

Strategic Outlook

The main challenges for Mozambique over the forthcoming months will be:

- Restoring confidence and improving its creditworthiness in the international capital market.

Although donors have returned to emergency funding and multilateral donors restarted their investment and infrastructure/project financing, much remains to be done in order to improve the country's credit ratings in the international capital market.

- Addressing the fiscal challenges and restructuring of government debt.

A sustainable restructuring of public debt without mortgaging future revenues will only be possible with the assistance of the international donor community. After Mozambique defaulted on its debt services, any restructuring of private debt comes with a price that the country in fact cannot afford.

- Enhancing investor confidence in and attractiveness of the economy.

This will involve reducing bureaucratic requirements for establishing and managing a business, while finding a balance between promoting a conducive investment environment and generating government revenue.

- Ending the culture of impunity and corruption endemic in politics.

It seems that political consent has been given to the judiciary to investigate certain cases associated with the hidden debt scandal. It will be important that those responsible for the shady deals are held accountable irrespective of their current or former positions within government. This also implicates more transparency around the implication of President Nyusi in the scandal in his previous role as minister of defense.

In many areas, including the fight against corruption, Mozambique has sound legal frameworks, which are not applied or implemented. As the judiciary remains under political influence, it is important to enhance its capacities and to strengthen its protection mechanisms.

- Restoring public confidence in the democratic process.

FRELIMO consolidated its power in the last general elections in 2019 through large-scale fraud and obstruction of a free and fair process. In the face of FRELIMO dominating all relevant state institutions on all governance levels, the sense of being deliberately disempowered can spark large-scale political apathy among voters.

- Addressing a climate of intimidation and fear.

The climate of intimidation and fear that has been established among critical voices and human rights advocates needs to be addressed. State security services have to respect and protect citizens' rights as enshrined in the constitution.

- Establishing an inclusive political process for peace, stability and development.

A more inclusive political process is not only necessary for peace and stability. Transparency and inclusiveness on the national and local level are essential to sustainable natural resource management. However, in both aspects the current government falls short.

The sound macroeconomic growth rates of the past as well as the windfalls from megaprojects in natural resource exploitation have benefitted a small urban and party connected elite. Most communities, particularly in rural areas, are facing increased levels of poverty.

- Transforming Mozambique's economy.

For the time being, Mozambique relies on extractive industries and megaprojects for its economic development, of which the liquid gas sector still is in its prospecting phase. Nevertheless, the country needs to develop viable economic policies that promote economic diversification, realistic local content policies that can promote the private sector and SME engagement and above all create employment opportunities.

- Adapting monetary policies.

Although some alleviation can be noted, large segments of the private sector are de facto cut off from financing due to continuously high interest rates. The increasing public domestic debt crowds out local enterprises and strangles the national economy.

- Consolidating peace and reconciliation with the political opposition.

So far RENAMO militants do not see the peace dividend, as the DDR process has not taken off encouragingly, nor has RENAMO politically benefited from the political concessions undertaken in the context of decentralization. On the contrary, RENAMO has been further marginalized by fraudulent elections and its leadership finds it increasingly difficult to find arguments for peace and reconciliation when challenged by its own ranks, who are not willing to give up the armed RENAMO struggle.

- Tackling the root causes of violence in Cabo Delgado.

Tackling the root causes of violence necessitates a strategic approach that includes security, dialogue within communities as well as developmental elements. By now it has become necessary to beef up military capacities in order to regain control. Offers of regional or international partners should be considered. Clear strategies and capacities need to be developed if the government is to retain control over those areas currently free of insurgents. Procedures of accountability are needed for those forces operating in conflict zones; atrocities against civilians need to be addressed transparently.

- Dismantling organized crime networks

Increasingly, networks of organized crime are using Mozambique as a hub for illicit activities. They start to form mutually beneficial relations with insurgents in the north but also rely on support from well-connected and highly corrupt circles in society that can offer protection.