

This is an Author's Original Manuscript of an article published by Taylor & Francis in *Third World Quarterly* on 19 October 2016 available online at <http://www.tandfonline.com/10.1080/01436597.2016.1241140>.

Following the donor-designed path to Mozambique's \$2.2 billion secret debt deal

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Abstract

Strenuous efforts by donors and lenders over four decades turned Mozambique from a socialist success story into a neoliberal capitalist one. The private sector dominates; a domestic elite dependent on foreign companies has been created. But a secret \$2.2 billion arms and fishing boat deal involving Swiss and Russian banks and Mozambican purchases from France, Germany, and Israel, with large profits on all sides, was a step too far down the donor's capitalist road. The IMF cut off its programme and western donors ended budget support.

Keywords: Mozambique; Ematum; secret loan; donor; IMF; corruption; neoliberal; tuna

Introduction

When Mozambique's \$2.2 bn of imports of weapons and fishing boats, funded by secret

loans, became public in 2016, the International Monetary Fund (IMF) cut off its lending and a group of 14 donors halted budget support.¹ This response could be seen as unfair or disingenuous because, as I argue in this article, the \$2.2 bn deal was the direct result of conditions carefully created by the same lenders and donors during four decades. They wanted to convert the Mozambican leadership from a socialist to a capitalist orientation during the Cold War, and then move to incorporate Mozambique in a particular form of globalisation usually known as neoliberalism.

In parallel with the rise of neoliberalism was the increasing use of managerial concepts, one of which was 'change management',² which puts an emphasis on how people within an organisation can be made to support and even promote changes desired by the management. We argue here that the past four decades has seen a loose form of change management as the Mozambican elite was been moved first from socialists to capitalists, and then to support globalization and act in the interests of foreign lenders, donors, and corporations. In effect, parts of the socialist elite were converted into a 'comprador' group. The term 'comprador' is Portuguese and means 'buyer' and dates from the 17th century when it was used for local staff buying for Portuguese traders in Asia, and has come to mean local people acting in the interests of foreign enterprises and agencies.

Overcoming resistance to change is a central part of change management and its extensive literature. A 2002 study of change within the US State Department noted that 'major organizational changes or innovations can anticipate resistance, especially if proposed changes alter values and visions related to the existing order.' The study pointed to 'self interest' as the number one reason for resistance to change, but also cited 'political factors'.³ Thus the goal of change managers is to convince most people that the change is in their interests.

For Mozambique, a goal of lenders and donors has been to convince a significant portion of the elite that the move to neoliberalism and comprador capitalism was to their benefit, and also would help Mozambique. This used a mix of carrots and sticks. At the level of the national government, aid and lending has been reduced or increased in response to changes in government policy that were deemed to be good or bad. However, individuals rather than institutions have been a key target, especially in the post-war 1990s when the IMF depressed salaries. Donor and UN agencies offered the best jobs and highest salaries; for those who stayed in government and were cooperative, there were salary top-ups, per diems, cars, consultancy contracts, foreign trips, or sometimes even hiring their relatives in aid agencies or on projects. The 'partners' of the donors and lenders who received these rewards were those who supported the changes, and acted in the interests of lenders and donors. Thus they became a comprador group.

Change management attempts to be persuasive, winning over the largest possible group of people, while marginalising or dismissing the rest, and this happened in Mozambique. The reluctant or recalcitrant holdouts were labelled as a communist old guard who could not change. Many simply never received the perks that went to the new comprador group. And in the 1990s the World Bank forced the dismissal of a Mozambican deputy minister and some senior officials who did not support Bank policies.

'Lenders and donors' are a loose collection of more than 30 agencies in Mozambique who have largely acted together. The two most important lenders are the International Monetary Fund (IMF) and World Bank, whose lending is conditional on having policy agreements, which tend to impose neoliberal policies. These agencies were immensely powerful in the 1990s. Individual countries and the European Union

(EU) are aid donors (and sometimes also smaller lenders). Donors sometimes act individually and sometimes together, particularly the group of donors to the central government budget (known as the budget support donors) and smaller groups of donors to individual ministry budgets or projects. The budget support donors have a formal agreement with the government, have access to internal ministry policy discussions, and have several times collectively agreed to withhold budget support, as they did in 2016.

The power of the IMF and World Bank is indirect. In the 1980s and 1990s, nearly all donors made their aid conditional on having IMF and World Bank programmes, which made the donors enforcers of neoliberal policies. Two decades later, in 2016, the budget support donors agreed that the IMF would take the lead in negotiating with the government over the \$2.2 bn secret loans.⁴

Sometimes this coalition of lenders and donors can be very loose, with disagreements between the World Bank and IMF and between donors. Some European donor agencies, publicly or at least privately, did not initially support structural adjustment and neoliberalism, but with the election of more conservative governments in Europe, nearly all supported such policies in the early 2000s. Despite these disagreements, lenders and donors have largely acted as a group to impose the policies to shift Mozambique from socialism to neoliberal capitalism.

Lenders and donors and their staff are not acting in bad faith. Most believe they are promoting policies which are the best for Mozambique and that by choosing those who agree with them as 'partners' they are acting in the country's long term interests to reduce poverty and make Mozambique part of globalization. But the effects, intended and unintended, have often been devastating. In 2004 I wrote an article here (3WQ) 'Do donors promote corruption?: the case of Mozambique'.⁵ In this paper, I argue that lenders and donors have continued with policies and decisions that benefit the

compradors and those who want to join the global elite, while working against those who want an honest domestic development. Of course, no one stands up and publicly states 'we are going to create corruption and buy the elite', nor are there secret meetings in closed rooms to plot a conspiracy to corrupt Mozambique - although there have been closed donor meetings in which it was agreed not to oppose corruption because there were higher priorities. Over four decades the policies enforced and individual decisions taken mean that donor and lender impositions have sharply increased corruption and promoted a culture of secrecy.

It is individual Mozambicans who make the deals with foreign companies and benefit from corruption, and they act from a mixture of greed and a genuine belief that in a neoliberal world they are benefitting their country. Many Mozambicans have fought to oppose this trend and to promote integrity and domestic production, but the change management process means that most have been marginalised. In this paper, I map the twisting road laid out by the donors and lenders, and show how the promoters of the arms and boats deal could have thought they were following this road.

A role in the Cold War

Mozambique may seem a small and marginal African country, but it became important in the struggle between 'capitalism' and 'communism', and thus attracted disproportionate diplomatic, intelligence, donor and lender attention. The story goes back 70 years. A 1942 policy that "the Government of the United States of America undertakes to respect Portuguese sovereignty in all Portuguese colonies"⁶ was confirmed to gain Portugal's 1949 agreement to join Nato and to allow the Azores in the mid-Atlantic to be used as a stopping and refuelling place during the 1948-9 airlift to Berlin, a key event in the early Cold War. Thus the US agreed not to push for

decolonization of Portugal's African colonies, which included Mozambique. White rule continued in Mozambique and Angola, as well as Southern Rhodesia, South Africa and Namibia; by the early 1960s, the liberation movements in all five countries were receiving support from the then communist countries, as well as clandestine support from the Nordic states.

Mozambique came to independence in 1975 under Frelimo (Frente de Libertação de Moçambique) and President Samora Machel. It was nominally socialist, but its image of socialism was Swedish social democracy. Health, education and rented property were nationalised, but Frelimo tried not to interfere in economic sectors and few companies were nationalized. Old colonial companies such as João Ferreira dos Santos and Entrepasto continued to operate, and still do. Machel even promoted a new factory by the US company General Tire.

But most Portuguese left at independence, frightened by colonial government and Catholic Church propaganda that the 'communists' would nationalize everything. Many large and small businesses were abandoned by departing settlers. Frelimo also inherited state-owned ports and railways, airlines, water companies and banks - but without managers and middle level staff who returned to Portugal. The new government found itself running hundreds of small, medium and large businesses. The Portuguese had educated few Mozambicans, but they suddenly had to run a country. The first five years were a struggle; the economy dropped and then recovered. Frelimo tried to steer a middle line, with major industry dominated by the state but with an important private sector. In 1979, long before privatization was pushed by the IMF, Samora Machel said 'the state does not sell needles' and handed state-run shops and small businesses to local private businesspeople.⁷

Meanwhile, the 1975-80 period provided some space for the new country. Internationally, the concept of the developmental state was fashionable, and there was even talk of a 'new international economic order'.⁸ After its defeat in Vietnam, and with Jimmy Carter in the White House (1977-80), the United States was not as aggressive. In particular Carter's human rights policies had provided a partial check on the apartheid government in South Africa. Mozambique backed the socialist liberation movements fighting in Zimbabwe and South Africa (where they won, leading to majority rule in 1980 and 1994). By 1980 Mozambique was a calm, growing, non-corrupt, multi-racial country - which was seen as threat by South Africa where apartheid was predicated on the belief that the black majority could not run the country.

When Ronald Reagan took office as president in January 1981, he escalated the Cold War and this had a dramatic impact in southern Africa. Under a policy of 'constructive engagement' white South Africa was seen as the bulwark against 'communist' governments in the north - Mozambique, Zimbabwe, Zambia and Angola. A Cold War proxy war was launched in Mozambique (one was already under way in Angola) where a new opposition force was created, eventually called Renamo (Resistência Nacional Moçambicana). The end of the Cold War and the fall of the Berlin Wall in 1989 brought dramatic change in southern Africa. In Mozambique, Malawi, Angola, Namibia and South Africa, parties backed by the United States lost elections. Mozambique's war ended with a peace accord in 1992, but the price of the US's proxy war was very high: one million Mozambicans died in the 1981-92 war (8% of the population) and damage exceeded \$20 billion.⁹

Ongoing market fundamentalism

In parallel with the intensified Cold War, the US and Britain launched a new economic

push to promote globalization through corporations and tightened northern control of the world economy through the World Bank and IMF. Their policy came to be known as 'neoliberalism' or 'market fundamentalism', described by Nobel Prize winning economist Joseph Stiglitz as a belief 'that if only the government would ensure that inflation was low and stable, markets would ensure growth and prosperity for all.'¹⁰ The initial package of policies forced onto developing countries was named and promoted by economist John Williamson as the 'Washington Consensus' and involved 'policy reforms that reduced the role of government, such as privatization and the liberalization of trade,' as well as promotion of foreign investment.¹¹ But he goes on to argue that in the name of the 'Washington Consensus', much more extreme policies were pushed by the IMF, World Bank and US Treasury, which were intended to weaken the state, and 'were inimical to the cause of poverty reduction.' This included 'rapid privatization' and demands to 'slash government expenditure'. No government intervention in the economy was allowed. The idea was to ensure the private sector had the dominant role in the economy, and the professed belief was that the magic of the free market would end poverty. Countries were to implement the Washington Consensus reforms as part of what the IMF and Bank called 'structural adjustment'.

The importance of this to western governments was shown in two ways. When the war was intensifying, in exchange for promoting talks with South Africa in 1984, the US required Mozambique to join the World Bank and IMF. The lenders, backed by donors, then put heavy pressure on Mozambique to become the first country at war to introduce structural adjustment and cut spending, which it began to do in 1987. This was rewarded by substantial increases in aid.

Stiglitz noted in 2016 that 'while in most of the world market fundamentalism has been discredited,' in some places 'these beliefs continue to flourish'.¹² Most

important, the IMF continues to follow these lines in Mozambique. IMF Managing Director Christine Lagarde said in 2014: 'Structural adjustments? That was before my time. I have no idea what it is. We don't do that any more.'¹³ However a study of policy conditionality of all IMF loan agreements from 1985 to 2014 found 'little evidence of a fundamental transformation of IMF conditionality.' It concluded that 'despite consistent rhetoric to the contrary, the IMF still advocates reforms that aim at labour market liberalization, public sector employment reduction, or reductions in government wage spending.'¹⁴

This is definitely the case in Mozambique in 2016. The IMF was still calling for cuts to the civil service wage bill¹⁵, which means the wages of nurses and teachers who are the biggest group of civil servants. And the World Bank¹⁶ and IMF were still pushing for further privatisation of state companies and services, which had been at the top of the IMF's list 30 years earlier. President Samora Machel told journalists in 1986: 'Privatization of the railways and ports, of the schools, of the hospitals. That's what the IMF is saying in the negotiations. They've attacked our revolutionary gains and our life.'¹⁷ There was huge pressure to rapidly privatise, and especially to privatise large enterprises such as sugar estates and beer factories to foreign companies. In the 10 years 1989-98 over 800 of 1,250 public enterprises, including 70 large companies, were privatised.¹⁸

But for smaller businesses, there was an unexpected convergence of interests on a non-transparent privatisation to officials and to friends and family of the elite. Donors supported this because key people would be benefitting from the transition to capitalism. On the government side, the war was causing increasing corruption and some in the leadership were opposed to negotiations to end the war; privatisations were a way to side-line corrupt generals and hardliners who could be retired and given their

own businesses. Loans which were never expected to be repaid were provided to the owners of the newly privatised businesses by the World Bank and donors. The World Bank admitted that 90% of loans given in its 1988 Small and Medium Enterprise Development Project would not be repaid. The Bank's own evaluation said that 'the Bank is alleged to have put substantial pressure on the management of the banks to ensure expedient disbursements of project funds; this undermined even further the credit quality of the subloans.'¹⁹ In effect, the World Bank put pressure on honest Mozambican bankers to give loans they knew would not be repaid. The World Bank was supporting non-transparent privatizations to senior politicians as late as 1999.²⁰

A fundamental problem for the victors in the Cold War was that Mozambique was a capitalist country without capitalists. Mozambique came to independence with a weak business class because Portuguese managers left at independence and indigenous Mozambicans had been severely restricted from conducting business by the colonial authorities. In the first decade of independence many Mozambicans found themselves running abandoned shops and larger businesses and learning by doing. Some were successful and in the 1990s some of the privatised and still state-owned business proved to be successful and well run.²¹

Despite some successes, the biggest problem was a severe shortage of business skills and experience - the very basic abilities to keep accounts, calculate profit and loss, write even a simple business plan, and think in terms of customers. And none of the donors and myriad consultants offered that kind of training, nor did they stress that running a business is hard work. And the war left businesses decapitalized, but with market fundamentalism, this weak business sector was on its own and never really recovered.

In my 2004 article I noted that this was important because these newly emergent businesspeople had little experience of the world of capitalism and were, in effect, being given a crash course by the donors and lenders.²² And the lesson was that capitalism is not about profit and production, but about patronage - businesses were privatised and given 'loans' that need not be repaid based on who you know and donor whim. And for the new businesses, government and donors were major customers and contracts with both were based on patronage, and often kickbacks.

Internationally, two phrases characterised economic thinking in the 1980s: one was the 'trickle down theory' that if money was given to the rich they would spend it and benefits would 'trickle down' to the poorer, and the other was 'Greed is Good,' given prominence in the 1987 film *Wall Street*. These may seem as caricatures now, but the IMF actually used the phrase 'trickle down' in a Mozambique policy document as late as 2006,²³ and the IMF and donors in the 1980s and 90s encouraged the Frelimo elite to believe that by getting rich they were helping to reduce poverty. Perhaps the most important convert was Armando Guebuza, a liberation war veteran who after independence became political commissar of the army and was a strong and knowledgeable proponent of Marxism-Leninism. He may have learned about capitalism from Marx, but by the time he was elected President in 2004 he was one of Mozambique's richest men.

Banks and murder

In the early 1990s banking was liberalised and the government was pressed to privatise the two state-owned commercial banks, Banco Comercial de Moçambique (BCM, Commercial Bank of Mozambique) and Banco Popular de Desenvolvimento (BPD, People's Development Bank). The highly respected Bank of Mozambique governor

Adriano Maleiane was already moving to privatise them, but both had accounting and corruption problems and Maleiane knew that he had to clean this up first before any reputable bank would take them. But the World Bank and IMF would not wait.

The World Bank in its 7 November 1995 Country Assistance Strategy²⁴ set seven 'necessary conditions', something apparently not used elsewhere; if any condition was not met, the World Bank would end its programme, which would cut all aid to Mozambique because all donors at that time made a World Bank programme a condition of aid. One of the conditions required the privatization of BCM. A joint IMF-World Bank Policy Framework Paper on 11 April 1996 required the privatization of both banks that year. Maleiane said the no honest people would take the banks in their present shape and the reply was that a corrupt privatization was better than their remaining in state hands. In 1996 the only bidder for BCM was a Portuguese businessman in Mozambique with a dubious track record and who was diverting money lent to him by donors to buy the bank; the World Bank forced the sale to him. BPD proved even harder to privatize, but in early 1997 the IMF said that aid to Mozambique would be cut off if BPD was not privatised by the end of June. So 1997 BPD was sold to a consortium of the Southern Bank Berhad (SBB) of Malaysia (30%) and Investier (30%), a Mozambican company headed by Octavio Muthemba, former Industry Minister and chair of SPI - Gestão e Investimentos, the Frelimo party holding company, with the state keeping 40%. Through a mix of direct theft and bad loans to themselves and others in the Frelimo elite, the bank was drained of at least \$150 million and then handed back to the state in 2001. BCM also collapsed in 2000, and total banking sector losses and thefts exceeded \$400 mn.²⁵

Another attempt was made to clean up both banks and privatise them again. But journalist Carlos Cardoso investigated the BCM scandal and was gunned down and

killed on 22 November 2000. Bank of Mozambique appointed its head of banking supervision António Siba-Siba Macuácuca as acting head of BPD (by then called Banco Austral). About to expose details of fraud and corrupt lending, including to the Frelimo elite, on 11 August 2001 Siba-Siba was murdered and thrown down the stairwell of the bank's headquarters.²⁶

The annual donor Consultative Group meeting in Maputo was in October, just two months after the Siba-Siba murder, and one might have expected the banking scandal and murders to have worried the donors. Instead, while Mozambique asked donors for \$600 million, the donors said this was not enough and gave \$722 mn - the extra money was enough to plug the hole in the banking system. Former security minister Sergio Vieira wrote triumphantly that the donors recognized 'the good performance of the government' and that this 'overrides the bank scandal and the assassinations of Siba-Siba Macuacua and Carlos Cardoso.'²⁷ Indeed, at the time Norway, Britain and the World Bank all had public policies of not tackling past corruption.²⁸

A few discontented donors forced a forensic audit of Banco Austral and for nearly a decade, each year they raised issues of the bank collapse and murder in negotiations with the government. But it was really only token, and there was no donor protest in 2009 and 2010 when the Public Prosecutor's Office (PGR) announced that no Mozambicans would be prosecuted for plundering and bankrupting Banco Austral or for the 2001 assassination. Not prosecuted were the chair and three other board members who received large loans for themselves and their companies, knowing this was in violation of the law. A senior Frelimo figure was identified as the likely killer of Siba-Siba, so the investigation was stopped and he was allowed to simply leave Maputo.²⁹

Foreign preference

Tobacco shows the way in which free market and good governance rhetoric was applied differently to foreign and domestic companies. Despite claims to wanting to promote competition and the free market, it was agreed that international tobacco companies could have exclusive buying rights for an entire district, and peasant producers would have to sell to that company. On 6 August 2010, Universal Corporation (trading as Mozambique Leaf Tobacco, MLT) pleaded guilty to charges brought by the United States Securities and Exchange Commission (SEC), and paid fines and penalties of \$9 million. Universal admitted that between October 2005 and July 2006 MLT paid cash to “a governor” and “gave gifts including supplies for a bathroom renovation, personal travel on a company jet, and cash payments to officials in Mozambique.” Bribes totalled \$165,000 and were related to the transfer of the exclusive license to buy tobacco in Chifunde district, Tete – one of the best districts for tobacco – from another company, Dimon, to MLT.³⁰ Despite the guilty plea, no lender or donor pushed for the governor to be prosecuted in Mozambique, or for MLT to lose its exclusive rights to the district (even though there had been a local peasant protest in Chifunde about the transfer).

As tobacco shows, although Mozambican producers cannot be protected against competition, foreign investors can be, as shown in two other cases. Mozambique's sugar estates were badly damaged in the war and needed substantial investment to be rehabilitated; international sugar companies agreed to take over the estates, but only if they were protected. The IMF agreed, and imported sugar must still be sold at a higher price than claimed local production costs. Coca Cola, owned by the South African Bottling Company (Sabco), was given similar protection at the same time.³¹

Forcing corruption and foreign dependence

Corruption and distrust seem endemic in Mozambique today. The Afrobarometer survey of 2,400 adult Mozambicans carried out in 2012 found that of those who needed a document or permit, a school place, or health care in the year before the survey, roughly one quarter had to pay a bribe.³² A survey by Transparency International in 2011 found that Mozambique was the most corrupt country in southern Africa, with 68% of people who had come into contact with at least one of nine services having to pay a bribe in the past year.³³ Of those who had contact with the police, 48% paid a bribe. For health, and education, 39% and 35% paid.

For younger Mozambicans, it is the norm, but older people remember a time when it was not so. I arrived in Mozambique in 1979, when bribery really was unheard of. Two events in 1980 underline this. First was the death of Francisco Langa in May 1980. A military leader in the liberation war, he became head of support to refugees 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. Second was the currency change. Frelimo continued using colonial banknotes until 1980, then on the night of 15 June 1980 President Machel went on the radio to announce that the currency would be swapped, 1 for 1, for a new Metical. There had been months of preparation, but the story never leaked. In schools and offices, one person collected the old banknotes of all the staff and took them to a bank to be changed and then handed out the new currency. There were no reports of losses or thefts. In 1980, five years after independence, there was total trust in the bureaucracy and in Frelimo - no bribes or commissions, and everyone working together to build a new nation. Even in 1985, at the height of the war, a surprised US evaluation of Mozambique government-controlled food aid said 'there has been virtually no evidence, nor even suggestion, of corruption at the lowest levels.'³⁴

Of course war is hugely corrupting; shortages trigger the growth of a parallel market and profiteering. Indeed, as we noted earlier, the army itself had become corrupt by the late 1980s. Something else happened at the end of the war which changed people's attitudes fundamentally. In 1990 with the end of the war in sight, the IMF began to impose a particularly harsh form of structural adjustment. Aid was capped and post-war reconstruction blocked because it was claimed it would be inflationary. Most important was a severe wage squeeze. In 1991 the civil service wage range was \$31 to \$500 per month, which the World Bank said was 'very low' and should be raised. Instead the IMF forced a massive cut, and in five years the range was \$20-\$150 per month. Nurses and teachers fell below the poverty line in early 1992, below the abject poverty line in mid-1993, and below \$40 per month in early 1996.³⁵ The outcome was unprecedented corruption and dependence on foreigners.

For nurses and teachers, and other civil servants, there were only two choices for feeding the family - take time off work to cultivate a garden and grow food, or ask for informal fees. A primary teacher commented: 'we in education have one foot inside and the other out, because we are parents and we don't want to see our children dying of hunger.'

Toward the end of the war there was a huge influx of non-government organization (NGOs) and a large increase in donor and lender staff. They paid relatively high salaries and hired key Mozambican technicians and civil servants; government department directors became embassy secretaries or junior project officers in order to earn a good salary. Some donors realised that they were decapitating the government and losing the people in government they needed to make their projects function, so they began a system of topping up the salaries of those government officials who worked with them. This took two forms - direct, official added salary payments, and

payments for attending donor-run seminars during the working day or for doing consultancies. Of course this extra money was only available to those Mozambicans who accepted the new neoliberal economic model. And it created a pattern that better salaries and advancement only came through links to foreign agencies.

Divisions began to appear between the IMF and some donors, who in 1995 forced the Fund to allow some increase in the minimum wage. But the Fund still kept a tight cap on the total government wage bill.³⁶ In 2006 donors complained that this did not take into account their desire to increase aid, and made it impossible to hire enough teachers and health workers to meet the Millennium Development Goals.³⁷ The result was that donors increasingly hired health workers as part of projects or paid 'top-ups' to government staff working partly on projects. This was all 'off-budget', and all these people knew that all or part of their income was at the discretion - indeed whim - of donors.

Was it intentional, or simply useful? Did IMF staff really believe that creating corruption and hunger was a necessary price to curb inflation, even when it was seen not to work? Did donors and lenders genuinely feel they were helping Mozambique by hiring the best staff and by taking key civil servants away from their desks to attend endless seminars? Many well-intentioned aid workers probably did. But creating a comprador group was a major social change which they also found very useful.

By the late 1990s, popular discontent with corruption at all levels was growing. It was not just teachers and nurses, but also the Frelimo elite at both local and national levels, who were accused of using their positions for personal gain. The family of President Joaquim Chissano was increasingly implicated. In the 1999 election Chissano was re-elected president but the election was close with his margin only 200,000 votes. A Frelimo investigation found that many had not voted for Chissano because he was

blamed for the corruption. Frelimo was shocked. The constitution allowed Chissano to stand for one more term, and he wanted to stand again in 2004, but Frelimo rejected his candidacy and instead chose Armando Guebuza. But the die was cast - corruption was endemic. Wages were already being increased; the minimum wage went from \$24 per month in 1996 to \$53 in 2005 and \$95 in 2015. Nurses and teachers now earn a living wage. But corruption has become normalised - teachers and the traffic police still expect extra payments.

Secrecy

This, in turn, created a new climate of secrecy, and deals done behind closed doors - both with foreign investors and for local privatisations. Ambassadors began to lobby for special treatment for companies from their countries, which sometimes involved key people in the right ministries receiving trips to conferences or other kinds of visits. With this came a parade of business people wanting land and promoting investment, and usually offering shares in the company to key Mozambicans to facilitate the investment. They always said the deal required 'commercial secrecy' so that others did not steal their money-making idea. But many were implausible. The Procana sugar and ethanol project in Gaza claimed it would produce four times as much ethanol as any similar project in Mozambique, and it collapsed in 2008. The 2009 prospectus for investors in the Hoyo Hoyo soya plantation in Zambézia promised a 41% rate of return and to be making a profit within two years. Legal action was taken against me to try to stop me publishing the 41% and keep it secret; such returns were impossible and the project collapsed.³⁸

In 2001 it was revealed that Mozambique was a major drugs transit centre, mainly for heroin but also hashish and mandrax. Heroin was imported from Pakistan and sent on to South Africa and Europe. The trade was carried out by Asian-origin

business people, but regulated by the Frelimo leadership; the party and its leaders profited by tens of millions of dollars per year.³⁹ Donors decided to ignore the revelations for two reasons. First, the informal licensing system was so effective that there were no wars between drug gangs. Second, Mozambique was seen as a star of neoliberal reform and they did not want this image besmirched. So nothing was said. US officials in Washington in 2010 unexpectedly named Mohamed Bachir Suleman (MBS), as a 'significant foreign narcotics trafficker or "drug kingpin",' which made it illegal for 'US persons' or anyone dealing with the US financial system to have any business dealings with MBS or any of his businesses, including his Maputo Shopping Centre where 'all establishments within are "off-limits"'.⁴⁰ MBS was known as an ally and funder of Frelimo. Donors in Maputo paid no attention; MBS and drugs were never again mentioned. Before long, trade at the Maputo shopping centre returned to normal. And the regulated drug trade continues.⁴¹

Not all secrecy promoted corruption and fraud. One group in Mozambique saw a space and used the new culture of secrecy to promote domestic development. I noted earlier that foreign investors could be protected but not domestic ones. Another of the 'necessary conditions' of the World Bank 7 November 1995 Country Assistance Strategy⁴² required the effective shutting down of the cashew nut processing industry, putting 10,000 people, mainly women, out of work.⁴³ Cashew kernels were traditionally Mozambique's largest agricultural export. It is entirely a peasant crop; each kernel is inside a hard shell and processing the nuts was done in large, domestically-owned factories. Local industry was protected by a rule that it had to be supplied first before unprocessed nuts could be exported, and this was not allowed, because the World Bank thought peasants would earn more if Mozambique were forced to export unprocessed nuts to India. The Bank's much touted free market experiment failed; the market

collapsed and traders captured any extra profits, so peasants lost out badly. In secret, from 2001 the government adopted an explicitly interventionist strategy supporting the development of new factories and agreeing with cashew traders that they only be allowed to export raw cashew after local factory demand was satisfied - explicitly against the World Bank 1995 policy - and providing peasants with tree seedlings, spraying and technical assistance. By 2006 it was a public success, but for five years it was kept extremely low key so that donors and lenders did not have to admit it was happening.⁴⁴

The '7 million'

Another secret development project proved to be more complex and controversial. The failure of the free market to promote rural recovery and development in the decade after the war was becoming more obvious. After his nomination as party leader and presidential candidate, Armando Guebuza in 2003 and 2004 travelled extensively through rural areas and highlighted the lack of rural credit as a major barrier to development. The IMF opposed development banks as 'directed lending to priority sectors' which interfered with the free market, and in 2003 the World Bank included 'credit not directed' as one of its indicators of 'good governance'. Nonetheless, during the 2004 election campaign Guebuza called for the creation of a development bank; donors brazenly intervened in the campaign with a public declaration that they would oppose a development bank.⁴⁵

The new government's response was to sneak a single line into the 2006 budget for a district development fund, with 7 million Meticalis (\$280,000) for each of 144 districts (and thereafter always called the '7 million' by the public, even though it was subsequently increased).⁴⁶ Donors and the World Bank were appalled and shocked that

they had not noticed this in the budget. But the Finance and Planning ministries had been extremely careful. They realised that any discussion about how the money was to be used would be noticed by donor representatives in the ministries, so there was no prior discussion - simply the insertion of a single budget line. Most people in government agreed that a proper development bank would have been better, because it could have been properly organised with support which had been offered by the highly successful Brazilian and South African development banks. But as that was not allowed, the '7 million' was the next best thing. Rules had to be created after the fact and there was corruption and patronage, but the 7 million has been successful in putting substantial amounts of money into the rural economy and helping to create at least some rural businesses and jobs.

Another secret development deal involved the first major coal mine in Mozambique. Toward the end of his term, President Joaquim Chissano personally negotiated for the giant Brazilian Companhia Vale do Rio Doce (now just Vale) to open a mine in Moatize, Tete. The contract was signed in June 2007, and involved \$120 million for the government for a special development fund deposited in a New York bank account.⁴⁷ The justification was that IMF spending caps still restricted development spending, so the money needed to be kept off the budget. Enough donors agreed, so the government was allowed to keep its \$120 mn slush fund.

Thus over two decades a climate was created in which good was done in stealth. Development actions such as the cashew industry, the 7 million and donor funding of health and development workers could only be accomplished if they were kept below the radar. Donors and lenders had huge power, and if they would not allow discussion, as of the development bank, then even good people in government felt they had to act in

secret. Sometimes it was sufficient to just keep actions low key, as with cashew, so donors and lenders were able to hide their eyes.

There are two problems with the climate of secrecy. The first is that broader discussion often leads to better results. Although cashew was well handled, in part because many people were involved, the '7 million' could have been much better organized with more and broader discussion. Second, under the table transactions are always open to unofficial commissions and diversion of money, and other kinds of promises such as jobs or contracts. When the lenders and donors force a shroud of secrecy, they create space for the increasing number of Mozambicans who demand a share.

The gas bonanza

'Privatization means privatizing for the foreigner, and the domestic entrepreneurs do not have the resources, they are not given the chance to have the resources, and they are not part of ... creating wealth in the country and providing jobs,' complained President Armando Guebuza in a speech at the Carter Centre in the US on 9 December 2005.⁴⁸ This speech reflected the growing anger that the neoliberal policies of the donors and lenders were biased toward foreign investment, and that the creation of a domestic capitalist class was being held back. This partly reflected a younger and better educated group who wanted to develop serious businesses, and who rejected the rent-seeking approach of the Chissano era.⁴⁹ Also the success with cashew and the 7 million, plus the growth of domestic businesses productively using government links, led to a view that the state was important in the economy. This was underlined in 2012 by the opening of the third mobile telephone network by Movitel, jointly owned by Frelimo and the Vietnamese military. It quickly became the best and most successful mobile company,

providing coverage in rural areas with large number of poorer people, instead of the two earlier companies that had concentrated on urban areas. It seemed proof that party and military companies could be both profitable and promote development.

Guebuza's second term as president (2010-14) saw Mozambique's totally unexpected transformation to a major natural resource economy, with the opening of two major coals mines in 2011 and the discovery of one of the largest reserves of natural gas in Africa in 2010. Instead of investments in the tens of millions of dollars, these would involve billions of dollars. And the new business people responded in classic comprador fashion, creating companies to serve the new mineral-energy investors - often using party or state leverage to force their services to be chosen. The cities of Maputo, Tete, Nampula and Pemba began to boom, with construction fuelled by expectations and various sorts of illegal money.

Gas appeared to promise untold wealth to Mozambique - and to well placed Mozambicans. And the Guebuza presidency came at a time of global change and the growth of a global super-rich, the 1%. The Frelimo elite saw it as their right to be part of this 1%.

The Frelimo elite in Guebuza's second term had a view of domestic capitalism and international relations shaped by four attitudes: 1) Comprador: advancement in business is based on serving foreign interests - corporate, donor or lender; 2) Secrecy: deals and development are done in secret, without public discussion; 3) Self-interest: getting rich will help the poor and it is reasonable to want a share of the spoils; and 4) Gas: loans will be paid off by the gas money.

This seemed the road which had been mapped out over 35 years by the 'international community': lenders, donors, ambassadors and international business people.

The secret loans

Thus it may not have seemed strange in 2011-13 when President Guebuza was presented with a secret proposal to create a tuna fishing fleet, a maritime security company, and a ship repair and maintenance company. Illegal and unregulated fishing is a major problem around Africa, especially in Mozambique,⁵⁰ so a national tuna company could be profitable and exploit local resources. Similarly Mozambique could establish sovereignty over its own territorial waters, and could provide security for the offshore gas industry.

Three new state companies were created, largely owned by the security services SISE (State Security and Intelligence Service, Serviço de Informação e Segurança do Estado)⁵¹:

- Ematum (Mozambique Tuna Company, \$850 mn loan) for a tuna fleet and maritime security, owned 33% by IGEPE (state holding company), 33% by Emopesca (state fishing company), and 33% by SISE;
- Proindicus (\$622 mn) to provide maritime security, particularly for offshore oil and gas operations, owned 50% by Monte Binga (Ministry of Defence and central government company) and 50% by SISE; and
- Mozambique Asset Management (MAM, \$535 mn), set up for maritime repair and maintenance, 98% owned by SISE and 1% each by Ematum and Proindicus.

The three companies and projects are linked. CEO of all three companies is SISE director António Carlos do Rosário. Privinvest is the main contractor in the Mozambique maritime contracts. It is owned by French-Lebanese businessmen brothers, Akram and Iskandar Safa, and is based in Beirut and Abu Dhabi, and also

owns the CMN (Constructions Mecaniques de Normandie, Mechanical Constructions of Normandy) shipyard in France which built the fishing boats.

The proposals for the three companies said they would repay the loans and earn large profits from fishing, ship repair, selling security services to oil and gas drilling rigs, and by charging fishing boats and cargo ships passing through the Mozambique channel.

The package may have seemed reasonable at the time. The project would be secret, both on commercial grounds, but also to not let donors and lenders know that three state companies were being set up. As with cashew a decade earlier, the government could only promote a good development programme if the more rigid donors and lenders did not see. And in 2013 the prices of oil and gas were very high, so a government guarantee for the loans seemed a safe idea.

Initially the project seemed to have international approval. The loans were organised by major banks, Credit Suisse and VTB, which is 61% owned by the Russian government, and the banks actually encouraged Mozambique to increase the size of the loans. Furthermore, Mozambique seemed to have diplomatic support. There was a public ceremony to launch the boat construction at the CMN shipyard in Cherbourg, France, with Guebuza, France's President Francois Hollande and CMN owner Iskandar Safa.⁵² Finally, the loans to the three companies were linked to substantial purchases of boats, planes, communications equipment and other hardware from France, Germany, Portugal, Turkey, China, India, Israel, Sweden, Austria, Romania and the United States.⁵³

And when the tuna fishing boat loan became public in 2013, the IMF only asked that the loan be put into the state budget - which must have again suggested that the other loans would also be acceptable to the IMF.⁵⁴

Only in early 2016 was it revealed that it was not just the Ematum loan. There were two others plus secret suppliers' credits for \$221 mn taken by the Ministry of Interior between 2009 and 2014, which included armoured cars prominently displayed in response to riot threats in Maputo in April 2016. Thus, in secret and without telling the IMF, donors or bondholders, the government had guaranteed \$2,228 million in debt. State loan guarantees require parliamentary approval, which had not been requested. And by this time oil and gas prices had collapsed and the gas projects in Mozambique were delayed. In April 2016, the IMF stopped disbursement on a loan under the Standby Credit Facility and the budget support donors all stopped payments directly to the government budget (but continued to fund projects).⁵⁵

It appears that the three loans had been negotiated by Armando Guebuza, when he was president, and a very small group around him. When Filipe Nyusi's new government took office in January 2015, they did not know the details and magnitude of the loans, although they knew they had a problem. Adriano Maleiane, who is highly respected and who two decades earlier had fought with the World Bank and IMF to try to prevent corrupt bank privatizations, was named finance minister in 2015 to try to clean up the mess and deal with lenders and donors.

The initial offense, as it had been a decade earlier with the '7 million' district development funds, was that it had been kept secret from donors and the IMF. But the '7 million' had at least been a been a single budget line; this was much more serious because it had not been included in the state budget and the guarantees had not been approved by parliament. In mid-2016, when details of the three projects had still not been made public, available information suggested that the loans became an umbrella for substantial military equipment purchases. And there were accusations that prices, for example of the fishing boats, were inflated to allow commissions for various parties to

the agreement.⁵⁶ IMF Managing Director Christine Lagarde told the BBC on 18 May 2016 that in keeping the loans secret, the Mozambique government is "clearly concealing corruption."⁵⁷

The argument could be made that just as the '7 million' had to be introduced without proper discussion and regulation so that the donors and lenders did not block it, so tuna and maritime security had to be done the same way. But with the boats, the secrecy had a much higher price. The basic ideas of tuna fishing and maritime industries are probably sensible, but Mozambique has no crews capable of running the fishing boats or the sophisticated patrol boats, and there had apparently been no discussion with the gas companies as to whether they would accept a purely Mozambican security company (which seems highly unlikely). Public discussions and open tenders might have led to longer term joint ventures with appropriate training and the potential for contracts with the gas companies. More open discussions would have allowed experts to check profit predictions, the appropriateness of the boats, and the prices being offered.

Conclusion: following the road map

Taking \$2.2 billion in secret loans to create security service owned fishing and maritime companies seems a flagrant violation of both 'good governance' and good sense.

However, the loans and projects follow the road for the creation of domestic capitalism shaped by donors and lenders during more than four decades of change management. In moving the Mozambican elite away from socialism, lenders and donors promoted a particular model in which domestic business was based on patronage, government and donor largesse, and rent-seeking. Businesspeople and members of the elite were expected to service foreign interests. The split between the lender and donor rhetoric of market fundamentalism and the need to intervene to create a domestic business class

was recognised, and thus government and the elites were given space both to promote development and promote their own interests so long as it was done in secret and did not challenge the rhetoric. And with the potential of billions of dollars from gas to be shared between foreign and domestic interests, local elites were encouraged to dream of super riches. The \$2.2 billion in loans fit within this pattern - and had it not been for the unexpected drop in oil and gas prices, lenders and donors probably would have allowed it to pass with little comment and a small slap on the wrist.

Disclosure statement

There are no potential conflicts of interest.

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