



## PARTY AND STATE: MOZAMBIQUE'S POLITICS AND POLICY AHEAD OF THE 2019 ELECTIONS

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Frelimo has dominated post-independence Mozambique. It ruled a one-party state between 1975 and 1994, and has since won five consecutive general elections by comfortable margins. The political stability this has provided – at least since the end of the civil war (1977-92) – has been important for the country's development. But stability should not be mistaken for stagnation. Frelimo's internal landscape is dynamic, growing electoral competition is forcing change and, most importantly, the party's relationship with the state is evolving. Frelimo's central role and primacy in state decision-making are a historic legacy but not a future certainty. Once largely confined to opaque party structures, decision making is now open to a growing array of voices.

For investors, these changes create both opportunities and challenges. Investors are able to input into legislative processes from which they were previously excluded, but must compete to be heard over populist pressures and the demands of international stakeholders. The risk of sudden legislative shifts being decided within Frelimo with little wider consultation is declining as state institutions such as the National Assembly (legislature) gradually – and still tentatively – assert their independence. However, a more inclusive legislative process also results in more stakeholders with which investors must engage. One senior industry player, while praising the growing openness of the administration under President Filipe Nyusi, told Control Risks that it was sometimes easier to do business under former president Armando Guebuza (2005-15) because 'you only had to deal with one man'.

### Ongoing transformation

Frelimo's party activities and government responsibilities may have been officially separated since 1991, but disentangling the structures of party and state has taken place more gradually. Nyusi is accelerating this process, in part because he has found it easier to control the state apparatus than a Frelimo dominated by big personalities and competing factions. But change is also being driven by Frelimo's inability to contribute meaningful policy solutions to the increasingly complex challenges facing Mozambique. Frelimo does not have the sophisticated policymaking structures of neighbouring South Africa's African National Congress (ANC), or indeed of most of its regional peers. Frelimo's 11th Congress in September will likely produce a party programme that, as in previous years, provides few tangible mechanisms to achieve platitudinous goals.

The absence of clearly defined strategies from Frelimo is leaving room for other voices. For the ever more complex regulations required for increasingly technical economic sectors – such as offshore natural gas – the Nyusi administration is turning to the private sector for assistance. Control Risks has spoken to law firms and industry players that have participated in the drafting of legislation and regulations, resulting in a legislative framework that is relatively sophisticated compared with regional peers. In its fiscal policy, the government is increasingly susceptible to pressure from the IMF and bilateral donors as it seeks to secure a resumption of budgetary support. These development partners suspended financial assistance following revelations in April 2016 that close to USD 1.5bn in debts had been apparently illegally accumulated by state-owned companies.

The economic challenges exacerbated by the ongoing debt crisis have raised questions over Frelimo's ability to cling to the 56% and 57% vote shares it achieved in the 2014 legislative and presidential polls respectively. The main

opposition Renamo reversed two decades of decline to claim over 30% of the vote in the 2014 legislative and presidential elections, while the smaller Mozambique Democratic Movement (MDM) gained control of three of Mozambique's four largest cities in the 2013 municipal elections. As a result, the party and president are more susceptible to voter sentiment than they have been since the 1999 general elections. The Nyusi administration has already proven vulnerable to populist pressure. In recent years, it has become increasingly strict in enforcing limits on foreign workers in an attempt to provide more employment opportunities for Mozambicans. To avoid falling foul of such sentiment, investors have had to pay careful attention not only to ensuring regulatory compliance with regulations, but also to maintaining their image as good corporate citizens.

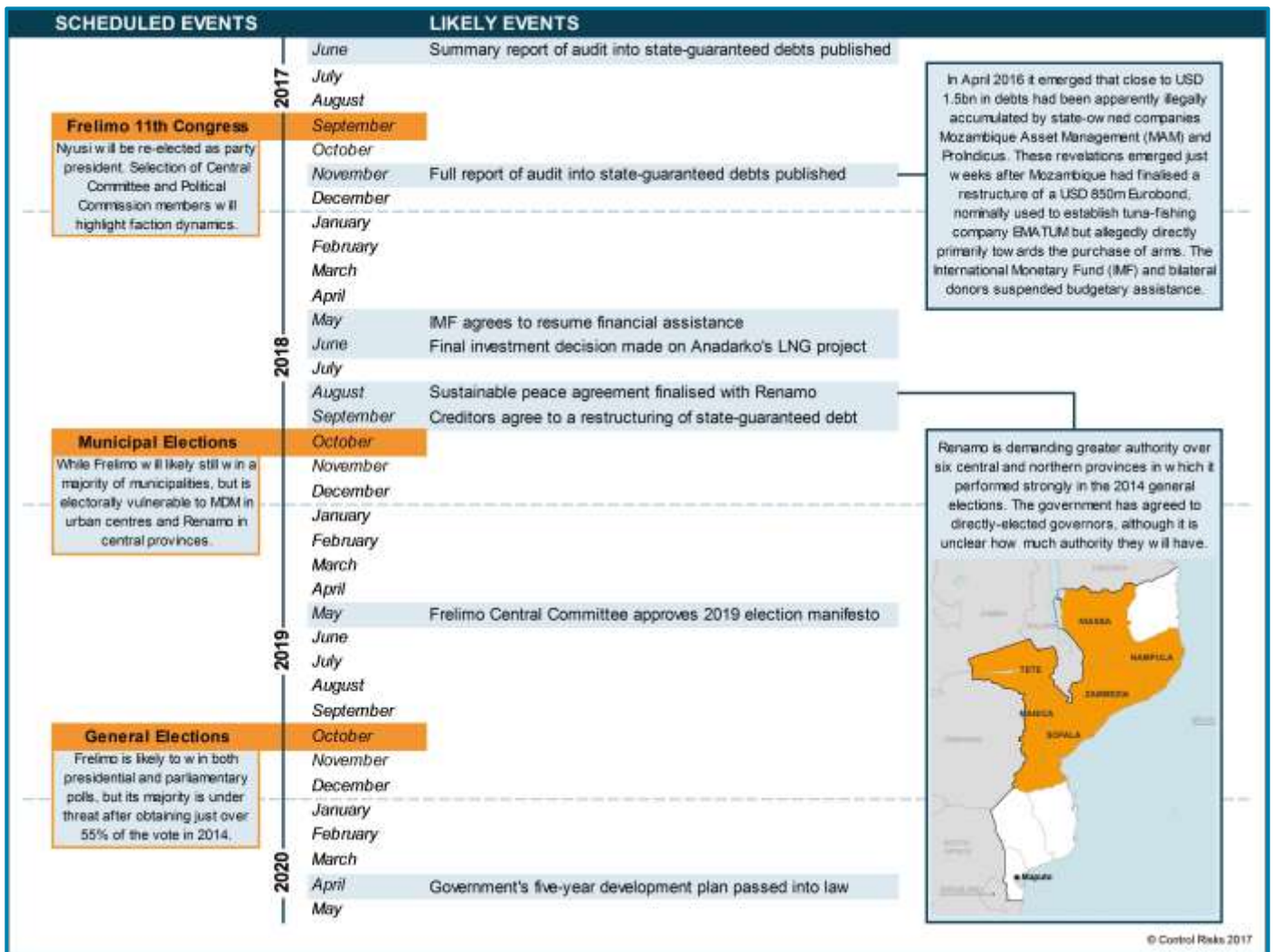
Meanwhile, broader political – and indeed constitutional – changes are also afoot. A ceasefire between Renamo and the government has held since the end of 2016, bringing relief from an on-off insurgency ongoing since April 2013, but ongoing negotiations are likely to throw up new challenges for investors. Renamo's leader, Afonso Dhlakama, on 23 September announced that the government had agreed to hold direct elections for provincial governors – currently appointed by the president – in the ongoing peace negotiations. It remains unclear how much power any newly elected governors will have. Currently their constitutional role is to implement 'centrally defined government policies'. If they are granted greater authority in line with Renamo's demands they could soon become an influential stakeholder with which investors must engage.

## An uncertain outlook

Although it is sometimes difficult to see beyond headlines around the ongoing debt crisis and tortuously slow peace negotiations with Renamo, Mozambique under Nyusi is on a broadly positive trajectory. Companies entering the market meet a welcoming government working to facilitate investment in an ever-expanding range of opportunities, as discussed in the previous two articles in this series. But progress is slow and uncertain. High-level willingness to improve the business environment has to compete with a vast array of vested interests, deep-rooted structural problems and capacity constraints that will take a long time to properly address. Events over the next few years will determine whether more pragmatic voices prevail, or whether the still-tentative positive trajectory falters.

The first tests will come as Nyusi seeks to resolve its ongoing debt crisis and reach a sustainable peace agreement with Renamo. An independent audit into the debts showed evidence of widespread corruption. USD 500m was unaccounted for, with a further USD 713m discrepancy between the prices paid by these companies for goods and services, and the value of those goods and services as estimated by an independent expert. The scale of this apparent corruption offers Nyusi an opportunity to remove Guebuza – who was in power when the debts were accumulated – and his allies from the political arena, where their influence remains pervasive. Yet any attempt to do so would risk provoking a backlash at a time when, though increasing, his authority remains tentative.

For investors, the debt crisis and its political fallout have more direct implications. Frelimo's ability to meaningfully contribute to government policy may be declining, but it and its members still retain more than enough influence to protect their interests. Understanding dynamics in Frelimo is important in a country where the interests of political elites pervade the economy. Factional jostling in Frelimo will often prompt changes in the commercial landscape, as local companies with which foreign investors must interact fall in or out of political favour. Meanwhile, efforts to cover the shortfall left by the suspension of budgetary support from the IMF and bilateral donors have placed the government in a 'Catch-22' situation, with investors caught in the middle. On the one hand, the government is offering potential investors generous terms and fiscal incentives as it seeks to attract foreign capital. On the other, it faces pressure to take a harder line when negotiating contracts from an IMF looking for signs that the government is raising revenue and adopting a stricter fiscal stance. How Mozambique decides to solve its debt crisis will therefore have significant implications for its stance towards foreign investment.



With Renamo, Nyusi is relying on the success of the peace negotiations to bolster his personal mandate. Nyusi spent the first 18 months of his presidency regarded as an ineffectual figure, so buffeted by the battles between more influential factions of the party that German Chancellor Angela Merkel reportedly asked him whether he was actually in charge. His commitment to peaceful negotiations over the Renamo conflict has been a key factor in the gradual strengthening of his position over the past year. It has ensured the support – albeit cautious and qualified – of the international community, which has allowed him to sideline those within the party calling for a decisive military solution. If a sustainable peace deal is reached, Nyusi would seek to translate praise for this achievement into a personal mandate that allows him to consolidate more authority and secure re-election in 2019.

The municipal elections scheduled for 10 October 2018 will provide an important indication of Nyusi's progress. At first glance, municipal elections are of little interest to investors. Municipal authorities are under-funded and have little political power. But as a snapshot of electoral sentiment the poll results will inform the government's thinking and policies. If Frelimo fails to maintain the dominance it has achieved in previous municipal elections, its policies would be likely to become increasingly populist as it attempts to shore up support ahead of the 2019 general elections. A government worried about maintaining its majority could well impose stricter local content requirements on foreign investors, as well as greater burdens in other contentious areas such as land rights and resettlement obligations.

## 2019 and beyond

Nyusi is almost certain to be reconfirmed as Frelimo's president at the party's 11th Congress, and will lead the party into the presidential, legislative and provincial elections due in late 2019. These are unlikely to signal the end of Frelimo rule. Despite Renamo's resurgence at the 2014 polls and the MDM's continued growth, Frelimo has accumulated huge electoral advantages during its 42 years in power.

But for all the broad stability that a Frelimo victory would provide, the political landscape – and the challenges investors face in navigating it – will shift dramatically over the coming years. If Nyusi has secured a sustainable peace agreement with Renamo, relied on foreign investment to tide the government over until the expected natural gas boom, and secured a comfortable win in the municipal elections, 2019 would mark the start of a more assured second term in which investors have a loud voice in shaping a pro-business policy stance. But the increasing separation of party and state has left the field open for other – often less business-friendly – voices to exert influence. If Nyusi does not secure a strong personal mandate in 2019, senior Frelimo figures with opaque interests would seize the opportunity to regain control. For those looking to commit to Mozambique, understanding these possible outcomes can make the difference between success and failure.

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