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ARE DONORS TO MOZAMBIQUE PROMOTING CORRUPTION?

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"Corruption", elite predation, and the "criminalisation" of the African state have become fashionable topics. "Africa remains unproductive and … the pursuit of rents or unearned fees is becoming ever more extensive," writes Béatrice Hibou, adding that the bureaucratic apparatus, including the courts, is being privatised and criminalised; bank and company frauds burgeon; and drug trade and money laundering are becoming ubiquitous.[1]

But World Bank researchers find that "foreign aid can induce corruption",[2] and that there is "no evidence that donors systematically allocate aid to countries with less corruption".[3]

Mozambique seems to fit the pattern. From having been a paragon of integrity in the late 1970s, a study by the South African Institute of Security Studies (ISS) "clearly shows … that Mozambique is very close to becoming a criminalised state." The legal system has collapsed and court rulings are available to the highest bidder. Money laundering is common, and Mozambique has become an important drug warehousing and transit centre, with senior figures involved.[4] In two major bank scandals, at least $400 million was stolen, partly by senior figures in Frelimo, the ruling party. Two people who tried to investigate the bank frauds, newspaper editor Carlos Cardoso and the government's head of banking supervision, Siba-Siba Macuacua, were both publicly assassinated and the investigations of the killings blocked at high level.[5]

Donor support seems to grow in tandem with criminalisation. At its donor Consultative Group meeting in October 2001, just two months after the murder of Siba-Siba Macuacua, Mozambique asked for $600 mn in aid and was given $722 mn. Sergio Vieira, a former security minister, wrote that the pledge of more money than Mozambique requested shows that the international community recognises "the good performance of the government" and that this "overrides the bank scandal and the assassinations of Siba-Siba Macuacua and Carlos Cardoso".[6]

In this paper I will argue that Vieira's statement is correct – that donors are rewarding what they see as "good performance" by allowing, and thus effectively encouraging, corruption and state capture. Furthermore, I will argue that donors are rejecting appeals from honest Mozambicans to do more than simply pay lip service to the need to curb corruption because they need the myth of the Mozambican success story.

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[1] Béatrice Hibou, 'The 'Social Capital' of the State as an Agent of Deception', in Jean François Bayart, Stephen Ellis and Béatrice Hibou, *The Criminalisation of the State in Africa*, James Currey, London, 1999, pp.100-2.
[2] Sanjay Pradhan, *et al*., *Anticorruption in Transition - A Contribution to the Policy Debate*, Washington DC: World Bank, 2000, p.35 at
http://lnweb18.worldbank.org/eca/eca.nsf/General/D74DB51B2D46615D8525695B00678C93?OpenDocument
[3] Jakob Svensson, 'Foreign Aid and Rent –Seeking', *Journal of International Economics*, 51:2 (2000), p.437.
[4] Peter Gastrow & Marcelo Mosse, 'Mozambique: Threats posed by the penetration of criminal networks', paper presented at the Institute of Security Studies regional seminar 'Organised Crime, corruption and governance in the SADC region', Pretoria 18-19 April 2002.
[5] (Hanlon 2001, 2002a, summarised in 3.4 below)
[6] (*Domingo*, 2 Dec 2001)

In the following four sections I will look at: 1) the highly conflicting views of Mozambique, as a development success story or a criminal state, 2) theories of corruption and how that affects donor response, 3) long term perverse effects of aid policies, and 4) conclusions.

Looking for what you want to see

On the issues of both corruption and development, donors and some Mozambicans seem to see totally different countries.

'Criminal state' or 'corruption not institutionalised'?

"Corruption, though not non-existent, is not institutionalised and the possibility for controlling funds earmarked for Mozambique is easy and transparent," said Guido van Hecken, Belgium's Chief of Cabinet for the State Secretary for Development Co-operation.[7]

"We live in a kingdom where those who lead are gangsters," said one of the country's foremost writers, Mia Couto, last year.[8] On 24 May 2002, Couto added that in Mozambique an elite is using power "in order to enrich itself. They don't think of Mozambique, they think of themselves".[9] ISS says "there is a lack of political will to fight organised crime and corruption" and that "the relative impunity with which some of the successful [drug] traffickers operate is often a result of their close connections with individuals at the highest levels of government or the Frelimo party".[10]

In a brave statement to parliament on 6 March 2002, Attorney-General Joaquim Madeira pointed to "the growing tendency for illegality to gain supremacy over legality, the dishonest over the honest. He said that "the culture of legality is still a dream, even among leaders who believe they are free or not to respond to requests by the Attorney General's office." As part of corruption investigations, Madeira sent requests for information to four ministers – one sent the material requested, one telephoned to say he would not respond, and two did not respond at all.[11]

Madeira pointed out that foreign investors have told researchers "about the extra-legal conditions that are habitually imposed on them by Mozambican government leaders, ranging from demands for enormous commissions to a partnership in the undertaking."

Corruption in the Criminal Investigation Police (PIC) comes in for special attack from Madeira. PIC does not process and even destroys the files on money stolen from banks and government. It has even blocked investigation of cases brought by the central bank, Banco de Moçambique. Judges and state attorneys are also corrupt, Madeira told parliament, adding "we had no idea of the scale of the involvement of judges and even lawyers in business deals.

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[7] IRIN (United Nations Office for the Coordination of Humanitarian Affairs Integrated Regional Information Network), 'Mozambique: 'Authorities know what they want' - donors', Johannesburg, 9 April 2002a, at http://www.irinnews.org/report.asp?ReportID=27190.

[8] Marcelo Mosse, interview with Mia Couto published in *Demos*, Maputo, February 2001 and quoted in Gastrow & Mosse (2002).

[9] AIM (Mozambique Information Agency), '114502E Mia Couto condemns 'predatory elite'', Maputo, 24 May 2002a.

[10] Gastrow & Mosse (2002).

[11] (Madeira 2002)

Even the fees of lawyers are fixed by a sentence outside the law, to be shared with the judge in question." Magistrates and justice officials "accumulate fortunes through illegality".[12]

Best economy or increasing poverty?

Mozambique continues to be one of the best performing economies in Sub-Saharan Africa, according to the World Bank economist in Maputo, Dipac Jaiantilal.[13] "Mozambique over the last decade has emerged as an example of successful reform," notes the World Bank. "GDP has grown at an average rate of 8.4%".[14]

"Ordinary Mozambicans have yet to see any real changes in their daily lives, despite official World Bank figures," according to an article published by the United Nations Office for the Coordination of Humanitarian Affairs Integrated Regional Information Network.[15] This is confirmed by a public opinion survey that showed people do not feel their standards of living are improving. In a survey of 13,790 households undertaken by the National Statistics Institute (INE) between October 2000 and May 2001, people were asked to compare their situation with what it had been a year earlier; 35% said they were in much the same situation as a year previously while 38% said they were worse off.[16]

"The declared successes have not yet produced tangible results for the majority of the population. Rising unemployment and extremely high levels of absolute poverty are producing, among other aspects, adverse social effects and rising crime," writes Prakash Ratilal, a former governor of the Bank of Mozambique.[17]

Although GDP is supposedly growing rapidly, it is concentrated in Maputo and in mineral-energy enclaves like the billion-dollar Mozal aluminium smelter. The latest UNDP *National Human Development Report for Mozambique* shows that in the 2 years 1997-1999, "real GDP per capita" in Maputo rose from $1076 to $1189, but in the same period "real GDP per capita" in Zambézia fell from $106 to $96 – in just two years the ratio between the richest and poorest provinces increased from 10:1 to 12:1. Regionally in those two years, "real GDP per capita" fell in both the centre and north, rising only in the south.[18]

Unpublished preliminary data for 2000 shows a dramatic fall in GDP per capita throughout the country, to below 1996 levels. The fall is not just in the south, which was affected by a major flood in 2000, but also in the north. "Real GDP per capita" in Zambézia fell to $78, and two northern provinces fell below $100 for the first time. In Maputo, "real GDP per capita" also fell, but not nearly as much, and the ratio of the richest to the poorest province increased to 14:1.

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[12] Joaquim Madeira, Attorney-General's annual statement to parliament, Maputo, 6 March 2002.
[13] Darius Mans, Chairman's Opening Statement, Consultative Group Meeting for Mozambique, Maputo, 25 & 26 October, 2001a.
[14] Nicholas Stern, *The Role and Effectiveness of Development Assistance*, paper for the UN Conference on Financing for Development, 18-22 March 2002, Washington DC: World Bank, pp. xvi & 39, at http://econ.worldbank.org/files/13080_Development_Effectiveness.pdf.
[15] IRIN, 'Mozambique: No structural adjustment rewards for poor yet', Johannesburg, 10 April 2002b, at http://www.irinnews.org/report.asp?ReportID=27214.
[16] AIM, '1481001E Mozambicans believe their lives are not getting worse', Maputo, 29 October 2001.
[17] Prakash Ratilal, 'Perception of the Economy', Maputo 11 Mar 2001a.
[18] UNDP (2001).

The donors see what they want to see

Are van Hecken and Madeira talking about the same government? Are the World Bank and UNDP talking about the same country? Yes they are, because it all depends where you look.

"It is possible to work with Mozambican authorities," said van Hecken. That is the key point. Mozambique has become a donor playground, and the Mozambican elite has become highly skilled at giving the donors what they want. Thus management of donor money is transparent and clear. The predatory elite do not steal donors' funds; instead they rob banks, skim public works contracts, demand shares in investments, and smuggle drugs and other goods – and they ensure that the justice system does not work so they cannot be caught.

Similarly, donors see rapid GDP growth , growing exports, increasing enclave foreign investments, growth in the areas of Maputo that they frequent, and a government which does the bidding of the international financial institutions (IFIs) and can manage donor projects. They choose not to see that poverty is worsening in rural areas.

Indeed, they reject what they are being told by Mozambicans. The donor's annual Consultative Group (CG) meeting was held in Maputo 25-26 October 2001. After meeting with each other and the government, and heaping praise on the government for following IFI economic policies so closely, they met civil society. "Several civil society organisations (CSOs), in a consolidated statement, stated their belief that structural adjustment and high growth had not resulted in poverty reduction in Mozambique", according to the meeting chair Darius Mans, World Bank Country Director for Mozambique.[19] The report indicated no donor reply; they seem not to have heard.

The Poverty Reduction Strategy Paper (PRSP, known in Mozambique as the *Plano de Acção para a Redução da Pobeza Absoluta* (PARPA), Action Plan for Reducing Absolute Poverty), show the differences of opinion starkly. In his report on the CG meeting, Mans reported that "there was widespread agreement [of the donors present] that the most significant achievement of the last 12 to 18 months has been the completion of the PARPA".[20] Mans went on to note, without comment, that "a number of CSOs expressed concerns about health and education spending, which they claim is projected to decline as a percentage of GDP after 2002." Indeed, the PARPA shows that spending on "priority areas" for poverty reduction falls from 19.4% of GDP in 2001 to 17.0% of GDP in 2005. Education spending falls in cash terms as well as percentage terms, from approximately $247 mn in 2001 to $218 mn in 2002 (a savage 12% cut), rising slowly after that to $244 mn in 2004 and finally to $262 mn in 2005. Despite the admitted need for more teachers, not only to expand primary education but also to replace teachers dying of AIDS, teacher training expenditure is kept constant.[21]

How can donors praise a "poverty reduction" paper that cuts spending on education and other areas of poverty reduction? The answer is that it satisfies other donor demands, and this is made clear in the arcane language of the international financial institutions. In his report on the CG meetings, Darius Mans cites the World Bank economist Dipac Jaiantilal noting that

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[19] Darius Mans, Chairman's Report of the Proceedings, Consultative Group Meeting for Mozambique, Maputo, 25 & 26 October, 2001b.
[20] Mans (2001b).
[21] República de Moçambique, *Plano de Acção para a Redução da Pobeza Absoluta* (PARPA, Mozambique's Poverty Reduction Strategy Paper – PRSP), approved by the Council of Ministers April 2001, Tables 7.4, 7.5, 7.6.

poverty reduction requires "creating and maintaining a sound economic environment, including low inflation".[22] The World Bank praised the government for including in the PARPA tight monetary policies to "slow inflation".[23]

Reporting on the statement of the IMF Resident Representative Arnim Schwidrowski, Mans says "Mr Schwidrowski observed that, in line with the PARPA's fiscal targets, the framework aimed for a reduction in the domestic primary deficit, excluding bank restructuring costs, to under 5 per cent of GDP".[24] This sentence makes two very different points. First, to meet tight monetary policies, PARPA does indeed involve a cut in spending. Second, so long as the cap is met, the IMF will allow the government of Mozambique to plug the hole in the banking system created by high level people plundering the banks instead of increasing anti-poverty spending.

Taken together, the donors are making three points about their own priorities:

- Writing a document, rather than any concrete action, was "the most significant achievement of the last 12 to 18 months";

- That the priority for "poverty reduction" is inflation reduction and a tight monetary policy, even though it requires a cut in education and other poverty related spending; and

- That the government is free to use money to cover the costs of gross corruption, so long as it is done transparently and without breaking the spending limits.

Institution building to prevent corruption

In many ways, Mozambique is a "transition country" moving from socialism to capitalism, like those of Eastern Europe, and a World Bank study of corruption in Eastern Europe provides a useful background. The authors develop a distinction between two types of corruption, "administrative corruption" and "state capture".[25]

"Administrative corruption" relates to the *implementation* of existing laws, rules, and regulations and most commonly involves paying a bribe, either to obtain special treatment or simply to encourage an official to carry out their job. Also, "state officials can simply misdirect public funds under their control for their own or their family's direct financial benefit."

"State capture" involves *taking control of institutions*, such as ministries, the judiciary or regulatory agencies, to obtain illicit equity stakes, informal control, and other ways of extracting rents, including "the sale of court decisions to private interests and the mishandling of central bank funds". It often involves the overlapping business and political interests of state officials, "which has been a particularly prominent characteristic of many transition countries." The "underestimation of overall state capture may be particularly high in

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[22] Mans (2001b).
[23] World Bank, 'Mozambique's Poverty Reduction Program Receives Strong Donor Support', press release 26 October 2001.
[24] Mans (2001b).
[25] (Pradhan 2000:2,3, 9, 17)

countries with kleptocratic political regimes, where institutions of the state have been used to serve the interests of a particular leader and his broader circle," notes the World Bank study.

Mozambique wasn't always corrupt …

Any discussion of corruption in Mozambique should start from the death of Francisco Langa in May 1980. A military leader in the liberation war, he was elected to the Frelimo Central Committee and became head of the Centre for Support to Refugees and Liberation Movements, mainly from Zimbabwe. An unprecedented Central Committee statement said he had been caught embezzling funds, and shot and killed himself because he was overcome with shame and could no longer face his comrades.[26]

I was working in Mozambique at the time and can testify from personal experience to the honesty and integrity of the civil service and leadership. The bureaucracy may have been inefficient, but I was never asked for a bribe or payment. There were no stories of high level or petty corruption; Langa's behaviour was highly unusual and would have been seen as totally shameful.

Perhaps surprisingly, the World Bank in its study of Eastern European transition economies admits that these countries were less corrupt in the central planning era. The Bank argues that the Communist Party controlled the behaviour of public officials using a mix of mutual oversight, incentives and repression. It adds that central planning "did place certain boundaries on corruption".[27]

This was true in Mozambique. But equally, or more, important were idealism and political will. In the first decade of independence, Mozambican officials really did believe they were building a better country, and that the integrity of the state was important.

… but it is now

Both administrative corruption and state capture are now ubiquitous in Mozambique. A survey by Ética Moçambique of 1200 people showed that 45% said they had been victims of corruption in the past six months. Of those, 31% paid less than $6, 45% paid $6-60, and 22% had to pay $60-600, which is a substantial amount of money in Mozambique where the GDP per capita is only $300. The most common demands for money were in health (30%), education (27%), and the police (21%). Bribes are not just financial; almost 5% of respondents said that they had been required to "sleep with a government official". In most cases, the issue is administrative corruption; bribes were paid to obtain something to which the person was entitled – in one case, to obtain anaesthetic during an operation. Others were to gain preferential treatment, such as a school place or passing exams.[28]

State capture is also now obvious. Corruption in the banking system has involved senior government officials.[29] The statement of Attorney-General Joaquim Madeira to parliament gave other examples.[30] The Ética Moçambique survey also showed state capture, with 0.4%

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[26] AIM, *AIM Information Bulletin* no 47, Maputo, May 1980; Joseph Hanlon, *Mozambique: Who Calls the Shots*, London: James Currey, 1991, p.231.
[27] Pradhan (2000), p.26.
[28] Ética Moçambique, *Estudo sobre Corrupção Moçambique 2001*, Maputo, 2001.
[29] Joseph Hanlon, 'Bank Corruption Becomes Site of Struggle in Mozambique', *Review of African Political Economy*, 29:91 (2002a), pp 53-72.
[30] Madeira (2002).

(probably 2 people in the survey) paying more than $60,000 in bribes. What the report called "grand corruption" included obtaining bank loans larger than would be justified under normal conditions, winning tenders, preventing prosecutions for drug dealing and money laundering, and gaining a favourable audit.[31]

In private, some Mozambicans justify state capture on the grounds that white and Asian-origin Mozambicans gained privileged positions during the colonial era and gain preferentially from globalisation now, and that a new black bourgeoisie needs space for primitive accumulation which it can only do through the state.[32]

How to respond

Baroness Amos, Under-Secretary in the British Foreign and Commonwealth Office (FCO) with responsibility for Africa, set out the British response in a statement to an FCO conference 20 May 2002 on "Tackling Corruption in Africa". She said "our approach is holistic" and "aims to build the capacity of institutions".[33] The World Bank says it "addresses corruption in systemic terms. It is not the Bank's role to identify and prosecute individual offenders, but rather to address the various aspects of policy and institutional reform that are likely to be critical in reducing corruption".[34]

NORAD, the Norwegian aid agency, in its "Good Governance and Anti-Corruption Action Plan", explicitly argues that experience shows that "investigation and prosecution of corruption cases require large personnel and other resources, which implies costs well above what poor developing countries can afford. Strong emphasis must therefore be placed on *preventing* corruption, by raising public awareness, and by reducing the *scope* for corrupt behaviour." It then sets three objectives, assisting good governance, increasing awareness of corruption in "aid administration", and sharing experiences in preventing and combating corruption.[35]

In Mozambique, the World Bank and donors are putting $85 mn into a 10-year public sector reform project. Meanwhile the government is moving to try to reduce administrative corruption, through individual actions by governors and ministers against corrupt middle level officials.[36]

Emphasis on capacity building and institutional reform sounds sensible. But it is inadequate, and it means donors are rejecting appeals to take action against growing present-day corruption, while pushing a decade-long programme of institutional change. In a closed meeting earlier this year, one of the most prominent Mozambicans campaigning against corruption said "we appealed to donors to put pressure on government to pursue the high level people whose names are known and who were involved in bank corruption. The government is putting money into plugging the holes in the banks, and 45% of that comes

[31] Ética Moçambique (2001).
[32] Joseph Hanlon, 'Debate Intensifies over Adjustment & Press Freedom in Mozambique', *Review of African Political Economy*, 29:91 (2002b), p.114.
[33] Baroness Amos, 'Tackling Corruption in Africa -- Building a New Partnership', speech to a conference 20 May 2002, Foreign & Commonwealth Office, London, at http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1021827509969.
[34] (World Bank 2002a)
[35] (NORAD 2000: 19-20)
[36] (*MPPR* 25:5, *27*:7)

from donors. I asked them – I asked the ambassadors: 'Why do you refuse to put pressure on the government?' If you put donor money into the budget and don't look to see where it goes, you are supporting corruption."

British, Norwegian and World Bank approaches aim at reducing administrative corruption and corruption involving aid, but they ignore state capture and they ensure the elite more years of impunity. Even the World Bank's own Eastern Europe study admits this will not work: "an important part of the problem [of persistent corruption] lies in the tendency to focus exclusively on the state and, in so doing, limit our anti-corruption strategy to standardized technical solutions".[37]

Long term perverse effects of aid policies

"One major issue is the appropriate sequencing of policy and institutional reforms. No poor country has the capacity to move forward with equal vigor on all these fronts at once, so it will be important for the country, with external support, to focus on identifying and grappling with the main obstacles to growth," noted the World Bank in a paper earlier this year.[38] In this part of the paper, I will try to demonstrate that the World Bank and other donors have never seen corruption and state capture as "main obstacles to growth"; even when senior Mozambican officials highlighted corruption issues, the Bank had other priorities. The perverse effect, I argue, has been to promote corruption and convince key figures in the Mozambican elite that not only is corruption acceptable, but that it is the normal route to capitalist development.

The transition to capitalism[39]

In the mid-1980s Mozambique was deeply immersed in a war which was to cost more than one million lives and $20 billion. Mozambique's government knew the country had become a Cold War battlefield, but it took two donor strikes, in 1983 and 1986 when food aid was withheld, before Mozambique made its "turn toward the West". Mozambique agreed to structural adjustment, privatisation and a transition to the market economy.[40] Aid jumped from $359 mn in 1985 to $875 mn in 1988.[41] Government spending was cut, including on health and education, and privatisation – which had begun in 1980 – was accelerated.

In this period, donor support was important in four areas of corruption.

The first was privatisation itself, which was seen as a high priority to be carried out as quickly as possible. Donors looked the other way when small firms were passed on to friends and family of the leadership; the view seemed to be that transparency would slow the process. There was also some support for the view that because of colonial restrictions, there was no national business class, and that the *nomenklatura* were the most experienced administrators.

[37] Pradham (2000), p.1.
[38] Stern (2002), p.xiii.
[39] Unless noted, the material in the next four sections is drawn from Joseph Hanlon, 'Killing the goose that laid the golden eggs', English version of a series of 12 articles which appeared in *Metical*, 17 Sep-3 Oct 2001, at http://www.mol.co.mz/noticias/metical/2001/en010917.html; and Hanlon (2002a).
[40] Joseph Hanlon, *Peace Without Profit: How the IMF Blocks Rebuilding in Mozambique*, Oxford: James Currey, 1996, p.15-7.
[41] Hanlon (1991), p.269.

In 1988 the Caixa de Crédito Agrario e de Desenvolvimento Rural (Agricultural and Rural Development Fund) was set up using donor counterpart funds to give "loans" to military men and party officials, with no intention that the loans would be repaid. Donors accepted that the money was being used to buy out military people and Frelimo party officials opposed to ending the war and abandoning socialism.

The World Bank's 1989 Small and Medium Enterprise Development Project was intended to help the new owners of privatised businesses. Nearly $33 mn was lent, and the World Bank's 1998 evaluation admitted that 90% of the loans would never be repaid. The Banks evaluation admitted that "the Bank is alleged to have put substantial pressure on the management of the banks to ensure the expedient disbursements of project funds; this undermined even further the credit quality of the subloans." A World Bank Industrial Enterprise Restructuring Project was similar and gave $30 mn in loans to larger privatised state companies, most of which will probably never be repaid.[42]

An organisation close to the President was appealing to donors for project funding, and by the late 1980s was already considered corrupt. At the time, I was writing a book on the aid agencies and I asked donors why they continued to support this organization.[43] They replied, quite openly, that they were having trouble spending their increased aid budgets and they saw this as a way of buying influence to the President's office to approve their projects. Projects which violated government policies were approved by this route.

This period of the transition was important, because Mozambican officials and newly emergent businesspeople with little experience of the world of capitalism were, in effect, being given a crash course by the donor community. And the lesson was that capitalism is not about profit but about patronage – businesses are "privatised" and given "loans" that need not be repaid according to who you know and donor whim.

Despite Landau's report, the World Bank has never accepted any responsibility for putting "substantial pressure" on honest Mozambican bankers to bend the rules to give loans they knew could not be repaid. Indeed, World Bank Resident Representative James Coates stressed to me in an interview in 2001 that he still expected Mozambique's government to repay those loans to the World Bank (although part will be written off under HIPC debt cancellation).

Minimal government

The late 1980s were the period of the shift to market capitalism, under the tutelage of the World Bank. The first half of the 1990s were the era of inflation control and minimal government, imposed by the IMF.[44] It was the era in which the international financial institutions believed the less government the better, and that development must be left to the private sector. The IMF imposed savage cuts on government spending. It was not until the IMF began to bar donor countries from giving aid for post-war reconstruction, provoking an unprecedented public protest from donors in October 1995, that the IMF was forced to ease slightly its spending cap.[45]

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[42] Luis Landau, *Rebuilding the Mozambican Economy*, Country Assistance Review, Washington: World Bank Operations Evaluation Department, 1998, pp.62-3.
[43] Hanlon (1991).
[44] Hanlon (1996), pp.24ff.
[45] (Hanlon 1996:134)

Salaries were the biggest component of the government spending. A UN study showed that of 110,000 civil servants, more than half were in health and education, and the army had only 12,000 people. The study concluded the far from being too big, Mozambique's civil service was already too small to provide basic services.[46] The only way to meet the savage IMF spending cuts was to cut wages; within five years, salaries of front line staff such as teachers and nurses were one-third of what they had been in 1991. Corruption was inevitable, as front line staff demanded extra payments or took time off to earn money or till fields, in a desperate attempt to feed their families. A woman going to a maternity hospital had to have $2 to pay the midwife. "Demanding money is illegal. But the midwives say 'we work so hard all day here that we don't have time to grow food as other women do'," a Nampula woman told me. A Sofala primary school teach commented "we in education have one foot inside and other out, because we are parents and we don't like to see our children dying of hunger".[47]

It was obvious at the time that paying poverty wages would create corruption.

In parallel with the low civil service salaries, donors and non-government organisations began to pay key technicians and civil servants high salaries to work for them instead of the government, directly decapacitating and weakening the government. More seriously, donors began to give key civil servants extra money – for attending donor-run seminars during the business day, and for doing consultancies instead of their government job. Donors encouraged civil servants to steal time and do outside work for others instead of what they were being paid to do by the government, creating a climate of donor-approved corruption.

Privatising the banks

The Mozambican bank scandal has been the subject of other articles and only a few points will be repeated here.[48] In the early 1990s banking was liberalised; the first new private bank, Banco Internacional de Moçambique (BIM, Mozambique International Bank), owned 50% by Banco Comercial Portugués (BCP) and 25% by the World Bank's International Finance Corporation (IFC), opened in 1994. There was growing discussion about the privatisation of Mozambique's two state-owned banks, Banco Popular de Desenvolvimento (BPD, People's Development Bank) and Banco Comercial de Moçambique (BCM, Commercial Bank of Mozambique).

Privatisation of BCM became a "necessary condition" for World Bank aid in 1995. The only candidate was a consortium put together by António Simões, a Portuguese businessman with interests in the Mozambican insurance and metal-working sectors. His group included Banco Mello of Portugal and a company believed to be fronting for the family of President Joaqium Chissano. The leadership of the central bank, Banco de Moçambique (BdM), was noted for its integrity and honesty, despite the growing corruption in public life, and made it known that Simões was not acceptable because he had a number of bad debts with local banks, was failing in his efforts to rehabiliate the metal-working sector, and was not accounting for concessional loans he received from donors for this purpose. BdM began a desperate search for an alternative bidder, but the World Bank backed Simões and said BCM had to be given to him – and it was, on 26 July 1996.

[46] Abebayo Adedeji *et al*, *Pay, Productivity and Public Service: Priorities for Recovery in Sub-Saharan Africa*, New York: UNICEF & UNDP, 1995.
[47] Hanlon (1996), pp.2 & 4.
[48] Hanlon (2001 & 2002a).

BCM already had corruption problems, and the new owners did not do the normal due diligence audit of the bank – meaning it would be impossible to find out which frauds occurred before privatisation and which after. Some new management was brought in, and one official said they found a wide range of frauds. “The bank needed a total clean-up. But it never happened. The shareholders told us not to.” In 1998, Simões sold his shares to Banco Mello, which was subsequently sold to BCP, and in 2002 BCM was merged into BIM. The amount of total losses is still disputed, but is close to $200 mn.

Meanwhile the IMF demanded the BPD be privatised by the end of 1996, in early 1997 it said aid to Mozambique would be cut off if the bank was not privatised soon, and on 8 May 1997 it set a deadline of the end of June 1997. A Mozambican group close to President Chissano’s family had been set up in 1996 but could not find a foreign partner, until Chissano made a personal request to the Malaysian Prime Minister Mahathir Mohammed, who instructed the Southern Bank Behard to become a partner. Privatisation went ahead on 3 September 1997. As with BCM, corruption was endemic from the first, and no due diligence audit was done. The bank made loans to members of the Mozambican elite who seemed to have no intention of repaying. BPD, by now renamed Banco Austral, collapsed and the private owners handed their shares back to the government on 3 April 2001. Losses will exceed $150 mn, and a substantial amount of money will be required from the government. In 2002, Banco Austral was taken over by ABSA of South Africa.

In another article I argue that there is an ongoing struggle within the Mozambican elite, between a “predatory” faction which sees state capture as the only way to rapidly develop a national bourgeoisie and a “developmental” faction which promotes a longer term entrepreneurial perspective which requires a more interventionist, functioning and honest state.[49] Bank privatisation was an important site of struggle between these two groups, with the IFIs backing the predatory faction. The banking scandal brought the issue to the forefront, and caused two very public assassinations of figures linked to the developmental faction.

Carlos Cardoso, editor of the faxed business daily *Metical*, became the defacto spokesperson of the developmental group. He had been investigating the bank scandals when he was machine-gunned in a drive-by shooting on 22 November 2000. With the collapse of Banco Austral, the developmental faction tried to regain control and impose some integrity by appointing António Siba-Siba Macuacua, the respected Banco de Moçambique head of banking supervision, as acting head of Banco Austral. But when he began to try to collect loans from the Frelimo elite and to repossess properties, he was killed and thrown down the stairwell of the bank’s headquarters on 11 August 2001. At first neither murder was investigated, with the police either unwilling or not permitted to pursue what were assumed to be high level killers. Because he was an internationally known journalist, Cardoso’s killing became a subject of an international campaign, and eventually an investigation began; those alleged to have done the actual killing have been arrested and charged. Siba-Siba was not well know internationally or in the donor community; there has been no international campaign about his assassination and there has been little investigation of his murder.

With one exception, there has been no investigation of the thefts of nearly $400 mn from the banking system.

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[49] (Hanlon 2002a).

Ignoring the crisis

The issue is not new. Back in 1996, in a book on Mozambique, I attacked the widespread corruption at all levels of government. But I also wrote: “Donors have fallen into corrupt practices as well, and may well have led the descent. They, too, must change. This means the obvious line of neither paying nor offering bribes and of denouncing thefts and misuse of donor funds.” And I called for “an end to indirect bribery … where a donor or NGO threatens to withdraw assistance unless the recipient does something it doesn’t want to do”.[50] This is not to claim any prescience, but in fact, to claim the opposite – that the issue was already well known and discussed then.

The banking scandals did not occur in isolation. From 1998, Carlos Cardoso began to raise the issue of donor funding, and point out that loans from Norway, Sweden, France, Germany and Switzerland seemed to have been used by António Simões to buy BCM instead of to rehabilitate the metal-working industry. Cardoso continued to raise the issue until he was murdered. Yet none of the donors would say if the loans had been repaid, nor would any admit to even asking the government what happened to their money. Privately they were embarrassed; some admitted they could not find the documentation on loans made six years earlier, but none asked Cardoso to see his copies of the loan agreements.

Despite the campaign by Cardoso and the pressure from honest government and civil society forces in Mozambique, donors still did not see the bank scandal and other corruption as a problem for them. But the assassination of Cardoso, who was known personally by many donor staff, the large injection of government money into BCM, and then the collapse of Banco Austral combined to cause disquiet in some parts of the donor community. It was pointed out that with donors funding a significant portion of the government budget, it was the donor money that was plugging the hole in the banking system, replacing the money stolen in part by senior government and Frelimo people.

The first test came in mid-2001, when the donor community was asked to approve the government’s poverty reduction strategy paper (PRSP) and, with it, debt relief under the Enhanced HIPC (Heavily Indebted Poor Countries) Initiative. Mozambican civil society reminded sympathetic donors that the donor community carried far more weight than civil society, and appealed to them to put some pressure on the government. Some Nordic donor officials in Maputo called for approval of the PRSP to be delayed until the government at least provided more information on the banking scandals.

Again, other donor priorities took precedence. At that time, only two countries, Uganda and Bolivia, had had any debt cancelled under the Enhanced HIPC,[51] and the IMF and World Bank were under heavy pressure from campaigners. This was felt particularly in the United States, where the government had initially opposed debt cancellation and was seen as blocking HIPC. Instructions came from Washington to the US embassy in Maputo that Mozambique had to be approved for HIPC at all cost, and USAID officials intensely lobbied the Nordic donor representatives, and successfully convinced them that debt relief was more important than corruption. The matter was not raised, the PRSP was approved, and Mozambique gained debt relief.

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[50] Hanlon (1996), p.144.

[51] World Bank, ‘Heavily Indebted Poor Countries (HIPC) Initiative – Status of Implementation’, 14 Apr 2002d, at http://www.worldbank.org/hipc/Status_of_Implemenation_0402.pdf.

The next opportunity came at the donor Consultative Group (CG) meeting in Maputo 25-26 October 2001. This was just two months after the murder of Siba-Siba Macuacua; no investigation was under way and his efforts to collect bad debts had been stopped. There was much high-flown rhetoric from donors about the assassinations, corruption, and the bank scandal. Chairman Darius Mans noted that "most delegates urged further actions including: aggressive efforts to recover non-performing loans [and] legal prosecution of perpetrators of crimes to the full extent of the law". He added that delegates "welcomed [Finance Minister Luisa] Diogo's commitment to ensuring that financial expenditures related to recapitalizing the banks do not crowd out poverty-related spending." (Mans 2001b) Mozambique asked for $600 mn in aid and was given $722 mn – the extra money was enough to plug the hole in the banking system. It was after this that former security minister Sergio Vieira wrote that the donors recognise "the good performance of the government" and this "overrides the bank scandal and the assassinations of Siba-Siba Macuacua and Carlos Cardoso".[52]

The issue came up again in May 2002, when the G-10 group of donors which provides direct budget support to the government met to discuss the mid-year position. Several noted that there had not been "aggressive efforts to recover non-performing loans" nor had there been any investigations of various major crimes. Two donors wanted to delay the second tranche of budget support to bring pressure to bear, but others did not support this.

Is there no liability?

The World Bank now has a special anti-corruption website which admits "it did not explicitly address corruption in its development strategies" until 1996.[53] And it now admits that some of its policies which caused so many problems in Mozambique, were, in fact, wrong.

World Bank Senior Vice President Nicholas Stern noted that it is now recognised that "the minimal-government free-market approach advocated by many people in the 1980s and early 1990s" will not achieve the millennium development goals – a slightly coy comment since the "many people" mainly worked for the IMF and World Bank, and a bit late, considering the damage that was done.[54] By 1995, the IMF and World Bank had forced Mozambican public service wages down to one-third of their level four years earlier; nurses and teachers had fallen below the "abject poverty line".[55] In 1995, UNICEF and UNDP published a remarkable booklet called *Pay, Productivity and Public Service* which looked a five African countries, including Mozambique.[56] In their introduction, UNICEF head Richard Jolly and UNDP Africa head Ellen Johnson Sirleaf wrote that "an efficient and effective public service … is a *sine qua non* for human development." The booklet pointed to the sharp decline in morale and quality of public service across Africa, and argued that "a key cause of the decline is the erosion of basic service providers' remuneration." The result, it said, was less time and less attention to work, as well as corruption and "privatised user fees". It concluded that "the elements associated with the decline in public service quality are all elements of coping strategies designed to ensure household survival. They cannot be eradicated so long as

[52] *Domingo*, 2 December 2001.
[53] World Bank, 'Anticorruption: World Bank Efforts', 2002b at http://www1.worldbank.org/publicsector/anticorrupt/efforts.htm.
[54] World Bank (2002b), p.xii.
[55] Hanlon (1996), p.49.
[56] Adjedeji *et al*. (1995).

additional incomes beyond government pay are necessary for the survival of the majority of public servants who are front-line service deliverers."

But the World Bank is rarely open to criticism of its core policies. Instead of listening to what two major United Nations agencies were saying, it called on the UN to suppress the booklet because of the implicit criticism of structural adjustment; the UN did, and few copies were ever distributed.

Seven years later, the World Bank anti-corruption website says that "adequate pay" in the public service is essential for preventing corruption.[57]

Years of poverty wages have left the civil service deeply corrupted, as the Ética Moçambique study showed. Wages have again risen above the poverty line, but the "privatised user fees" and other coping strategies built up during the years of poverty have not gone away. It is true to argue that Mozambican civil servants are now being corrupt when it is no longer necessary, but it is also important to remember that it was the international financial institutions (IFIs) which forced them to be corrupt in the first place and which suppressed any criticism of policies it now admits were misguided. The Mozambique government carried out policies imposed by the IFIs which created the administrative corruption problem, but the IFIs have washed their hands of the problem and blame Mozambique.

Nines years after the event, the World Bank admits it pushed Mozambican banks into making corrupt loans, in order to speed privatisation – but it still expects the government to repay those loans.

Stern says proudly that "the Bank has also learned from its failures".[58] But it is the Mozambican predatory elite which has profited from those "failures" and ordinary Mozambicans, not the Bank, who are paying for those lessons.

What are 'good policies'?

The World Bank sets the tone for the donor community in Mozambique. The Bank talks frequently about the need for "good policies", but these are rarely actually defined in any but the vaguest terms. A search of World Bank literature, however, shows that much of the work on "good policies" was done by David Dollar and the Bank's Macroeconomic and Growth Division, and that the seminal paper to which all others refer was produced in 1997 by Dollar and Craig Burnside. They say "the heart of structural adjustment are fiscal discipline, trade liberalization and other market friendly policies." They explicitly equate "good policies" with "good economic policies", and then define an index of good policy based on just three factors: government budget surplus, inflation (as a measure of monetary policy), and trade openness.[59]

In practice, as distinct from the rhetoric, the World Bank measures "good policy" purely in monetary and trade terms. When the crunch comes and the World Bank is actually evaluating a country, the talk of poverty focus, democratisation, anti-corruption and a host of other issues count for nothing.

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[57] World Bank, 'Anticorruption: Multi-pronged Strategies for Combating Corruption', 2002c, at http://www1.worldbank.org/publicsector/anticorrupt/strategies.htm.
[58] Stern (2002), p.3.
[59] Craig Burnside & David Dollar, 'Aid, Policies and Growth', *Working Papers -- International Economics. Trade, capital flows* No.1777, World Bank, 1997, pp.1, 2 & 16.

Conclusion

Mozambique is fashionable with donors. “Mozambique has a series of trusted and long lasting donors making it possible to know the situation on the ground relatively well, making it possible to 'jump onto the rolling train in the right direction',” explains Guido van Hecken, Belgium's Chief of Cabinet for the State Secretary for Development Co-operation.[60]

Mozambique is fashionable for two reasons. First, it is one of the few “success” stories in Africa. When the World Bank wanted to justify increased aid and Bank policies in a report to the Monterrey UN Conference on Financing for Development, its report cited six successful countries where “institutional reforms have spared rapid development”. Only two were in Africa: Mozambique and Uganda.[61]

Second, as van Hecken notes, “it is possible to work with Mozambican authorities … They know how to work with the donor community”.[62]

When some donors are under pressure to increase aid to meet international targets, while others are under pressure from conservative governments to justify their aid budgets, they desperately need success stories. With so few “successes” in Africa, they don't want to rock the boat by questioning the image of Mozambique.

Giving the donors what they want

Mozambique has done three things that donors want.

“Controlling funds earmarked for Mozambique is easy and transparent,” according to Van Hecken.[63] “Government transparency and accountability have increased,” writes World Bank Senior Vice President Nicholas Stern.[64]

Mozambique has “implement[ed] key measures in financial liberalization, exchange rate reform, trade liberalization and privatisation through a series of adjustment operations,” adds Stern.[65]

The rhetoric of Mozambican leaders is strongly in support of donor policies and agendas. For example, at a 25 February 2002 Commonwealth investment conference, President Joaquim Chissano cited “the success achieved in recent years with the stabilisation and control of macro-economic aggregates” and he said “the government will continue its role aimed at the creation of an economic environment favourable for the development of a strong business sector”.[66]

I have tried to show that the Mozambican elite have become skilled in giving the donors what they want – market-friendly policies, fiscal restraint, transparency, good accounting of donor money and obsequious praise of donor policies – rather than what they say they want, while

[60] IRIN (2002).
[61] Stern (2002), pp.xv ff.
[62] IRIN (2002).
[63] IRIN (2002).
[64] Stern (2002), p.39.
[65] Stern (2002), p.39
[66] AIM, ‘119202E Chissano speaks on investment in Mozambique’, Maputo, 25 Feb 2002b.

at the same time creating ever larger spaces for predation and state capture. At the 2001 donor Consultative Group meeting, there was much rhetoric about need for curbing corruption and for legal and judicial reform – but they were no different from statements made by donors for the previous decade. Although for the first time there were also statements about the banking crisis and assassinations, Darius Mans, World Bank Country Director for Mozambique, set the tone when he said "strengthening the macroeconomic environment is the key to poverty reduction." This includes a tighter fiscal policy, more trade liberalisation (in a country which is already one of the most open in Africa), and land privatisation. Both the donors and the Mozambican elite know these economic policies take precedence.

Allowing state capture by donor allies

In section one, I pointed to the two very different images of Mozambique. One is of rapid GDP growth and growing exports and of transparent and clear management of donor money. The other is of worsening poverty in rural areas and of state capture, with a predatory elite that robs banks and non-donor resources, smuggles and kills, and maintains a corrupt justice system.

A symbiotic relationship has grown up between the Mozambican predatory elite and the donors to maintain the myth of the Mozambican success story. The eminent Mozambicans who challenge corruption and state capture are also the ones who, like Prakash Ratilal, challenge the image of the success of World Bank policies. To point to growing rural poverty is to say the emperor has no clothes – the donors cannot afford to listen to this message, because too much depends on the success myth.

Instead donors choose to "work with" the Mozambican predatory elite, who are allowed to rob and kill because they satisfy donors' genuine priorities. To be sure, the increasingly loud criticisms are being noticed. In his opening statement to the Consultative Group meeting, Mans said that, "observers have recently expressed concerns about the shallowness of the roots of multiparty democracy in Mozambique and about the ability of elites to capture state – and private – institutions".[67] This is a curious statement, because in contrast to his hard economic demands, this is couched in the form of observers expressing concern. My reading is that Mans is not bothered – that he and the other donors are prepared to allow state capture by a group they can "work with".

Corruption in Mozambique – and Africa – is not a unique phenomenon. The mafia in Italy and the recent Enron scandal show how single-minded promotion of certain priorities can create a penumbra in which corruption is fostered. The donor community stresses good governance, but this paper argues that in practice it has a low priority, and that in their quest to increase aid to Mozambique and promote further "market-friendly" policy change as quickly as possible, donors are rewarding corruption and refusing to support honest Mozambicans.

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[67] Mans (2001a).

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The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

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Research Objectives

- We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.

- We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.

- We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.

- We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.

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