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Postal service closures show Mozambique is a star pupil of western capitalism

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Historic post office buildings spread across Mozambique have become more valuable than the postal service itself. In 2022, the post will be discontinued and the buildings sold, amid suspicions the buyers will be key figures in the ruling Frelimo party. For three decades, writes Joseph Hanlon, the IMF, World Bank, US and UK have set a precedent for how Mozambique's rulers should behave, and now there is potential for the pupil to become the teacher.

The end of the Cold War in 1991 brought the victory of a particular form of free-market capitalism, 'neoliberalism', which included privatisation, deregulation, globalisation, reductions in government spending and increasing concentrations of wealth. In the former Soviet Union, the West imposed what has been called 'shock therapy' to rapidly convert the communist elite into a new capitalist elite. Distribution of state assets to this group created the 'oligarchs'.

Socialist Mozambique was the only African country where shock therapy was imposed, with five lessons for the country. The first concerned privatisation: **800 state**

companies were mainly given to an elite of generals and important Frelimo leaders with no business experience. The **World Bank later admitted** it lent money to privatised businesses it knew could not repay. Many could survive only on state contracts. Capitalism lesson 1 was, therefore, that businesses are given to you, not built by work. Money comes free. You survive on contracts from the state which you receive because of your party links.

Capitalism lesson 2 was the centrality of patron-client systems. As **IMF-imposed austerity** cut state wages below the absolute poverty line, survival required patronage networks. Embassies hired key people on dollar salaries or gave 'top ups' to people in government supporting donor projects or agendas. Nurses and teachers were forced into corruption to survive and needed the permission of their superiors.

Capitalism lesson 3 came more slowly, as donor agencies shifted their aid systems to intermediate contractors – private companies known in the US as 'beltway bandits', or traditional NGOs which took over managing aid projects. The lesson was that much less aid reached poor people, and much more was siphoned off by contractors and managers. Government officials became informal intermediaries, taking a cut of both aid and government social spending.

Capitalism lesson 4 came from the new generation of private equity and hedge funds. They profit by using borrowed money to buy companies, **selling off property such as shops** and buildings, and pocketing the returns. Then they sell off the company, leaving it with huge debts to be repaid and paying large rents for shops and buildings it once owned. The recent announcement of the **post office closure** in the country is a classic example of lesson 4, where the Mozambican elite learns a lesson from northern capitalists: that the post office buildings themselves are much more valuable than any public service.

Capitalism lesson 5 is that wealth and power is increasingly concentrated in a small, politically well-connected elite, which apparently survives without challenge from a majority steadily growing poorer.

Applying these lessons

The Frelimo elite in Mozambique quickly learned these lessons. The importance of a patron in the World Bank or an aid agency became clear both for project funds and a high salary. Local NGOs were created to satisfy the demand of international NGOs and donor contractors. The issues were good: promoting rights for women and girls,

HIV/AIDS treatment, environmental programmes, among others. But there was no place for local inputs. Salaries higher than staff would earn in similar jobs in London required following internationally set templates, no matter how locally inappropriate. The consultants hired to evaluate aid initiatives knew that future contracts depended on saying the project was good.

There was a chance to intervene. The 1999 election was close and President Joaquim Chissano was re-elected by a tiny margin, which former US President Jimmy Carter, heading an **election observation mission**, called fraudulent. Frelimo concluded that the near loss was due to a popular reaction against rapidly growing corruption and refused to allow Chissano to stand again. Then the international community stepped in. Aid increased sharply after 1998, particularly direct budget support. In 2007, Chissano **received the Mo Ibrahim Prize** after standing down voluntarily, cited as an 'exceptional role model for the continent.'

Frelimo has remained in power. Mozambique's next president was Armando Guebuza, an oligarch said to be Mozambique's richest man, who gained his wealth partly from his earlier role as Transport Minister. Discovery of huge natural gas reserves increased international support for the Frelimo elite. Guebuza caused a temporary glitch when he accepted a **\$2bn secret loan** from Credit Suisse without telling donors and the IMF, causing a temporary halt of aid. But the IMF, World Bank, EU, US and UK are all back. Last year the United States Export-Import Bank (Exim) approved a \$4.7bn loan and UK Export Finance (UKEF) a \$1bn loan guarantee for the gas project.

Gas and foreign investment ensure Frelimo has kept its stamp of approval.

Lessons adopted by the UK

Mozambique has learned well its lessons in capitalism, and a national patronage system keeps the system running. At the top, several oligarchs are on Frelimo's ruling Political Commission. Careful political appointments at all levels from governors to school heads and municipal officials ensure the patronage system operates, and projects go ahead when enough people benefit.

Yet, land concessions, licences and government contracts on which local business depend all require Frelimo patrons. In 2020, the UK formalised this system with a special 'cronies list' with priority for contracts for personal protection equipment and other COVID-19 equipment. The **New York Times** analysed nearly \$22 billion of contracts. Half 'went to companies either run by friends and associates of politicians

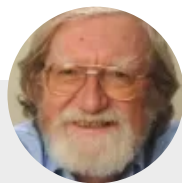
in the [ruling] Conservative Party, or with no prior experience or a history of controversy. Meanwhile, smaller firms without political clout got nowhere.' As in Mozambique.

On 22 July 2021 a government review approved the adoption of another Mozambique model. Lex Greensill had been a Senior Adviser to Prime Minister David Cameron, and his financial services company went bankrupt in 2020. Cameron was no longer Prime Minister when he used his access to unsuccessfully press Finance Minister (Chancellor of the Exchequer) Rishi Sunak and civil servants to save the company. An investigation found that Greensill had an 'extraordinarily privileged relationship with government', and that Cameron had not breached any lobbying rules. This is all part of a **lobbying system** which 'worked well' and is 'vital to the proper functioning of democracy'. As in Mozambique.

In three decades, Frelimo and the Mozambique elite have learned the lessons. Poverty and inequality have **both increased**, there is no development and Mozambique languishes near the bottom of the UN Human Development Index. But the oligarchs become wealthy and their middle-class allies prosper. All the while, Mozambique's systems gain global acceptance.

Photo: President of Mozambique, Filipe Nyusi, at the executive session. Credit: The Commonwealth. Licensed under CC BY-NC 2.0.

About the author



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Joseph Hanlon is a visiting senior fellow in International Development at LSE. He is the co-author of the book 'Bangladesh Confronts Climate Change'. He has been writing about Mozambique for 40 years, has written eight books on the country and is editor of the newsletter Mozambique News Reports and Clippings which is free on subscription: <https://bit.ly/Moz-sub>

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