How Northern Donors Promote Corruption

Tales From the New Mozambique

THE CORNER HOUSE

Corruption is a worldwide and age-old phenomenon. Yet in recent years, Northern donors have become increasingly vocal about corruption in Southern countries and the need for these countries to clean themselves up. Northern donors themselves, however, refuse to change their own policies, or to make tackling corruption a priority. Indeed, they continue to support corrupt Southern elites who are willing to back Northern priorities on economic liberalisation, including free trade and the down-sizing of the state.

Evidence has been mounting for some time that the economic liberalisation policies required of Southern countries by Northern donors have coincided with, and even led to, increased levels of corruption.[1] Africa is a good example of this.

Despite over a decade of structural adjustment reforms, commentators have noted that levels of elite predation have grown, leading to a virtual "criminalisation" of the state in some countries. "Africa remains unproductive and . . . the pursuit of rents or unearned fees is becoming ever more extensive", writes Béatrice Hibou, researcher at the Centre National de la Recherche Scientifique in Bordeaux, adding that in parts of Africa the bureaucratic apparatus, including the courts, is being privatised and criminalised; bank and company frauds are burgeoning; and that drug trading and money laundering are becoming ubiquitous.[2] Mozambique, where corruption was almost non-existent in the 1970s but has grown to high levels during the 1990s, is a case in point.

Northern donors have been so keen on obtaining "market-friendly" policy reforms, moreover, that they have often sided with elites to push reforms through, even though these elites have been linked to corruption.

Northern donors have also proved adept at ignoring corruption when it suits them. When a government such as Mozambique's tells donors what they want to hear, rapidly puts in place the reforms that donors want, and does not misappropriate too much aid money, Northern donors have turned a blind eye to high levels of corruption and ignored pleas from local civil society groups for real action on corruption. Donors have behaved so that the inconvenient facts of corruption do not get in the way of a foreign aid "success story".

1. *See* Khan, M.H., "Corruption and Governance in Early Capitalism: World Bank Strategies and their Limitations" *in* Pincus, J.R. and Winters, J.A., *Reinventing the World Bank*, Cornell University Press, Ithaca NY, 2002; Riley, S.P., "The Political Economy of Anti-Corruption Strategies in Africa", *in* Robinson, M., *Corruption and Development*, Frank Cass Publishers, London, 1998; Harris-White, B. and White, G., (eds.), "Liberalization and the New Corruption", *IDS Bulletin*, Vol 27, No. 2, 1996.
2. Hibou, B. "The 'Social Capital' of the State as an Agent of Deception", *in* Bayart, J. F., Ellis, S. and Hibou, B., *The Criminalisation of the State in Africa*, James Currey, London, 1999, pp.100-102.

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The Growth of Corruption

Mozambique was widely seen as a paragon of integrity in the late 1970s. As in Eastern European countries in the central planning era,[3] the ruling party placed boundaries on the behaviour of public officials through a mix of mutual oversight, incentives and repression.

Equally or more important were idealism and political will. In the country's first decade of independence between 1975-85, Mozambican officials believed they were building a better country, and that the integrity of the state was important. Both the civil service and the leadership were known for their honesty. The bureaucracy may have been inefficient, but stories of either high-level or petty corruption were rare. So rare, indeed, that when Francisco Langa, a member of the Frelimo Central Committee and head of the Centre for Support to Refugees and Liberation Movements, was caught embezzling funds, the case was considered highly unusual. Langa, who had been a military leader during the liberation war of 1962-75, was so overcome with shame that he shot and killed himself in May 1980.[4]

Admired for its integrity in the late 1970s, Mozambique is now "close to becoming a criminalised state".

Yet today, at least two forms of corruption are rampant in Mozambique: "administrative corruption" and "state capture".[5]

Administrative corruption involves making unofficial payments to get officials either to flout or to apply existing laws, rules and regulations. It can also involve state officials themselves manipulating public funds under their control for their own or their family's direct financial benefit.

Examples of administrative corruption prevalent in Mozambique today include having to pay bribes to obtain something citizens are entitled to (anaesthetic during an operation, say) or preferential treatment (school places or passing grades in exams). In one survey, 45 per cent of 1,200 respondents reported that they had been victims of such types of corruption in the past six months. Of those, 31 per cent paid less than US$6, 45 per cent paid $6-60, and 22 per cent had to pay $60-600, a large amount of money in a country where the per capita GDP is only $300. The most common demands for money were from officials in health (30 per cent), education (27 per cent) and the police (21 per cent). Bribes are not just financial; almost five per cent of respondents said that they had been required to "sleep with a government official".[6]

State capture, by contrast, involves taking control of institutions, such as ministries, the judiciary or regulatory agencies, to obtain illicit equity stakes, informal control or various rents. This type of corruption often occurs when the business and political interests of state officials overlap, and is extensive in kleptocratic political regimes where "institutions of the state have been used to serve the interests of a particular leader and his broader circle". It includes, among other things, the "sale of court decisions to private interests and the mishandling of central bank funds".[7]

In Mozambique, state capture corruption is on a larger scale than administrative corruption. In two major bank scandals over the past few years, at least US$400 million has been stolen, partly by senior figures in Frelimo, Mozambique's ruling party. Two people who tried to investigate the bank frauds, a newspaper editor and the

3. Pradhan, S. et al., "Anticorruption in Transition: A Contribution to the Policy Debate", World Bank, Washington, DC, 2000, p.26, http://lnweb18.worldbank.org/eca/eca.nsf/General/D74DB51B2D46615D8525695B00678C93?OpenDocument.
4. Mozambique Information Agency (AIM) Information Bulletin No. 47, Maputo, May 1980.
5. A recent World Bank study of corruption develops this distinction in an examination of Eastern European nations, but the taxonomy is also useful in the case of Mozambique, another country in "transition" from socialism to capitalism (Pradhan, S., et al., op. cit. supra note 3, pp.2, 3, 9, 17.)
6. Ética Moçambique (2001), *Estudo sobre Corrupção Moçambique*, 2001, Maputo.
7. Ibid.

Liberalisation and Mozambique's Banking Scandals

Key to the scandals that have seen hundreds of millions of dollars illicitly drained from Mozambican banks in the last decade was the early-1990s liberalisation of the financial sector urged on the country by the World Bank and International Monetary Fund.

In 1994, the first new private bank opened — Mozambique International Bank, owned 50 per cent by Portuguese private bank Banco Comercial Portugués (BCP) and 25 per cent by the World Bank's International Finance Corporation. In 1995, the World Bank made privatisation of the Commercial Bank of Mozambique (BCM) a "necessary condition" for loans.

The only private interest capable of taking over BCM was a consortium put together by António Simões, a Portuguese businessman with interests in the Mozambican insurance and metal-working sectors, and including Banco Mello of Portugal and a company believed to be fronting for the family of President Joaquim Chissano. However, the leadership of Mozambique's central bank, Banco de Moçambique (BDM) (noted for its integrity and honesty, despite the growing corruption in public life), made it known that Simões was not acceptable because he had a number of bad debts with local banks, was failing to rehabiliate the metal-working sector, and was not accounting for concessional loans he received from donors for this purpose. BDM began looking for another bidder, but with World Bank backing, Simões finally acquired BCM in July 1996.

BCM already had corruption problems, and the new owners' failure to conduct a due diligence audit — an investigation of the financial, operational and legal risks connected with an investment — ensured it would be impossible to find out which frauds occurred before privatisation and which after. Some new management was brought in, nevertheless, and one official reported finding a wide range of frauds. "The bank needed a total clean-up," he said.

The clean-up never happened. According to the official, bank shareholders did not want it to be carried out. In 1998, Simões sold his shares to Banco Mello, which was subsequently sold to Portugal's BCP, and in 2002 BCM was merged into Mozambique International Bank. The total amount lost is still disputed, but is close to US$200 million.

Meanwhile, the IMF demanded that yet another bank, the People's Development Bank (BPD), be privatised by the end of 1996. A Mozambican group close to President Chissano's family was set up to take over the bank, but could not find the foreign partner it needed. When the deadline was not met, the IMF threatened to cut off aid if the bank was not in private hands by the end of June 1997. Finally, Chissano made a personal request to Malaysian Prime Minister Mahathir Mohammed, who instructed Malaysia's Southern Bank Berhad to become a partner. The BPD was finally privatised on 3 September 1997.

As with BCM, corruption was endemic from the outset. No due diligence audit was carried out. The bank made loans to members of the Mozambican elite who seemed to have no intention of repaying. BPD, by now renamed Banco Austral, collapsed and the private owners handed their shares back to the government on 3 April 2001. Losses will exceed US$150 million, and a bailout will be required from the government. In 2002, Banco Austral was taken over by ABSA of South Africa.

Murders

Two prominent Mozambican critics of predatory state capture who tried to do something about the scandal paid with their lives.

The first victim was Carlos Cardoso, editor of the faxed business daily *Metical* and a *de facto* spokesperson for a "developmental" faction among the elite favouring an interventionist, honest state capable of promoting longer-term entrepreneurism. Cardoso was investigating the bank scandals when he was machine-gunned in a drive-by shooting on 22 November 2000. Beginning in 1998, Cardoso had pointed 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.

The second victim was António Siba-Siba Macuacua, the respected Banco de Moçambique head of banking supervision, who was killed and thrown down the stairwell of the bank's headquarters on 11 August 2001. Siba-Siba had been appointed acting head of the collapsed Banco Austral by the developmental faction in an attempt to regain control and impose some integrity, but had stepped over the line by trying to collect from the Frelimo elite and repossess properties.

At first, neither murder was investigated. But because Cardoso was an internationally-known journalist, his killing became a subject of an international campaign. An investigation was then launched and six gunmen were convicted in January 2003. Yet the higher-ups who planned the killing remain at large. One of the convicted men was allowed to escape from a maximum-security prison to ensure he kept silent about his paymasters. Seven policemen accused of facilitating the escape were acquitted in late 2003, the judge remarking that they were "just scapegoats to hide the class of untouchables" who had organised the operation. Some witnesses had accused President Chissano's son, who has admitted illegal international currency deals, of having ordered Cardoso's murder.

Siba-Siba, unlike Cardoso, was not well-known abroad. No international campaign was launched and his murder has been only sketchily looked into. The thefts of hundreds of millions of dollars from the banking system remain mostly uninvestigated.

Source: Hanlon, J., "Do Donors Promote Corruption? The Case of Mozambique", *Third World Quarterly* 25, 4, 2004, pp.747-763.

government's head of banking supervision, were publicly assassinated and the investigations of the killings blocked at high level (*see* Box: Liberalisation and Mozambique's Banking Scandals, p.3).[8]

In addition, 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.[9]

When, as part of recent corruption investigations, Attorney-General Joaquim Madeira sent requests for information to four ministers, one sent the material requested, one telephoned to say he would not respond, and two did not respond at all. In addition, as Madeira has told parliament, foreign investors have complained about the:

> "extra-legal conditions that are habitually imposed on them by Mozambican government leaders, ranging from demands for enormous commissions to a partnership in the undertaking".[10]

The Criminal Investigation Police do not process and sometimes even destroy the files on money stolen from banks and government, and have blocked investigation of cases brought by the central bank, Banco de Moçambique. Magistrates and justice officials "accumulate fortunes through illegality". Judges and state attorneys are also corrupt:

> "we had no idea of the scale of the involvement of judges and even lawyers in business deals. Even the fees of lawyers are fixed by a sentence outside the law, to be shared with the judge in question . . . [There is a] growing tendency for illegality to gain supremacy over legality, the dishonest over the honest . . . The culture of legality is still a dream."[11]

A study by the South African Institute of Security Studies (ISS) sums up the story: Mozambique "is very close to becoming a criminalised state".[12]

Corruption and Foreign Donors

What are the factors behind this increase in corruption? Among many possible contributors, one stands out: increasing intervention by international financial institutions and bilateral aid donors over the past two decades in support of liberalisation, facilitated by tacit alliances between donors and a predatory faction of the Mozambican elite.

In the 1980s, Mozambique became a Cold War battlefield. Apartheid South Africa, encouraged to attack Marxist Mozambique, built up and supplied the Renamo rebel unit in a war which eventually cost more than one million lives and US$20 billion. Yet it was only after donors went on strike twice and withheld food aid, in 1983 and 1986, that Mozambique made its "turn toward the West", finally capitulating to structural adjustment and a transition to the market economy.[13] Aid then more than doubled from US$359 million in 1985 to $875 million in 1988.[14] Government spending was cut, including on health and education, and privatisation – which had begun in 1980 – was accelerated. Hand in hand with destabilisation and aid went a form of recolonisation, as foreign officials from the World Bank or donor agencies began to issue orders in many ministries while European

8. Hanlon, J., "Killing the goose that laid the golden eggs", English version of a series of 12 articles which appeared in *Metical*, 17 September-3 October 2001, http://www.mol.co.mz/noticias/metical/2001/en010917.html, and "Bank Corruption Becomes Site of Struggle in Mozambique", *Review of African Political Economy* 29, 91, pp.53-72. The Ética Moçambique survey cited in supra note 6 also revealed state capture corruption, with two individuals reporting paying more than US$60,000 in bribes. What the report called "grand corruption" included obtaining bank loans larger than would be justified under normal conditions, winning tenders, preventing prosecutions for drug dealing and money laundering, and gaining favourable audits.
9. Gastrow, P. and Mosse, M., "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.
10. Madeira, J., Attorney-General's Annual Statement to Parliament, Maputo, 6 Mar 2002.
11. Ibid.
12. Gastrow, P. and Mosse, M., op. cit. supra note 9.
    Corruption in Mozambique — and Africa — is, of course, not a unique phenomenon. The mafia in Italy, the Enron affair, privatisation outrages in the former Soviet Union, the scandal in the US over corruption in the George Bush Sr. regime, the persistent pattern of bribery encouraged by the operations of export credit agencies, and the tens of millions of dollars constantly going to corrupt payments on aid projects are other examples that demonstrate how single-minded promotion of certain priorities can create a penumbra in which corruption is fostered.
    See, for example, Hanlon, J., *Mozambique: Who Calls the Shots?*, James Currey, London, 1991, pp.228-38 and Hawley, S., "Exporting Corruption: Export Credit Agencies", Corner House Briefing No. 19; Hawley, S., "Underwriting Bribery: Export Credit Agencies and Corruption", Corner House Briefing No. 30 and Pasuk Phongpaichit, "Corruption, Governance and Globalization: Lessons from the New Thailand", Corner House Briefing No. 29, all available at http://www.thecornerhouse.org.uk.
13. Hanlon, J., *Peace without Profit: How the IMF Blocks Rebuilding in Mozambique*, James Currey, Oxford, 1996, pp.15-17. It was not until 1984 that Mozambique, weakened by the South African and Western campaign of destabilization and unable to pay its debts, consented to membership in the IMF and World Bank. *See* Hanlon, J., *Mozambique: Who Calls the Shots?*, op. cit. supra, p.29.
14. Hanlon, J., *Peace without Profit*, op. cit. supra, p.269.

corporations were again given the exclusive rights over much of the country's production they had held in colonial times.[15]

During the period, donors played a role in promoting policies that increased corruption in four ways:

- Privatisation was promoted as an urgent priority. Donors looked the other way when small firms were passed on to friends and family of the leadership. Company administration, some donor officials held, would have to rely on the *nomenklatura*, since no national business class had ever developed due to restrictions during the colonial era. Transparency, the consensus seemed to be, would slow the process.

- In 1988, an 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.[16]

- The World Bank's Small and Medium Enterprise Development Project was set up in 1989 to help new owners of privatised businesses. Nearly US$33 million was lent. As the Bank's own 1998 evaluation of the project noted, the Bank is "alleged to have put substantial pressure on the management of the banks to ensure the expedient disbursements of project funds", undermining the "credit quality of the subloans."[17] The evaluation admitted that 90 per cent of the loans will never be repaid. A World Bank Industrial Enterprise Restructuring Project, meanwhile, gave $30 million in loans to larger privatised state companies, most of which will probably also never be repaid.[18]

- Donors responded to appeals for project funding by an organisation close to President Joaquim Chissano which by the late 1980s was already considered corrupt. When donors were asked why they continued to support this organisation, they replied, quite openly, that they were having trouble spending increased aid budgets and they saw this as a way of buying influence in the President's office to approve their projects. Projects which violated government policies were approved by this route.[19]

It was during this period of the late 1980s that Mozambican officials and newly-emergent businesspeople with little experience of the world of capitalism were, in effect, given a crash course by the donor community. The main lesson was that capitalism is not about profit but about patronage – how businesses can be "privatised" and given "loans" that need not be repaid, provided you know the right individuals or donor agencies.

Not surprisingly, corruption and donor support have continued to be correlated. Donors continue to align themselves with a predatory elite faction that sees state capture as the only way toward rapid development of a national bourgeoisie.[20] At the same time, donors reject the appeals of a more critical, "developmental" faction of the elite, who promote a longer-term entrepreneurial perspective requiring a more interventionist, functioning and honest state.

For example, at its donor Consultative Group meeting in October

Growth in corruption in Mozambique is partly due to international financial institutions' backing for liberalisation.

Donors taught Mozambican elites that capitalism is more about patronage than about profit.

15. Hanlon, J., *Mozambique: Who Calls the Shots?*,. op. cit. supra note 12.
16. Hanlon, J., "Do Donors Promote Corruption? The Case of Mozambique", *Third World Quarterly* 25, 4, 2004, pp.747-763.
17. Ibid.
18. Landau, L. *Rebuilding the Mozambican Economy*, Country Assistance Review, World Bank Operations Evaluation Department, Washington, DC, 1998, pp.62-63.
19. Hanlon, J., *Mozambique: Who Calls the Shots?*, op. cit. supra note 12.
20. Hanlon, J., "Debate Intensifies over Adjustment and Press Freedom in Mozambique", *Review of African Political Economy* 29, 91, 2002, pp.113-116. Some among this elite argue that white and Asian-origin Mozambicans gained privileged positions during the colonial era and gain preferentially from globalisation now, and that a new black bourgeoisie needs space for primitive accumulation that it can carry out only through the state.

2001, just two months after the murder of the government's own banking supervisor, Mozambique asked for US$600 million in aid and was given $722 million.[21] According to Sergio Vieira, a former security minister, this pledge — which was enough to plug the hole in the banking system caused by the recent World Bank- and IMF-facilitated thefts (*see* Box: Liberalisation and Mozambique's Banking Scandals, p.3) — was a sign that the international community was applauding the "good performance of the government", minimising the importance of both the bank scandals and the murders of those who acted against them.

Mozambican critics have so far struggled in vain against such donor actions. In a closed meeting in 2002, one of the most prominent Mozambicans campaigning against corruption said:

Mozambican critics of corruption have had to battle against donor actions.

> "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 per cent 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."[22]

International financial institutions and bilateral donors have also indirectly fostered administrative corruption through their assault on civil servants' salaries (*see* Box: Support for Administrative Corruption, p.7).

Saying One Thing, Doing Another

Why do donors wind up supporting corruption in Mozambique against their stated interest in fostering good policies?

First, following the lead of the World Bank, which sets the tone for the donor community in Mozambique, "good policies" are explicitly equated with so-called "good economic policies". According to two of the World Bank's leading policy theorists, that means mainly three factors: government budget surplus; control over inflation (as a measure of monetary policy); and trade openness. "The heart of structural adjustment," they write, "are fiscal discipline, trade liberalization and other market-friendly policies."[23] As former World Bank Senior Vice President Nicholas Stern writes, what is important is for a country to be supported in "identifying and grappling with the main obstacles to growth".[24]

Corruption tends not to be identified as one of these "main obstacles", even when senior Mozambican officials highlight the problem. When someone like Darius Mans, World Bank Country Director for Mozambique, mentions hearing worries about the banking crisis, the assassinations, the "shallowness of the roots of multiparty democracy in Mozambique" and the "ability of elites to capture state — and private — institutions",[25] he is careful to say he is merely repeating "expressions of concern" by "observers". The implication is that they are to be taken far less seriously than his hard economic demands for "strengthening the macroeconomic environment", tighter fiscal policy, land privatisation and yet more trade liberalisation in a country that is

21. Mans, D., "Consultative Group Meeting for Mozambique, October 25 and 26, 2001: Chairman's Report of the Proceedings," Maputo, 2001.
22. Confidential personal communication to Joseph Hanlon, 2002.
23. Burnside, C. and Dollar, D., "Aid, Policies and Growth", Policy Research Department, World Bank, Washington, 1997 p.3.; *see also* pp.1, 2 and 16.
24. Stern, N., "The Role and Effectiveness of Development Assistance", paper for the UN Conference on Financing for Development, 18-22 March 2002, World Bank, Washington DC, p.xii, http://econ.worldbank.org/files/13080_Development_Effectiveness.pdf. Nicholas Stern is also a former chief economist at the World Bank. He is now second permanent secretary for the UK Treasury and Directory of policy and research at the UK's Commission for Africa launched in February 2004.
25. Mans, D., op. cit. supra note 21.

Support for Administrative Corruption

Although international financial institutions (IFIs) and bilateral donors often help institute programmes to combat administrative corruption, they also encourage it by pushing for cuts in public service spending in recipient countries.

For Mozambique, while the late 1980s saw a shift to market capitalism under the tutelage of the World Bank, the first half of the 1990s was an era of inflation control and minimal government imposed by the International Monetary Fund (IMF). It was the era in which the international financial institutions believed the less government the better, and that development must be left to the private sector.

The IMF imposed savage cuts on government spending. It was not until the IMF began to bar donor countries from giving aid for post-war reconstruction, provoking an unprecedented public protest from donors in October 1995, that the IMF was forced to ease slightly its spending cap.

Salaries were the biggest component of government spending. A United Nations 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. But 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. By 1995, the IMF and World Bank had forced Mozambican public service wages down to one-third of their level four years earlier; nurses and teachers had fallen below the "abject poverty line".

As a 1995 booklet by the United Nations Children's Fund and UN Development Programme argued, such "erosion of basic service providers' remuneration" was a key cause of the "sharp decline in morale and quality of public service across Africa". The result, it said, was corruption as well as "privatised user fees" and less time and attention to work. In Mozambique, front-line staff were forced to demand extra payments or take 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 US$2 to pay the midwife. As one woman from Nampula province pointed out:

> "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 Sofala province primary school teacher added:

> "We in education have one foot inside and other out, because we are parents and we don't like to see our children dying of hunger."

Donors and non-government organisations worsened the problem of low civil service salaries by paying key technicians and civil servants high salaries to work for them, thereby decapacitating and weakening 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.

Years of poverty wages left the civil service deeply corrupted. Wages have now risen above the poverty line, but the "privatised user fees" and other coping strategies built up during the years of poverty have not gone away. Corruption among Mozambican civil servants may no longer have the excuse of being a livelihood necessity, but it was the international financial institutions which forced them into corruption in the first place and which suppressed any criticism of policies it now admits were misguided. The IFIs that created the administrative corruption problem have simply washed their hands of the problem and blame Mozambique instead.

Sources: Hanlon, J., *Peace Without Profit: How the IMF Blocks Rebuilding in Mozambique*, James Currey, Oxford, 1996; Adedeji, A., Green, R. and Janha, A., *Pay, Productivity and Public Service: Priorities for Recovery in Sub-Saharan Africa*, UNICEF and UNDP, New York, 1995; Ética Moçambique, *Estudo sobre Corrupção Moçambique 2001*, Maputo, 2001.

already one of the most open in Africa. Similarly, formulas about the need for curbing corruption and for legal and judicial reform are repeated year after year without any muscle being put behind them. This lack of seriousness reinforces the sense among key figures in the Mozambican elite not only that corruption is acceptable, but that it is the normal route to capitalist development.

A second reason why donors end up supporting the growth of corruption lies with their need to prove to others that their approach is effective. Whether they are under pressure to increase aid to meet international targets, prove the viability of neoliberal agendas, or justify existing levels of aid to conservative governments, donors have to showcase development success stories. Mozambique, praised for following international financial institutions' economic policies closely, is one of the few candidates for this role on offer in Africa. When the World Bank wanted to justify increased aid and Bank policies in a report to the March 2002 United Nations Conference on Financing for Development in Monterrey, Mexico, its report cited six successful countries where "institutional reforms have sparked rapid development". Only two were in Africa: Mozambique and Uganda.[26]

Reports of negative impacts of donors' market-oriented agenda — whether corruption, increased poverty, or shrinking democratic space — are not welcome ingredients in such success stories. To point to Mozambique's growing rural poverty in particular is to say the emperor has no clothes — a message donors cannot afford to listen to. This is why there is such a remarkable divergence between the reassuring tales donors tell of development triumphs or bringing corruption under control and the stories local critics tell of growing rural hardship and increased corruption (*see* Box: Reassuring Stories vs. Everyday Realities, p.9).

The October 2001 Consultative Group meeting offers several examples. Ignoring civil society statements that "structural adjustment and high growth had not resulted in poverty reduction in Mozambique", donors agreed that the "most significant achievement of the last 12 to 18 months" was the Action Plan for Reducing Absolute Poverty (PARPA).[27] As it happens, PARPA, which mandates tight monetary policies to "slow inflation",[28] belies its name by actually *cutting* spending on education and other poverty-related items between 2001 and 2004[29] — at a time when primary education needs to be expanded, not contracted, and teachers dying of AIDS must be replaced. Nor were donors concerned that PARPA exempts bank restructuring costs from its target of reducing domestic primary deficit to under five per cent of GDP — leaving the government free to spend money plugging the hole in the banking system created by high-level corruption even as it imposes savage limits on poverty-related funding.[30]

Donor agencies have paid little heed to Mozambican protests that structural adjustment and high growth have not reduced poverty.

Helping Donors Spin the Story

Predatory factions in the Mozambican elite, quick to note donors' need to construct African success stories and downplay deteriorating conditions, have done their best to help out. They have ensured that Mozambique has done three things that donors want:

- *Embark on market-friendly policies and fiscal restraint* while "implement[ing] key measures in financial liberalization, exchange rate reform, trade liberalization and privatisation through a series of adjustment operations".[31]
- *Manage aid funds relatively transparently.* While the predatory Mozambican elite do not hesitate to engage in robbery, they are careful to ensure that it is not donor money itself that is stolen. "Controlling funds earmarked for Mozambique is easy and transparent," according to Guido van Hecken, Belgium's Chief of Cabinet for the

26. Stern, N., op. cit. supra note 24, pp.xv ff., xiii.
27. Mans. D., op. cit. supra note 21.
28. Ibid.
29. Under PARPA, spending on "priority areas" for poverty reduction falls from 19.4 per cent to 17.0 per cent of GDP between 2001 and 2005. Education spending falls in cash terms as well as percentage terms, from approximately US$247m in 2001 to $218m in 2002 (a savage 12 per cent cut), rising slowly after that to $244m in 2004 and finally to $262m in 2005. Despite the admitted need for more teachers, teacher training expenditure is kept constant (República de Moçambique, Plano de Acção para a Redução da Pobeza Absoluta [PARPA], approved by the Council of Ministers, April 2001, tables 7.4, 7.5, 7.6). Darius Mans's only comment was that "a number of civil society organisations expressed concerns about health and education spending, which they claim is projected to decline as a percentage of GDP after 2002."
30. Mans, D., op. cit. supra note 21.
31. Stern, N., op. cit. supra note 24, pp.xv ff.

State Secretary for Development Co-operation. "Mozambican authorities . . . know how to work with the donor community".[32] "Government transparency and accountability have increased," writes former World Bank Senior Vice President Nicholas Stern.[33]

- *Obsequiously praise donor policies.* At a 25 February 2002 Commonwealth investment conference, for instance, President Joaquim Chissano cited "the success achieved in recent years with the stabilisation and control of macro-economic aggregates" and promised delegates that the government would continue to create an "economic environment favourable for the development of a strong business sector."[34]

32. Integrated Regional Information Network (IRIN), United Nations Office for the Co-ordination of Humanitarian Affairs, "Mozambique: 'Authorities know what they want' - donors", Johannesburg, 9 April 2002, http://www.irinnews.org/report.asp?ReportID= 27190.
33. Stern, N., op. cit. supra note 24, pp.xv ff.
34. Mozambique Information Agency (AIM), "119202E Chissano speaks on investment in Mozambique"; Maputo, 25 Feb 2002.

Reassuring Stories *vs.* Everyday Realities

Because donor bureaucracies need success stories to satisfy international aid targets, demonstrate the success of neoliberal politics, or placate conservative politicians, they tend to have a vested interest in telling reassuring stories of development triumphs and corruption under control. Not surprisingly, such stories are often strikingly at odds with the accounts of local critics.

For donors, Mozambique is a nation boasting rapid growth in Gross Domestic Product (GDP), increased exports and transparent management of donor money. For World Bank officials, it is one of the best-performing economies in Sub-Saharan Africa and an "example of successful reform", with GDP growing at an average rate of 8.4 per cent. Donors note increased export volume as well as growth in the areas of the capital, Maputo, that they frequent and in mineral-energy enclaves like the billion-dollar Mozal aluminium smelter. They laud a government which does the bidding of international financial institutions and can manage donor projects.

Donor representatives such as Guido van Hecken, Belgium's Chief of Cabinet for the State Secretary for Development Co-operation, are, moreover, little concerned about corruption:

> "Corruption, though not non-existent, is not institutionalised and the possibility for controlling funds earmarked for Mozambique is easy and transparent."

Ordinary Mozambicans see a different picture: one of a nation of worsening poverty in rural areas whose state has been captured by a predatory elite that robs banks and non-donor resources, smuggles, kills, and maintains a corrupt justice system. For them, development has not yet brought about any real changes in their daily lives.

A Less Rosy View

One survey of 13,790 households undertaken by the National Statistics Institute between October 2000 and May 2001 found that 73 per cent of Mozambicans felt they were either worse off or in much the same situation as a year previously. Writes Prakash Ratilal, a former governor of the Bank of Mozambique:

> "The declared successes have not yet produced tangible results for the majority of the population. Rising unemployment and extremely high levels of absolute poverty are producing, among other aspects, adverse social effects and rising crime."

While GDP per capita in Maputo may have risen from US$1,076 to $1,189 between 1997-1999, it fell from $198 to $177 for the country as whole between 1997 and 2001 and for the poorest province, Zambézia, from $106 to $78, meaning that the ratio of average incomes between the richest and poorest province increased from 10:1 to 14:1.

Local critics also see corruption as a more serious issue. While petty bribe-taking is widespread, it is overshadowed by even more frightening instances of state capture. According to the prominent Mozambican writer Mia Couto:

> "We live in a kingdom where those who lead are gangsters . . . [an elite is using power] in order to enrich itself. They don't think of Mozambique, they think of themselves".

And South Africa's Institute of Security Studies notes a:

> "lack of political will to fight organised crime and corruption . . . 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."

Sources: Mans, D., "Consultative Group Meeting for Mozambique", Maputo, October 25-26, 2001; Ratilal, P., "Perception of the Economy", Maputo, 11 Mar 2001; Mozambique Information Agency, "Mia Couto Condemns 'Predatory Elite'", 24 May 2002; Gastrow, P. and Mosse, M., "Mozambique: Threats Posed by the Penetration of Criminal Networks", Pretoria, 18-19 April 2002; UNDP, *Mozambique National Human Development Report 2001*, Maputo, 2001; United Nations Office for the Coordination of Humanitarian Affairs, "Mozambique: No structural adjustment rewards for poor yet", Johannesburg, 10 April 2002.

Donors and the predatory factions of the Mozambican elite engage in a symbiotic relationship.

At the same time, predatory factions know not to waste time pursuing projects that donors see as of a lower priority, such as tackling corruption that does not involve aid monies. They understand that in return for their co-authorship of donors' success stories, they will get a free pass to engage in primitive accumulation through the state, robbing banks, skimming public works contracts, demanding shares in investments, smuggling drugs and other goods, and rigging the justice system to avoid arrest. They also know that, in donors' eyes, they have an advantage over critics of state capture corruption such as former Bank of Mozambique governor Prakash Ratilal, who often also do not hesitate to point out the failures of international development agencies. Anti-corruption programmes at the World Bank and the British bilateral aid bureaucracies are in practice restricted to efforts to control administrative corruption and corruption involving aid.

In sum, donors and the predatory factions of the Mozambican elite engage in a symbiotic relationship. Donors are allowed to stoke the myth of a Mozambican success story, prolonging the life of their institutions. Their Mozambican colleagues are empowered to create ever larger spaces for predation and state capture.

Donors Put to the Test

Donors get to spin development success stories, while their Mozambican elite partners are given ever larger spaces for predation.

Links between corruption at all levels of the Mozambican government and a wider global political economy have been common knowledge for years. By the mid-1990s, it was already evident that donors to Mozambique had fallen into corrupt practices and in many ways had led the descent, for example by offering indirect bribes and failing to denounce thefts and misuse of donor funds. Yet donors have never adequately addressed such issues.

Thus when, in 1998, business periodical editor Carlos Cardoso argued that loans from five European countries had been used by the Portuguese businessman António Simões to buy the Bank of Mozambique (BCM) instead of to rehabilitate the metal-working industry (*see* Box: Liberalisation and Mozambique's Banking Scandals, p.3), none of the donors would say if the loans had been repaid, or if they had even asked the government had what happened to their money. Privately, they were embarrassed. Some admitted they could not find the documentation on loans made six years earlier. But none asked to see Cardoso's copies of the loan agreements. Despite Cardoso's campaign and pressure from honest government and civil society forces in Mozambique, donors did not see the scandal or other corruption as a problem for them.

For a time it did seem that the assassination of Cardoso (who was known personally by many donor staff) in 2000, the large injection of government money into BCM and the collapse of Banco Austral were causing disquiet in some parts of the donor community — especially when it became clear that it was donor money that was replacing the money stolen in part by senior government and Frelimo officials. But when it came time for action, donors reaffirmed their support for corruption.

The first test came in mid-2001, when donors were asked to approve a government poverty reduction strategy paper (PRSP) and, with it, debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative launched in 1999.[35] Mozambican civil society forces appealed to sympathetic donors to use the occasion to pressure the government on corruption, reminding them that they enjoyed more influence in the country than civil society. Some Nordic donor officials in Maputo duly called for approval of the PRSP to be delayed until the government at least provided more information on the banking scandals.

Yet instructions soon came from Washington to the US embassy in Maputo that Mozambique had to be approved for HIPC at all costs. The reason: under heavy indirect pressure from campaigning critics of the IMF and World Bank, the US, which had initially opposed debt cancellation and was widely seen as blocking HIPC, was eager to change its image. (At that time, only two countries, Uganda and Bolivia, had had any debt cancelled under the Enhanced HIPC.[36]) USAID officials thus intensively lobbied the Nordic donor representatives, and in the end, the matter of corruption was not raised, the PRSP was approved, and Mozambique gained debt relief.

A second test came at the donor Consultative Group meeting of October 2001, just two months after the murder of the banking supervisor Siba-Siba Macuacua. At the time, no investigation into Siba-Siba's death was under way and his efforts to collect bad debts had been stopped. Much high-flown rhetoric issued from donors about the assassinations, corruption, the bank scandal and the necessity of undertaking "aggressive efforts to recover non-performing loans", prosecuting "perpetrators of crimes to the full extent of the law" and "ensuring that financial expenditures related to recapitalizing the banks do not crowd out poverty-related spending".[37] Yet when the issue came up again in May 2002 at a meeting of a group of ten donor governments which provides direct budget support to the government, there had still been no "aggressive efforts to recover non-performing loans" nor any investigations of various major crimes. When two donors wanted to delay the second tranche of budget support as a result, they were voted down by the others.

The World Bank admits having ignored the fact that decent pay for civil servants is essential for preventing corruption.

The World Bank also admits having pushed Mozambican banks into making loans that were known to be unrepayable.

The World Bank Also Fails Its Exam

The World Bank has also failed to act on its awareness that "foreign aid can induce corruption" and to heed its own researchers' warnings not to limit its anti-corruption strategy to "standardized technical solutions".[38] Even the World Bank's own anti-corruption website admits that the Bank "did not explicitly address corruption in its development strategies" until 1996,[39] and that some of the policies it followed in Mozambique were wrong, for example in ignoring the fact that "adequate pay" in the public service is essential for preventing corruption.[40]

Similarly, former World Bank Senior Vice President Nicholas Stern today acknowledges that "the minimal-government free-market approach advocated by many people in the 1980s and early 1990s" —

35. HIPC is a programme aimed at reducing the debts of some of the poorest Southern countries by billions of dollars.
36. World Bank, "Heavily Indebted Poor Countries (HIPC) Initiative – Status of Implementation", 14 Apr 2002, p.7, http://www.worldbank.org/hipc/Status_of_Implemenation_0402.pdf.
37. Mans, D., op. cit. supra note 21.
38. Pradhan, S. et al, op. cit. supra note 3.
39. World Bank, "Anticorruption: World Bank Efforts", Washington, DC, 2002, http://www1.worldbank.org/publicsector/anticorrupt/efforts.htm.
40. World Bank, "Anticorruption: Multi-pronged Strategies for Combating Corruption", Washington, DC, 2002, http://www1.worldbank.org/publicsector/anticorrupt/strategies.htm.

presumably including many officials of his own institution — will not achieve development goals.[41] Yet in 1995 the Bank succeeded in getting the UN to suppress a remarkable booklet by UNICEF and UNDP called *Pay, Productivity and Public Service*, which, on the basis of case studies of a number of countries including Mozambique, concluded that corruption and other aspects of decline in public service quality could not be eradicated:

> "so long as additional incomes beyond government pay are necessary for the survival of the majority of public servants who are front-line service deliverers."[42]

The reason for suppressing this conclusion was simply that it amounted to an implicit criticism of the adjustment policies the Bank was promoting.

More recently, despite admitting that it pushed Mozambican banks into making corrupt loans that were known to be unrepayable in order to speed privatisation, the Bank still apparently expects the government to make good on the debt.[43]

In July 2003, IMF Managing Director Horst Kohler dodged journalists' questions about bank fraud and Siba-Siba's murder, instead praising President Chissano's government and calling for measures to "strengthen the financial sector". "For Kohler," Mozambique's government information agency itself commented, "the past can now just be swept under the carpet".[44]

The Future

In 2002, the World Bank, claiming to be addressing corruption in "systemic", "institutional" and "policy" terms rather than identifying "individual offenders", joined donors in putting US$85 million into a 10-year public sector reform project.[45] The British Foreign and Commonwealth Office, too, says that its approach to "tackling corruption in Africa" is "holistic" and "aims to build the capacity of institutions".[46] Along similar lines, NORAD, the Norwegian aid agency, argues that because "investigation and prosecution of corruption cases require large personnel and other resources, which implies costs well above what poor developing countries can afford", it would be better to *prevent* corruption, by "raising public awareness, and by reducing the *scope* for corrupt behaviour."[47] But donors are hardly going to be able to take adequate anti-corruption measures that are "systemic", "institution-building", "consciousness-raising" or "holistic" or if they continue to reject citizens' appeals for practical action.

Former World Bank Senior Vice President Stern echoes many other officials in international and bilateral aid institutions when he says proudly that his institution has "learned from its failures".[48] But it is the Mozambican predatory elite which has profited from those "failures" and ordinary Mozambicans, not the Bank or bilateral aid agencies, who are paying for those lessons.

This briefing is by Joseph Hanlon of the Open University, UK.

41. Stern, N., op. cit. supra note 24, p.xii.
42. Adedeji, A., Green, R. and Janha, A., *Pay, Productivity and Public Service: Priorities for Recovery in Sub-Saharan Africa*, UNICEF and UNDP, New York, 1996.
43. Hanlon, J., op. cit. supra note 8. World Bank Resident Representative James Coates claimed in 2001 that he still expected Mozambique's government to repay those loans to the Bank (although part will be written off under HIPC debt cancellation).
44. Fauvet, P., "Glowing Praise for Mozambique from IMF", AIM, Maputo, 11 July 2003.
45. European Parliamentarians for Africa, Maputo and Amsterdam, Mozambique Peace Process Bulletin, later renamed Mozambique Political Process Bulletin, 25, August 2000, p.5 and 27, December 2001, p.7. *See also* World Bank, "Helping Countries Combat Corruption", Washington, DC, 2002, http://www1.worldbank.org/publicsector/anticorrupt/helping.htm. Meanwhile, the government is moving to try to reduce administrative corruption, through individual actions by governors and ministers against corrupt middle-level officials.
46. Amos, Baroness, "Tackling Corruption in Africa — Building a New Partnership", speech, Foreign and Commonwealth Office, London, 20 May 2002, http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/XcelerateShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1021827509969.
47. Norwegian Agency for Development Cooperation, "NORAD's Good Governance and Anti-Corruption Action Plan", Oslo, 29 Feb 2000. It then sets three objectives, assisting good governance, increasing awareness of corruption in "aid administration", and sharing experiences in preventing and combating corruption.
48. Stern, N., op. cit. supra note 24, p.39.

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