

Do donors promote corruption? The case of Mozambique

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ABSTRACT *Donors inveigh against corruption, yet give more aid to corrupt governments. Debate continues on the causes of developing country corruption, but with little consideration of the possibility that the behaviour of donors may unintentionally promote corruption. This article looks at the example of Mozambique, where corruption grew rapidly in the 1990s. It argues that the donor community is prepared to tolerate quite blatant corruption if the elite rapidly puts into place 'market-friendly' policy changes. The article notes that the Mozambican elite is divided, but the group which challenged high level corruption also criticised World Bank adjustment policies; donors opted for the corrupt faction that told the donors what they wanted. Donors try to avoid the issue by concentrating on institutional reform, which the corrupt faction has so far been able to bypass. The issue is compounded by Mozambique's reputation as one of the World Bank's few success stories in Africa, and donors are reluctant to besmirch that image by publicly raising the corruption issue.*

World Bank researchers find that 'foreign aid can induce corruption'¹ and that there is 'no evidence that donors systematically allocate aid to countries with less corruption'.² Another study showed that 'more corrupt governments receive more aid'.³

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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 million in aid and was given \$722 million. Sergio Vieira, a former security minister, wrote that the

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pledge of more money than Mozambique requested showed that the international community recognised '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.

On both corruption and development donors and some Mozambicans seem to see totally different countries. For the donors, Mozambique 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 'policy and institutional reforms have sparked rapid development'. Only two were in Africa: Mozambique and Uganda. '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%'.⁷ Mozambique continues to be one of the best performing economies in sub-Saharan Africa, according to the World Bank economist in Maputo, Dipac Jaiantilal.⁸

'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, amount other aspects, adverse social effects and rising crime', writes Prakash Ratilal, a former governor of the Bank of Mozambique.⁹ 'Ordinary Mozambicans have yet to see any real changes in their daily lives, despite official World Bank figures', according to an article published by a United Nations agency.¹⁰ This is confirmed by a public opinion poll of 13 790 households between October 2000 and May 2001, when 35% said they were in much the same situation as a year previously, while 38% said they were worse off.¹¹ Although GDP is supposedly growing rapidly, it is concentrated in Maputo and in mineral-energy enclaves like the billion-dollar Mozal aluminium smelter. The UNDP *Mozambique National Human Development Report 2001* showed that in the four years 1997–2001 'real GDP per capita' for the country as whole fell from \$198 to \$177 and for the poorest province, Zambézia, it fell from \$106 to \$78.¹²

On the issue of corruption Guido van Hecken, then Belgium's Chief of Cabinet for the State Secretary for Development Co-operation, said in 2002 that 'corruption, though not non-existent, is not institutionalised and the possibility for controlling funds earmarked for Mozambique is easy and transparent'.¹³

Contrast this with the comments by one of the country's foremost writers, Mia Couto, that 'we live in a kingdom where those who lead are gangsters'¹⁴ and that an elite is using power 'in order to enrich itself. They don't think of Mozambique, they think of themselves.'¹⁵ 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'.¹⁶ In a brave statement to parliament in 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 feel free to ignore requests for information from corruption investigators in the Attorney General’s office.¹⁷ One of the men later convicted of killing editor Carlos Cardoso was allowed to escape from the maximum-security prison. Seven policemen were acquitted in late 2003 of aiding the escape when the judge, Carlos Caetano, said the guards, ‘were just scapegoats to hide the class of untouchables’¹⁸—senior political figures who organised the escape to try to prevent the man from saying who had paid him for the crime, but who were not investigated or charged.

The growth of corruption in Mozambique

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 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 and could no longer face his comrades.¹⁹

In a country still in the fervour of independence five years earlier, the government and ruling party still retained a high degree of integrity, honesty and sense of self-sacrifice. Proxy war, the end of the Cold War and the transition to capitalism ended that era. In the 1980s, at the height of the Cold War, apartheid South Africa was licensed to attack Marxist Mozambique, and it built up and supplied the Renamo rebel movement in a war which cost 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.²⁰

Aid jumped from \$359 million in 1985 to \$875 million in 1988.²¹ Government spending was cut, including on health and education. Privatisation—which had begun in 1980—was accelerated. The end of the Cold War brought a quick end to the proxy war in 1992, but it also brought structural adjustment and the transition to capitalism. Significant corruption began to grow in the mid-1980s, in large part linked to corruption in a military fighting what came to be seen as an unwinnable war, to black market trading and to early privatisations.²²

The late 1980s were the period of the shift to market capitalism under the tutelage of the World Bank, even while the war continued. 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. This was shown particularly clearly in three areas. 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 the *nomenklatura* were the most experienced administrators.

Second, in 1988 the Caixa de Crédito Agrário 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.

Third, the World Bank's 1989 Small and Medium Enterprise Development Project was intended to help the new owners of privatised businesses. Nearly \$33 million was lent, and the World Bank's 1998 evaluation admitted that 90% of the loans would never be repaid. The Bank's own 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 million in loans to larger privatised state companies, most of which will probably never be repaid.²³ In effect, the World Bank admits it put 'substantial pressure' on honest Mozambican bankers to bend the rules to give loans they knew could not be repaid.

Murky privatisations continued through the 1990s, with the family and close associates of President Joaquim Chissano becoming shareholders in a range of businesses.²⁴ As late as 1999, when the World Bank said it was taking corruption seriously, the Bank promoted a less than transparent part-privatisation of part of Maputo port to a consortium involving a senior politician.²⁵

Starvation wages

The first half of the 1990s saw the era of inflation control and minimal government, imposed by the IMF.²⁶ This 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. 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 that, far from being too big, Mozambique's civil service was already too small to provide basic services.²⁷ 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 teacher commented, 'we in education have one foot

inside and the other out, because we are parents and we don't like to see our children dying of hunger'.²⁸

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. 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 agencies²⁹ and I asked donors why they continued to support this organisation. They replied, quite openly, that they saw this as a way of buying influence to the president's office to approve their projects. Projects which violated government policies but which the donors wanted were approved by this route.

Privatising the banks and killing the investigators

The Mozambican bank scandals finally brought Mozambique corruption to international attention.³⁰ 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 Português (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 1995.³¹ 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 Joaquim 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 rehabilitate the metal-working sector, and was not accounting for concessional loans he had 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 1996.³²

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 sharehold-

ers 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 million.

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 then renamed Banco Austral, collapsed and the private owners handed their shares back to the government on 3 April 2001. Losses will exceed \$150 million, and a substantial amount of money will be required from the government.³³

Carlos Cardoso, editor of the faxed business daily *Metical*, had been investigating the bank scandals when he was machine-gunned in a drive-by shooting on 22 November 2000. Soon after, António Siba-Siba Macuacua, the respected Banco de Moçambique head of banking supervision, was named acting head of the collapsed 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 the subject of an international campaign, and eventually an investigation began; six people who carried out the actual killing were convicted in January 2003. President Joaquin Chissano’s son was accused by some witnesses of having ordered the murder, and in evidence he admitted illegal international currency transactions; no further action was taken and donors brought no pressure on the government to investigate high-level involvement in the murder and in money laundering.³⁴ Siba-Siba was not well known 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 million from the banking system.

Ignoring the crisis

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.

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 Heavily Indebted Poor Countries (HIPC) 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,³⁵ and the IMF and World Bank were under heavy pressure from campaigners. This was felt particularly in the USA, 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 costs, and USAID officials intensely lobbied the Nordic donor representatives, and successfully convinced them that debt relief was more important than corruption.³⁶ The matter was not raised, the PRSP was approved, and Mozambique gained debt relief.

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 underway 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'.³⁷ Mozambique asked for \$600 million in aid and was given \$722 million—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'.³⁸

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.

The following year, the issue was raised again. Speaking at a Maputo press conference on 11 July 2003, the managing director of the IMF, Horst Kohler, said 'it is our conviction that the government, under the leadership of President Joaquim Chissano, has done a fine job in defining and implementing the fundamentals for growth and for reducing poverty'. Nothing was said about corruption; instead Kohler called for 'deeper reform' in the financial sector. Journalists raised the issue of the bank frauds and the murder of Antonio Siba-Siba Macuacua but, according to the government press agency AIM, 'Kohler dodged the question' and simply called for measures to 'strengthen the financial sector'. Commented AIM: 'For Kohler the past can now just be swept under the carpet'.³⁹

Interpreting Mozambican 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'.

'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 his/her 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 influence, 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 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.⁴⁰

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'.⁴¹ 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.

The bank scandal shows an important aspect of state capture in Mozambique. Control of the judiciary is an important element of state capture, and by the late 1990s it was becoming increasingly clear that the justice system in Mozambique was corrupt and largely non-functional. Donors repeatedly demanded reform of the justice system, and the government repeatedly drafted plans but did nothing. The issue came to a head after the December 1999 election, when President

Chissano reappointed as Justice Minister José Abudo, but did not reappoint his deputy Filipe Mandlate. In a series of editorials in *Metical*, Carlos Cardoso said the decision ‘overrides all previous promises to reform the legal sector’. It leaves in place a justice system ‘which today protects the most illegitimate acts of Frelimo’ and which is leading to ‘gangsterisation’. According to Cardoso, Mandlate had been the only person trying to reform the legal system, while Abudo was hardly present and simply allowed the system to collapse and corruption to increase.⁴²

Administrative corruption also became widespread. A survey by Ética Moçambique (2001) of 1200 people showed that 45% said they had been victims of corruption in the previous 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.

In another article I argued 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 requiring a more interventionist, functioning and honest state.⁴³ In broad terms the predatory faction is led by a group of people close to President Chissano and who dominate some ministries. The developmental faction is also represented in government, particularly within the Ministry of Finance and Banco de Moçambique; it also includes a number of people who played important roles in the central planning era and who are now successful businesspeople. Bank privatisation was an important site of struggle between these two groups. Carlos Cardoso became the *de facto* spokesperson of the developmental group. With the collapse of Banco Austral, the developmental faction tried to regain control and impose some integrity, and Banco de Moçambique appointed Siba-Siba Macuacua as acting head of the bank. After their assassination the predatory faction used their control of the judicial system to block investigations of the murders.

What seems clear is that the donor community and international financial institutions have consistently backed the predatory faction against the developmental faction and have allowed the predatory faction to capture the state. Just some of the key decisions have included: World Bank pressure for corrupt loans in the late 1980s, World Bank and IMF pressure for a corrupt privatisations of the two state banks, the unwillingness of donors to challenge the reappointment of Abudo as Justice Minister, and the consistent unwillingness of the donors to use their economic muscle to force investigations into the murders of Siba-Siba and of high-level officials who stole money from the banks. In each case, the

appeals of honest Mozambicans have been rejected in order to support the predatory faction.

'Holistic' and 'systemic' approaches

The developmental faction has consistently argued that the international community can only curb high-level corruption by forcing Mozambique to set an example by punishing those who stole large amounts from the banks and those who killed Siba-Siba and Cardoso. This is rejected by the donor community. In a closed meeting in 2002 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 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.⁴⁴

The response is stated most clearly by NORAD, the Norwegian aid agency, in its *Good Governance and Anti-Corruption Action Plan*:

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.⁴⁵

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This is the line also taken by other key donors. Baroness Amos, then 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 on 20 May 2002 on 'Tackling Corruption in Africa'. She said 'our approach is holistic' and 'aims to build the capacity of institutions'.⁴⁶

And the World Bank argues that: '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'. The World Bank says it 'addresses corruption in systemic terms'.⁴⁷ The Bank now has a special anti-corruption website which admits 'it did not explicitly address corruption in its development strategies' until 1996, but is doing so now.⁴⁸

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. These approaches also ignore state capture and they ensure the elite more years of impunity. 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.⁴⁹

This is linked to a donor preference for detailed plans rather than for action. Darius Mans, World Bank Country Director for Mozambique, in his report on

the 2001 CG meeting, said 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’,⁵⁰ Mozambique’s Poverty Reduction Strategy Paper.⁵¹ Thus for Mans and the donors, the ‘most significant action’ in a period in which there had been huge corruption and two murders was the writing of a document rather than any action.

Forgetting

Two linked components of the donor contribution to corruption are the very short time horizons of donor officials and the almost total lack of institutional memory. Donor officials are in Maputo for two to four years and, if they are to rise in their organisations, they need to do four things: 1) lend or give away money, a lot of money; 2) show they are responding to the rapid changes in goals and policies set at the donor headquarters; 3) demonstrate that in some way their aid has promoted development; and 4) show that it has not rocked the boat or created problems. Holistic or systemic responses are ideal, as are demands that the government produce reform plans, because action seems to be taking place and the time horizon is sufficiently far away that no problems will arise within the residency of any aid official. **The World Bank’s and donors’ \$85 million, 10-year public sector reform project in Mozambique** is a perfect example of such a project.

One problem with this is that donors have virtually no institutional memory. For example, at the end of a decade, no one on the donor side will remember the thinking or promises that went into the public sector reform project, and there will be no records in donor files. In the late 1990s, when Carlos Cardoso began to raise the issue of the misuse of donor loans to fund the corrupt purchase of a privatised bank, several donors admitted privately that they could not find the documentation on loans made six years earlier, but none asked Cardoso to see his copies of the loan agreements.

Thus, when corruption surfaces as an issue, donor officials can proudly report to their headquarters that Mozambique has produced another plan for the reform of the justice sector or yet another poverty plan, and both donor officials and Mozambicans will be sure that no one will remember that several similar plans had been produced in previous years which were then filed away, unimplemented.

Similarly, no one from the donor community remembers how their predecessors forced down civil service wages and created corruption, and no one remembers how individual decisions were taken which repeatedly backed the predatory faction over the developmental faction.

Giving donors what they want

Mozambique’s predatory elite has become highly skilled at giving the donors what they need and want. They don’t steal donor money, they carry out the free market reforms demanded, are a weak democracy, and they heap praise on the donors. In exchange, they know they can rob and kill with impunity. The

government is even free to use aid money to cover the costs of gross corruption, so long as it is done transparently and without breaking the spending limits, even if that means cutting anti-poverty spending.

Don't steal aid money

Perhaps it is not surprising that donors have put greatest emphasis on ensuring that aid funds are not stolen or embezzled. NORAD sets three anti-corruption objectives: increasing awareness of corruption in 'aid administration', assisting good governance, and sharing experiences in preventing and combating corruption.⁵² Belgium's Guido van Hecken emphasises that 'the possibility of controlling funds earmarked for Mozambique is easy and transparent'.⁵³ 'Government transparency and accountability have increased' in Mozambique, writes World Bank Senior Vice President Nicholas Stern.⁵⁴

The Mozambican elite has become highly skilled at ensuring that 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. When donors gave the government an extra \$122 million at the Consultative Group meeting in October 2001, they were giving the government enough money to plug the hole in the banking system for that year, and sending a clear message that donor money *could* be used to cover murder and theft of non-aid funds, so long as it was done publicly and transparently.

Good governance and spending limits

'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 2002.⁵⁵ The World Bank, NORAD and other donors all emphasise 'good governance'. In this part of the paper I argue that the World Bank and other donors have never seen high-level corruption and state capture as governance issues or as one of the 'main obstacles to growth'. Even when senior Mozambican officials highlighted corruption issues, the Bank had other priorities. The perverse effect 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 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.⁵⁶

The most recent World Bank measure of governance is the ‘Country Policy and Institutional Assessment’ (CPIA) which is a list of 20 items, each of which has a 5% weight in the overall rating. The catchall 20th item is ‘Transparency, Accountability and Corruption in the Public Sector’ which even includes media freedom. By contrast, management of public debt also counts for 5%. Free trade and low tariffs score 5%. Credit, monetary and tax policies score 5%, with the highest scores for ‘credit not directed’ and little state ownership of financial institutions.⁵⁷ For 2002 Mozambique was rated in the third quintile, effectively average, except that it was rated in the second quintile, above average, for the five items which constitute ‘public sector management’ and which include corruption.⁵⁸

This is also clear in what Mozambique is praised for. World Bank Senior Vice President Nicholas Stern notes that Mozambique has ‘implement[ed] key measures in financial liberalization, exchange rate reform, trade liberalization and privatization through a series of adjustment operations’.⁵⁹ The poverty reduction paper actually cuts spending on poverty reduction,⁶⁰ and the World Bank praised the government for including in the PARPA (PRSP) tight monetary policies to ‘slow inflation’.⁶¹ The IMF Resident Representative Arnim Schwidrowski confirmed that, so long as the tight spending 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.⁶²

Democracy and donors stroking

Two other issues are important. Donors like formal democracy, although they do not seem too concerned about how well it works. One study noted that ‘more US foreign aid goes to more corrupt countries’ and that ‘the US appear to favor democracies, but seems to pay no attention whatsoever to quality of government in receiving countries’.⁶³

Finally, the Mozambican elite piles obsequious praise on the insecure donor community, constantly stroking them and telling them how much good they are doing and how excellent and correct their imposed policies and agendas are. For example, at a 25 February 2002 Commonwealth investment conference, President 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’.⁶⁴

Conclusion: making choices

In an earlier study of Mozambican corruption Graham Harrison argued that, for the IFIs:

The fight against corruption has to be balanced against political expediency, especially the need to maintain a fairly stable and minimally pliant governing elite. If this governing elite's stability is partly based on graft, then it follows that the IFIs, which require these elites to implement structural adjustment programmes, problematise corruption in a specific way which does not necessarily mean aiming to minimise corruption if this might create serious instability in the governing elite.⁶⁵

The problem for the aid agencies and IFIs is that Mozambique's elite is divided. The predatory group will implement structural adjustment and will also steal. The developmental group challenges both corruption and adjustment. At the annual CG meeting in Maputo 25–26 October 2001 donors met each other and the government, and heaped praise on the government for following IFI economic policies so closely. Then donors 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, who makes clear that the CSO statement was ignored.⁶⁶

There are 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.

Corruption in Mozambique—and Africa—is not a unique phenomenon. The mafia in Italy and the Enron scandal in the USA show how single-minded promotion of certain priorities can create a penumbra in which corruption is fostered. The donor community emphasises good governance, but this is mainly macroeconomic; in their quest to increase aid to Mozambique, to encourage further 'market-friendly' policy change as quickly as possible, and to promote Mozambique as one of the few African success stories, donors are rewarding corruption and refusing to support honest Mozambicans. Donors turn their backs on the honest bankers, journalists, judges, prosecutors and civil society leaders who ask for their backing, saying, in NORAD's phrase, that investigating and prosecuting corruption requires resources that Mozambique cannot afford; better to let the predatory elite steal and kill for another decade while institutional change is encouraged. Sergio Vieira was right when he said that what the international community sees as 'the good performance of the government...overrides the bank scandal and the assassinations of Siba-Siba Macuacua and Carlos Cardoso'.⁶⁷

Notes

- ¹ S 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>.
- ² J Svensson, 'Foreign aid and rent-seeking', *Journal of International Economics*, 51 (2), 2000, pp 437–461.
- ³ A Alesina & B Weder, 'Do corrupt governments receive less foreign aid?', Working Paper 7108, National Bureau of Economic Research, Cambridge, MA, 1999, at <http://www.nber.org/papers/w7108>.
- ⁴ P Gastrow & M 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. (Peter Gastrow is head of the Cape Town office of the Institute of Security Studies.)
- ⁵ Details of the banking crisis and scandal were published in J Hanlon, 'Bank corruption becomes site of struggle in Mozambique', *Review of African Political Economy*, 91, 2002, pp 53–72 and in a series of articles: J Hanlon, 'Matando a galinha dos ovos de ouro', *Metical* (Maputo), 17 September–3 October 2001, at <http://www.mol.co.mz/noticias/metical/2001/mt010917.html>. An English version of the article series, 'Killing the goose that laid the golden eggs', is on <http://www.mol.co.mz/noticias/metical/2001/en010917.htm>.
- ⁶ *Domingo* (Maputo), 2 December 2001.
- ⁷ N Stern, 'The role and effectiveness of development assistance', paper for the UN Conference on Financing for Development, World Bank, Washington, DC, 18–22 March 2002, pp xv, xvi, 39, at http://econ.worldbank.org/files/13080_Development_Effectiveness.pdf. (Stern is World Bank Chief Economist and Senior Vice President, Development Economics.)
- ⁸ D Mans, 'Consultative Group Meeting for Mozambique, Maputo, October 25 and 26, 2001, Chairman's Opening Statement'. (Mans is World Bank Country Director for Mozambique.)
- ⁹ P Ratilal, 'Perception of the economy', Maputo, 11 March 2001.
- ¹⁰ 'Mozambique: no structural adjustment rewards for poor yet', United Nations Office for the Coordination of Humanitarian Affairs Integrated Regional Information Network (IRIN), Johannesburg, 10 April 2002, at <http://www.irinnews.org/report.asp?ReportID=27214>.
- ¹¹ '1481001E Mozambicans believe their lives are not getting worse', AIM Mozambique Information Agency, Maputo, 29 October 2001.
- ¹² UNDP, *Mozambique National Human Development Report 2001*, Maputo: United Nations Development Programme, 2001, table 17.
- ¹³ 'Mozambique: "Authorities know what they want"—donors', IRIN, Johannesburg, 9 April 2002, at <http://www.irinnews.org/report.asp?ReportID=27190>.
- ¹⁴ M Mosse, interview with Mia Couto published in *Demos*, Maputo, February 2001 and quoted in Gastrow & Mosse, 'Mozambique'.
- ¹⁵ '114502E Mia Couto condemns "predatory elite"', AIM, Maputo, 24 May 2002.
- ¹⁶ Gastrow & Mosse, 'Mozambique'.
- ¹⁷ J Madeira, Attorney-General's annual statement to parliament, Maputo, 6 March 2002.
- ¹⁸ P Fauvet, 'Cardoso murder: policemen acquitted', AIM, Maputo, 29 September 2003.
- ¹⁹ *AIM Information Bulletin*, 47, May 1980; and J Hanlon, *Mozambique: Who Calls the Shots?*, Oxford: James Currey, 1991, p 231.
- ²⁰ J Hanlon, *Peace Without Profit: How the IMF Blocks Rebuilding in Mozambique*, Oxford: James Currey, 1996, pp 15–17.
- ²¹ Hanlon, *Mozambique*, p 269.
- ²² The best summary of the growth of corruption is by Graham Harrison in two papers. G Harrison, 'Corruption as "boundary politics": the state, democratisation and Mozambique's unstable liberalisation', *Third World Quarterly*, 20 (3), 1999, pp 537–550; and Harrison 'Clean-ups, conditionality & adjustment: why institutions matter in Mozambique', *Review of African Political Economy*, 81, 1999, pp 323–333. By 1996, when I wrote the book *Peace Without Profit*, corruption was already well known and widely debated, and I commented that 'Donors have fallen into corrupt practices as well, and may well have led the descent' (p 144).
- ²³ L Landau, *Rebuilding the Mozambican Economy, Country Assistance Review*, Washington, DC: World Bank Operations Evaluation Department, 1998, pp 62–63.
- ²⁴ Harrison, 'Corruption as "boundary politics" '.
- ²⁵ C Castel-Branco & C Cramer, 'Privatization and economic strategy in Mozambique', in T Addison (ed), *From Conflict to Recovery in Africa*, Oxford: Oxford University Press, 2003, pp 153–170.
- ²⁶ Hanlon, *Peace without Profit*, p 24ff.

- 27 A Adedeji, R Green & A Janha, *Pay, Productivity and Public Service: Priorities for Recovery in Sub-Saharan Africa*, New York: UNICEF & UNDP, 1995.
- 28 Hanlon, *Peace without Profit*, pp 2, 4.
- 29 Hanlon, *Mozambique*.
- 30 Full details of the banking scandal are given in Hanlon, 'Matando a galinha dos ovos de ouro'; and Hanlon, 'Bank corruption becomes site of struggle in Mozambique'.
- 31 *Country Assistance Strategy*, Report 15067-MOZ, Washington, DC: World Bank, 1995.
- 32 Castel-Branco & Cramer, 'Privatization and economic strategy in Mozambique'; and Hanlon, 'Matando a galinha dos ovos de ouro'.
- 33 In 2002 Banco Austral was taken over by ABSA of South Africa.
- 34 *Mozambiquefile* (Maputo), 317 and 318, January 2003.
- 35 'Heavily Indebted Poor Countries (HIPC) Initiative-Status of Implementation', World Bank, Washington, DC, 14 April 2002, p 7, at http://www.worldbank.org/hipc/Status_of_Implementation_0402.pdf.
- 36 Confidential personal communication.
- 37 D Mans, 'Consultative Group Meeting for Mozambique, Maputo, October 25 and 26, 2001, Chairman's Report of the Proceedings'.
- 38 *Domingo*, 2 December 2001.
- 39 P Fauvet, 'Glowing praise for Mozambique from IMF', AIM, Maputo, 11 July 2003.
- 40 Pradhan *et al*, *Anticorruption in Transition*, pp 2, 3, 9, 17.
- 41 *Ibid*, p 26.
- 42 C Cardoso, 'Error grave de Chissano', *Metical* (Maputo), 18 January 2000; and Cardoso, 'Deturpação da crítica', *Metical*, 21 January 2000.
- 43 Hanlon, 'Bank corruption becomes site of struggle in Mozambique'. This draws on predatory and developmental state definitions by P Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton, NJ: Princeton University Press, 1995.
- 44 Confidential personal communication.
- 45 NORAD, *NORAD's Good Governance and Anti-Corruption Action Plan*, Oslo: NORAD, 29 February 2000.
- 46 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/](http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1021827509969)
- 47 'Helping countries combat corruption', World Bank, 2002, web page, at <http://www1.worldbank.org/publicsector/anticorrupt/helping.htm>.
- 48 'Anticorruption: World Bank efforts', World Bank, 2002, web page, at <http://www1.worldbank.org/publicsector/anticorrupt/efforts.htm>.
- 49 Pradhan *et al*, *Anticorruption in Transition*, p 1.
- 50 D Mans, 'Chairman's Report of the Proceedings', 2001.
- 51 The World Bank-mandated Poverty Reduction Strategy Paper (PRSP) is known in Mozambique as the *Plano de Acção para a Redução da Pobreza Absoluta* (PARPA), the Action Plan for Reducing Absolute Poverty.
- 52 NORAD, *NORAD's Good Governance and Anti-Corruption Plan*, pp 19–20.
- 53 'Mozambique: "Authorities know what they want"-donors'.
- 54 Stern, 'The role and effectiveness of development assistance', p 39.
- 55 *Ibid*, p xiii.
- 56 C Burnside & D Dollar, 'Aid policies and growth', World Bank Policy Research Working Paper (1777), 1997, pp 1, 2, 16.
- 57 'Country Policy and Institutional Assessment 2003 Assessment Questionnaire', World Bank, 2002, at <http://siteresources.worldbank.org/IDA/Resources/CPIA2003.pdf>.
- 58 This is directly important in the Mozambican debate. One of the central demands of the development faction is that some credit be directed to rural areas to promote development outside the capital. If the elite accepted this demand, it would need to make up some of its CPIA score elsewhere, for example by reducing corruption. For the predatory elite, it is win-win-if credit is determined by the market and thus stays in the city and benefits the rich (and thus themselves) instead of the poor, they keep a higher CPIA score and are under less pressure to reduce corruption. '2002 Country Policy and Institutional Assessment', World Bank, 2002, at <http://siteresources.worldbank.org/IDA/Resources/Quintiles2002CPIA.pdf>.
- 59 Stern, 'The role and effectiveness of development assistance', p 39.
- 60 República de Moçambique, *Plano de Acção para a Redução da Pobreza Absoluta*, approved by the Council of Ministers April 2001, tables 7.4, 7.5, 7.6.
- 61 'Mozambique's Poverty Reduction Program receives strong donor support', World Bank, press release, 26 October 2001.

- ⁶² Reporting on the statement of the IMF Resident Representative Arnim Schwidrowski to the 2001 CG meeting, 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.' Mans, 'Chairman's Report of the Proceedings'. 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 outside those spending limits.
- ⁶³ Alesina & Weder, 'Do corrupt governments receive less foreign aid?'.
- ⁶⁴ '119202E Chissano speaks on investment in Mozambique', AIM, Maputo, 25 February 2002.
- ⁶⁵ Harrison, 'Clean-ups, conditionality and adjustment'.
- ⁶⁶ D Mans, 'Chairman's Report of the Proceedings'.
- ⁶⁷ *Domingo*, 2 December 2001.

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