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World Bank questions its Mozambique 'success':  
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high inequality, poverty and corruption

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# World Bank questions its Mozambique 'success': 'remarkable growth' and oligarchs have brought high inequality, poverty and corruption

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## Abstract

At the end of the Cold War the west imposed economic "shock therapy" on the countries of the former Soviet Union to *rapidly* turn the communists into capitalists, creating oligarchs. One of the few Africa countries where shock therapy was imposed was Mozambique. Shock therapy was intended to push the communist elite who had power over land, resources and contracts to take control of those assets and then make deals with the west to exploit them. They became, in effect, rentier and comprador capitalists. Mozambique was poor and only small oligarchs were created, but they made their links with western capital and donors. The outcome, the World Bank admits, is that Mozambique showed remarkable growth, which largely benefitted the oligarchs and foreign companies and agencies, while poverty and inequality grew to record levels. This paper shows the intense and brutal way the IMF and World Bank imposed shock therapy on Mozambique.

**Keywords** Mozambique; shock therapy; oligarch; inequality; corruption; World Bank; IMF; post-Cold War

## 1. Introduction

"Mozambique's decades-long remarkable growth performance [makes it] one of the fastest growing economies in sub-Saharan Africa (SSA)" but it "is now amongst the most unequal countries in SSA," reported the World Bank's *Mozambique Country Economic Memorandum* (CEM), belatedly released in June 2022.<sup>1</sup> "People in the bottom 40% of the income distribution have been largely left behind. ... Mozambique's impressive growth rates have disproportionately benefitted those at the top of the income distribution in urban areas." The CEM adds that "Mozambique is ranked among the most corrupt countries in the world".

CEM co-team-leader and senior country economist Fiseha Haile wrote a blog on the CEM headlined "Mozambique needs a new growth model for sustained, inclusive growth"<sup>2</sup>. But present day Mozambique is, in fact, the "success" of the model imposed by the Bretton Woods institutions (BWIs) - the IMF (International Monetary Fund) and World Bank - 30 years ago and subsequently. Even then, the outcome was obvious, and thus, we argue, intended.

In this paper we go back to the 1980s and the debate about how to move to a market economy. One alternative was a step-by-step marketization. The other alternative was the "big bang" or "shock therapy" model promoted by the BWIs which involved destroying the whole edifice of government controls and allowing the free market to create new institutions. Shock therapy in Russia led to severe economic decline, deindustrialisation, corruption, and high inflation. China's

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<sup>1</sup> Shireen Mahdi & Fiseha Haile Gebregziabher (2022), Mozambique - Country Economic Memorandum: Reigniting Growth for All, Washington DC: World Bank - <http://documents.worldbank.org/curated/en/099220105302232947/pdf/P1687540b030ec0bf0b9f00e2e1bc3dfce4.pdf> The World Bank document was apparently significantly delayed. The website gives "Document Date 2021/09/30" and "Disclosure Date 2022/05/30" and the pdf document itself has a creation date of 8 March 2022; the Bank is inconsistent in the name of the second author.

<sup>2</sup> Fiseha Haile Gebregziabher & Fernanda Massarongo (2022), Mozambique needs a new growth model for sustained, inclusive growth, World Bank blog 2 June 2022, <https://blogs.worldbank.org/african/mozambique-needs-new-growth-model-sustained-inclusive-growth>

step-by-step reform led to economic growth under the tight control of party and state and built stronger economic institutions and "outperformed impressively all other transition economies," argues Vladimir Popov.<sup>3</sup>

At the end of the Cold War "shock therapy" was imposed on the countries of the former Soviet Union, and a few others including Mozambique, to *rapidly* convert the "communists" to "capitalists"<sup>4</sup>, creating what we now call "oligarchs". We show how this was initially applied to Mozambique, and how alternatives were blocked. Mozambicans were taught that what the World Bank now calls corruption was a normal part of the free market - that loans to oligarchs were not to be repaid and that bribery, illegal trade and even murder were acceptable - as long as the government remained weak and global capital benefitted.

In the next section we set out the global context of marketisation and shock therapy. Sections 3 and 4 set out the Cold War context, and how shock therapy was imposed and how small oligarchs were created. Section 5 shows how the BWIs forced the battle over banking and "licenced" the oligarchs to conduct illegal trade. Section 6 asks what was intentional, what was faith in an ideology, and what was a desire not to challenge all-powerful institutions. A separate working paper will look at the role of the BWIs and their oligarchs in Mozambique's resource curse and subsequent civil war.

## 2. Different ways to move to a market economy

The 1950s and 1960s were an era of social democracy and of independence of former colonies and the beginning of the rise of China. There were various forms of socialism, social democracy, and centralised state control of the economy. By the late 1970s there was a growing consensus on the need for a bigger role to the market, but with two very different economic approaches. The BWIs were promoting what the IMF's Andrew Feltenstein called "a 'big bang' approach, under which all reforms are immediately and simultaneously introduced".<sup>5</sup> The other alternative was a step by step approach, replacing parts of the economic architecture without first demolishing the whole house. In China the choices were extensively debated after the end of the cultural revolution in 1976, with Chinese economists travelling to Europe and the Americas, and the World Bank holding meetings in China in 1980 and 1985 to promote the "big bang".<sup>6</sup>

In 1986, China opted for step-by-step, but done quickly. Several other countries opted for their own version of step-by step with success. In Vietnam, "instead of the 'root and branch' destruction of old institutions as a prelude to the installation of new mechanisms, many reforms were directed at making existing institutions work better, while gradually introducing new market institutions."<sup>7</sup>

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<sup>3</sup> Vladimir Popov (2007), Shock Therapy versus Gradualism Reconsidered: Lessons from Transition Economies after 15 Years of Reforms, *Comparative Economic Studies*, 2007, 49

<https://www.proquest.com/docview/204175820/fulltextPDF/623935E460534202PQ/1?accountid=14697>, accessed 26 June 2022; and Yanyan Zang and Gang Wang (2008), Shock Therapy versus Gradualism: The End of the Debate, *Asian Social Science* 4(2), <https://www.ccsenet.org/journal/index.php/ass/article/view/1982>.

<sup>4</sup> These are Cold War labels, typically applied by the US. Countries were sometimes called "communist" just for having a major role for the state in the economy or being allied to the Soviet Union. Similarly, many of the oligarchs had never been communists. But in the 1980s the labels were real and had an impact; calling Mozambique "communist" led to a proxy war in which a million people died.

<sup>5</sup> Andrew Feltenstein and Saleh M. Nsouliis (2003), 'Big Bang' Versus Gradualism in Economic Reforms: An Intertemporal Analysis with an Application to China. *IMF Staff Papers*, 50 (3). Andrew Feltenstein was Assistant Director in the IMF Institute and Saleh M. Nsouliis was Deputy Director. Other words they use are "fast" and "rapid". David Lipton and Jeffrey Sachs (1990), "Creating a Market Economy in Eastern Europe: The Case of Poland," *Brookings Papers on Economic Activity*, No. 1 (1990), pp. 75-147 talk of "the need for a rapid and dramatic liberalization of the economy", adding "Both the economic logic and the political situation argue for a rapid and comprehensive process of transition." The word "rapid" appears in the paper 27 times.

<sup>6</sup> Isabella M. Weber (2021), *How China Escaped Shock Therapy: The Market Reform Debate*, London: Routledge

<sup>7</sup> Brian Van Arkadie and Raymond Mallon (2003), *Viet Nam — a Transition Tiger?*, Canberra: Asia Pacific Press, <https://www.jstor.org/stable/j.ctt2jbjk6> (accessed 27 June 2022). See also Hazel Gray (2018), *Turbulence and Order in Economic Development: Economic Transformation in Tanzania and Vietnam*, Oxford: Oxford University Press. <http://doi.org/10.1093/oso/9780198714644.001.0001>

Poland took another route<sup>8</sup>. In 1989 Solidarity was elected and with \$1 bn from the IMF imposed shock therapy. The chaos created was so great that mass strikes in 1993 halted privatisation and shock therapy, and Solidarity was thrown out on 19 September 1993. The new government shifted to the step-by-stop model, and in three years the economy grew by 67%, at a time when the rest of Europe was in recession.<sup>9</sup>

Mikhail Gorbachev, president of the Soviet Union, went to the Houston G7 summit in July 1990, and proposed a step-by-step move to a "socially oriented market economy".<sup>10</sup> This was rejected by the G7, which demanded "more radical steps toward a market-oriented economy" under the tutelage of the IMF.<sup>11</sup> On 15 October 1990 Gorbachev was awarded the Nobel Peace Prize for his role in ending the cold war. But there was no thaw in the economic confrontation. Gorbachev returned to the G7 in London, asking support for a transition to a "mixed economy and a socially-oriented market system" in a step-by-step process.<sup>12</sup> Again he was rebuffed.<sup>13</sup> In August 1991 Boris Yeltsin staged a coup and overthrew Gorbachev, and allowed the break-up of the Soviet Union. As President of Russia, in 1991 he accepted the IMF "shock therapy"<sup>14</sup>. Russia at the point had an elected parliament and independent Constitutional Court. Parliament stopped shock therapy in 1993. Yeltsin declared a state of emergency, which was rejected by the Constitutional Council. Parliament rejected IMF austerity demands. The IMF said that a promised \$1.5 bn would not be released if Russia back-tracked, so Yeltsin tried to abolish parliament and the constitution. Finally on 4 October 1993, Yeltsin staged a coup against the elected parliament, ordering tanks to attack the building. The US backed the coup against democracy.<sup>15</sup> Western aid was then used to boost Yeltsin's election in 1996, and the IMF admitted that in 1999 it allowed at least \$10 bn in IMF loans to be laundered through New York banks to be placed in off-shore accounts.<sup>16</sup>

The period 1990-93 saw a hardening of the line on marketization. The G7 meetings showed that the main western countries no longer accepted anything but shock therapy led by the IMF. This had a direct impact on Mozambique.

As we will show below, Mozambique also opted for market reform, and in the late 1980s began the step-by-step process. But in 1990 the IMF said it was not enough, and enforced shock therapy. And as with Yeltsin, the IMF ensured a large amount of money was put in New York bank accounts controlled by President Joaquim Chissano.

### ***Definitions: neoliberalism, shock therapy and oligarchs***

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<sup>8</sup> Naomi Klein (2007), *The Shock Doctrine*, Penguin, ch 9.

<sup>9</sup> Per capital GDP rose from \$2497 in 1993 to \$4147 in 1996, data from [datacatalog.worldbank.org](http://datacatalog.worldbank.org) via Data Commons.

<sup>10</sup> Mikhail Gorbachev (2002), Foreword, in Lawrence Klein and Marshall Pomer (Eds), *The New Russia: Transition Gone Awry* Stanford (USA): Stanford University Press.

<sup>11</sup> G7/8 (1990), Houston Economic Declaration, 11 July 1990, <http://www.g7.utoronto.ca/summit/1990houston/declaration.html>

<sup>12</sup> Mikhail S. Gorbachev (1991), Personal Message from President Mikhail S. Gorbachev to Heads of State or Government Attending the G7 Meeting in London, 12 July 1991 <http://www.g7.utoronto.ca/summit/1991london/personal.html>

<sup>13</sup> Naomi Klein (2007), ch 11.

<sup>14</sup> Jeff Hayes (2016), "Shock Therapy and Economic Policy Under Yeltsin" *Facts and Details* ([https://factsanddetails.com/russia/Economics\\_Business\\_Agriculture/sub9\\_7b/entry-5168.html](https://factsanddetails.com/russia/Economics_Business_Agriculture/sub9_7b/entry-5168.html)); The origin of the term "shock therapy" is unclear. The conservative economist Milton Friedman met Augusto Pinochet and gave a seminar on 26 March 1975 in Santiago, and *El Mercurio* reported him saying that Chile needed an economic "shock treatment". This appears to have been translated by the media as "shock therapy" as an analogy to Electroconvulsive Therapy. It was then applied to the policies promoted in post-communist states by Jeffrey Sachs. Although Sachs never liked the term, it is now universally used for what the IMF and World Bank started to call the "big bang" approach. Sebastian Edwards and Leonidas Montes (2020), *Journal of the History of Economic Thought* 42 (1), <https://doi.org/10.1017/S1053837219000397>.

<sup>15</sup> Naomi Klein (2007), ch 11.

<sup>16</sup> Simon Pirani and Paul Farrelly (1999), IMF knew about Russian aid scam, *The Observer* (London), 17 Oct 1999.

Some background and a few definitions are required. The 1970s saw the rise of the free-market policies known as "neoliberalism" as an alternative to social democracy. They were first introduced in Chile in the 1970s by Augusto Pinochet after his 1973 coup, and then, in a reduced form, by Margaret Thatcher in the UK and Ronald Reagan in the US after their elections in 1979 and 1980.

With the fall of the Berlin wall and disintegration of the Soviet Union, the West wanted to move quickly to convert the former communist states to free market capitalism. Jeffrey Sachs had developed the idea of very rapid economic transformations, which became known as "shock therapy", and he became actively involved in the transitions of Russia and Eastern Europe.

We define, very loosely, four overlapping concepts - all intended to replace social democracy with small government and free market capitalism:

- **Neoliberalism** is the underlying ideology, which sees competition as the defining characteristic of human relations, though buying and selling. Government must be kept very small. Tax and regulation should be minimised, public services should be privatised.
- In the 1980s the International Monetary Fund (IMF), World Bank and United States Department of the Treasury developed a standard package to promote free market policies and the opening of developing countries to global markets, which became known as the "**Washington Consensus**".<sup>17</sup> Based on neoliberalism, it also contained some cushions for those harmed by reforms and created a transition process.
- **Neoliberal Washington Consensus 2**, moved more rapidly, removed the cushions and controls, and included an IMF-imposed austerity programme. This involved immediate cuts to government spending, free trade, and deregulation. Government income redistribution was to be ended as were any taxes on capital movement. Privatisation was to be immediate. Barriers to entry for foreign firms were abolished to establish a level-playing field for both foreign and domestic firms.<sup>18</sup> Despite its label, this version was not a "consensus" of international agencies and there were battles between the IMF and World Bank.
- **Shock therapy** was doing it all quickly, as a package, and explicitly linked to converting communists to capitalists and opening former communist countries to transnational capital.

Although neoliberalism is at the base of the other three, in practice all four are economic ideologies of transforming social democracy to free market capitalism, and opening countries to transnational corporations. All overlap, but there are also significant differences between them. Each academic and aid policy person uses the terms differently, and the terms changed over time. Let us just accept these loose definitions.<sup>19</sup>

The two central planks of shock therapy were to:

- 1) *rapidly* convert communists to capitalists and
- 2) end all financial and capital controls.

The need to move quickly meant that the new capitalists had to be the old communist nomenklatura, and the new political and economic leaders also came from that group.

We define **oligarchs** as the people:

- 1) with party and business links who used their political power to gain control over land, resources, industries, international trade and finance;
- 2) who turn their new assets into money by extracting rents, usually through links with legal and illegal international capital which were fostered by ending financial controls; and
- 3) are informally "licensed" by the BWIs and donors under shock therapy.

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<sup>17</sup> The term was coined by John Williamson in 1989. John Williamson, The Strange History of the Washington Consensus, *Journal of Post Keynesian Economics* 27(2) <https://www.jstor.org/stable/4538920>

<sup>18</sup> Such a package was imposed on Tanzania in 1986.

<sup>19</sup> A good paper comparing the groups is John Marangos (2009), What happened to the Washington Consensus? The evolution of international development policy, *The Journal of Socio-Economics* 38 (2009) 197–208

Oligarchs largely become rentier and comprador capitalists. **Rentier** in the sense that the new owners do not profit from production, but rather by taking profits (rents) from their control of existing assets, often public assets which have been privatised.<sup>20</sup> And it is **comprador** in the sense of making their profits by acting for foreign agents who make use of oligarch control of key assets. In both cases, the profits are personal and do not contribute to the broader society.

The second plank of shock therapy is ending financial and capital controls which means that transnational companies inevitably exploit the local resources, while local oligarchs export their gains to the west via the banking system. It is a new form of colonial wealth extraction - which is precisely the purpose of shock therapy.

## ***Russia and oligarchs***

When the G7 rejected Mikhail Gorbachev proposal of a step-by-step move to a "socially oriented market economy" at the G7 summit in Houston, Texas, in July 1990, it also called for a blueprint for shock therapy in Russia. This was written jointly by the International Monetary Fund, The World Bank, the Organisation for Economic Co-operation and Development, and European Bank for Reconstruction and Development and released in December 1990.<sup>21</sup> It called for a "radical approach" including "rapid privatization", and "the opening up of the Soviet economy to foreign competition through trade liberalization".

In line with the original Washington Consensus, the proposal also allowed for a budget deficit and aid to fund a safety net for those hurt, and various systems to reduce corrupt privatisations. However shock therapy as applied in Russia did not include these protections, and was the neoliberal Washington Consensus 2. It did not include the cushions and protections. Jeffrey Sachs, effectively the inventor of shock therapy, had been working closely with the Russian government, but denounced the outcome. "Most of the bad things that happened [in Russia] - such as the massive theft of state assets under the rubric of privatization - were directly contrary to the advice that I gave and to the principles of honesty and equity that I hold dear."<sup>22</sup>

Nobel Prize winning economist Joseph Stiglitz<sup>23</sup> explained that Russia

"had a privatization process that was corrupt, and in which the rich country's assets were turned over to a few, the oligarchs. So you had the strategy of privatization at any cost. 'Do it quickly,' is what the IMF kept telling them. They kept a scorecard - how many privatizations had you done? But it's easy to privatise [when you] give away the state assets to your friends. And, in fact, it's not only easy; it's rewarding, because then they give a little bit of money back to you. So that was a strategy that was advocated and pushed. ... You had an illegitimate privatization. The people then who had been able to use their political influence to get these billions and billions of dollars of natural resources for a pittance were then told [to move their] money to the United States or, even better, to Cyprus, secret bank accounts, or Switzerland."

Stiglitz concludes: "under the IMF strategy, you put in place incentives that led to asset stripping rather than wealth creation."

As we will show later, exactly this was done in Mozambique at the same time.

In Russia, shock therapy created super rich and politically powerful people who came to be called "oligarchs". Many moved to or invested in the UK; nearly 800 bought "golden visas". Russian

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<sup>20</sup> See, for example, Brett Christophers (2020), *Rentier Capitalism: Who Owns the Economy, and Who Pays for It?*, Verso Books, and Emrah Karakilic (2022) Rentierism and the commons: A critical contribution to Brett Christophers' *Rentier Capitalism*, *Economy and Space* 54(2), <https://doi.org/10.1177/0308518X211062233>

<sup>21</sup> International Monetary Fund, The World Bank, Organisation for Economic Co-operation and Development, and European Bank for Reconstruction and Development (1990), *The Economy of the USSR*, <http://documents1.worldbank.org/curated/en/187491468769887526/pdf/multi-page.pdf>

<sup>22</sup> Jeffrey Sachs (2005), *The End of Poverty: How We Can Make it Happen in Our Lifetime*, Penguin, p. 147

<sup>23</sup> Joseph Stiglitz (2003), interview for PBS "Commanding Heights" broadcast 15 May thru 19 June, 2003. Transcript on [https://www.pbs.org/wgbh/commandingheights/shared/minitext/int\\_josephstiglitz.html](https://www.pbs.org/wgbh/commandingheights/shared/minitext/int_josephstiglitz.html)

investors at the end of 2016 had £25.5 bn in the UK, and £68bn has flowed from Russia into Britain's offshore satellites.<sup>24</sup> The *Financial Times* said: "There's no question that London is the dirty money capital of the world. The UK didn't just turn a blind eye to Russian money. We welcomed it."<sup>25</sup> The French economist Thomas Piketty estimates that more than half of Russians' total wealth is held offshore in this manner - \$800 bn (£600 bn) by a few hundred oligarchs.<sup>26</sup> With the support of the new oligarchs, the west has taken nearly \$1 trillion from Russia.

No two shock therapy countries or programmes were the same. Each country was different in terms of resources, education, banking and business experience, and politics. There were many overlaps and similarities but also many differences, and serious disputes between various actors, notably between the IMF and World Bank.

At one end of the spectrum was Russia, which had huge mineral assets and was industrialised, educated, and had a managerial class. There were major assets to grab, and oligarchs could manage those assets. For them, the key link with the west was the banking system, the ability to move large amounts of money, and ways to gain residence outside Russia.

In the middle were countries such as Ukraine and Kazakhstan<sup>27</sup>. And at the poor end of the spectrum were countries like Mozambique and Kyrgyzstan.

Shock therapy was imposed on a Mozambique with few known mineral assets, little industry, and limited management experience. The important political power was over aid, land and contracts, and rents could be extracted only through foreign links. But from the nomenklatura, small oligarchs were created who became a politically powerful business class and then a kleptocracy.

### **3. Cold War fight against Mozambique 'communists' - independence to 1990**

Mozambique is in the southeast corner of Africa, famous for its beaches, and bordering South Africa, Eswatini (Swaziland), Zimbabwe, Malawi and Tanzania. But this obscure corner of Africa became a front line in the Cold War.

Mozambique came to independence in 1975 after Frelimo fought a decade long liberation war against the colonial power, Portugal. This was the era of the Cold War. Portugal was backed by NATO, so Frelimo gained support from the then Soviet Union, China, and northern European countries. The fascist Portuguese government was overthrown in 1974 by the Armed Forces Movement which wanted to end the colonial wars.

Under President Samora Machel, Mozambique tried to steer a socialist path but encouraged foreign investment. Portugal was the poorest of the colonial powers and left Mozambique uneducated and undeveloped. In the colonial period, there was a form of apartheid, with most black Mozambicans barred from secondary education, business and government posts. Portuguese settlers largely fled at independence, abandoning farms and businesses - and the running of government. Within five years, the country was running and the economy had returned to the level before the flight of the settlers.

But the election of Ronald Reagan as US President in 1980 changed everything. He escalated the Cold War. Security expert Mark Galeotti comments that the Cold War was "actually a period in

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<sup>24</sup> Oliver Bullough, How Britain let Russia hide its dirty money, *Guardian* 25 May 2018,

<https://www.theguardian.com/news/2018/may/25/how-britain-let-russia-hide-its-dirty-money>

<sup>25</sup> The London Laundromat, *Financial Times* film and transcript, 22 April 2022, <https://www.ft.com/video/d3bafb94-9dbd-4c1e-8016-8cd8331960f1?playlist-name=editors-picks&playlist-offset=1>

<sup>26</sup> Thomas Piketty, Capital in Russia, *Le Monde* 10 April 2018,

<https://www.lemonde.fr/blog/piketty/2018/04/10/capital-in-russia/>

<sup>27</sup> Balihar Sanghera and Elmira Satybaldieva (2021) *Rentier Capitalism and Its Discontents: Power, Morality and Resistance in Central Asia*, Palgrave Macmillan.

which the north just simply pushed its conflicts into the south, and fought them as proxy wars".<sup>28</sup> Political scientist Karl Deutsch defined proxy wars "an international conflict between two foreign powers, fought out on the soil of a third country; disguised as a conflict over an internal issue of that country; and using some of that country's manpower, resources and territory as a means for achieving preponderantly foreign goals and foreign strategies."<sup>29</sup> These were cheaper wars for the big powers, but not for the third country.

Reagan considered apartheid South Africa as a bastion against communism and the independent neighbouring states were all seen as communist. He launched Cold War proxy wars based in South Africa against the former Portuguese colonies, Angola and Mozambique. In Mozambique, South Africa expanded a proxy force called Renamo, and backed it with extensive air and sea support. Mozambique received military support from the Soviet Union, but it was not enough; Renamo gained ground and the war intensified.

In 1984 Mozambique made the required "turn to the West"; it joined the BWIs, and permitted two political US non-government organisation (NGOs), Care and World Vision, to work in Mozambique. But the war did not stop. In part to try to shift his own government, in a 1988 speech, Roy Stacey, US Deputy Assistant Secretary of State for African Affairs, called the war in Mozambique "one of the most brutal holocausts against ordinary human beings since World War 2."<sup>30</sup>

With the end of the Cold War in 1989, proxy wars stopped. In South Africa, apartheid ended and Nelson Mandela was elected president in 1994. But Mozambique was devastated. More than one million people died in the war - 7% of the population.<sup>31</sup> Most rural shops, schools and health posts were destroyed or closed, devastating the economy. Still seen as a "communist" country, the West offered to help rebuild Mozambique, but only with shock therapy. Naomi Klein in her book *The Shock Doctrine* calls this "disaster capitalism", which is the idea of Milton Friedman, the Nobel Memorial Prize winner in economics. The concept is that it is easier to impose free market capitalism when there had been widespread destruction due to war or natural disaster.<sup>32</sup> Mozambique after the proxy war fits this exactly.

## **Privatisation**

Frelimo and President Samora Machel were nominally socialist, but their image of socialism was Swedish social democracy. Frelimo inherited state-owned ports and railways, airlines, water companies and banks - but without managers and middle-level staff, who returned to Portugal. The new government found itself running hundreds of small, medium and large businesses. The Portuguese had educated few Mozambicans, but they suddenly had to run a country.<sup>33</sup>

The first five years were a struggle; the economy dropped and then recovered. In 1979, long before privatisation was pushed by the IMF, Samora Machel said "the state does not sell needles" and handed state-run shops and small businesses to local private businesspeople.<sup>34</sup> In particular,

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<sup>28</sup> Mark Galeotti on BBC "Start the Week", 17 January 2020, <https://www.bbc.co.uk/sounds/play/m0013hxf> at 3.35 minutes.

<sup>29</sup> Karl W Deutsch, External Involvement in Internal War, in Harry Eckstein (ed), *Internal War, Problems and Approaches* (New York, NY: Free Press of Glencoe, 1964). There are many articles on the subject, including Andrew Mumford (2013) Proxy Warfare and the Future of Conflict, *The RUSI Journal*, 58:2, 40-46,

DOI: [10.1080/03071847.2013.787733](https://doi.org/10.1080/03071847.2013.787733) and Chris Loveman (2002) Assessing the phenomenon of proxy intervention, *Conflict, Security & Development*, 2:03, 29-48, DOI: [10.1080/14678800200590618](https://doi.org/10.1080/14678800200590618)

<sup>30</sup> *Observer* 1 May 1988; Joseph Hanlon (1991), *Mozambique: Who Calls the Shots*, 42, London: James Currey, 47.

<sup>31</sup> Hanlon (1991), 42; Economic Commission for Africa (ECA) and UN Inter-Agency Task Force, Africa Recovery Programme (1989), South Africa Destabilisation: The Economic Cost of Frontline Resistance to Apartheid, New York: United Nations; Joseph Hanlon (1996), *Peace without Profit: How the IMF Blocks Rebuilding in Mozambique*, 16, Oxford: James Currey.

<sup>32</sup> Naomi Klein, *The Shock Doctrine*, Penguin 2007.

<sup>33</sup> Joseph Hanlon (2017), Following the donor-designed path to Mozambique's US\$2.2 billion secret debt deal, *Third World Quarterly* 38(3) 755

<sup>34</sup> Ten years without Samora, Mozambiquefile (Maputo: AIM), September 1996, 3.



abandoned rural shops, known as "cantinas", were reopened. The war ended that; Renamo targeted anything related to Frelimo - schools, health posts, and the newly private businesses, burning 3000 rural shops and farm equipment such as tractors.

By 1986, with an intense war still raging, the IMF and World Bank were in discussions with the Mozambique government to try to bring in some aid in exchange for austerity and privatisation. President Samora Machel told journalists in 1986: "Privatisation of the railways and ports, of the schools, of the hospitals. That's what the IMF is saying in the negotiations. They've attacked our revolutionary gains and our life".<sup>35</sup>

The Bank was in charge of privatisation, the subject of this section. In all, Mozambique privatised 4000 companies.<sup>36</sup> But a 1998 World Bank evaluation admitted that "ownership of privatised enterprises has been limited to a relatively small group of individuals."<sup>37</sup> These were the new Mozambican oligarchs.

Bigger companies had to be handed to large foreign companies.<sup>38</sup> But for the rest, what mattered most to the Bank was privatising quickly and in large numbers. Due to colonial restrictions which privileged the Portuguese, who then left at independence, the national business class was small. At independence, without ever having expected it, Frelimo cadres were put in charge of running schools, ministries, and business, and learned on the job - or did not. The brief socialist period prioritised maintaining and re-establishing production so the new heads never learned business basics like profit and loss, investment, value chains, and business plans. Some proved to be very good managers, and businesses were privatised to them. But most newly emergent businesspeople had little experience of the world of capitalism and were, in effect, being given a crash course by the donors and lenders.<sup>39</sup>

After President Samora Machel was killed by apartheid South Africa in 1986, the next two presidents were important in the transition. Machel was replaced by Foreign Minister Joaquim Chissano, who had been a Frelimo leader from 1963. As head of party security from 1966, he had power within Frelimo. Armando Guebuza also joined Frelimo in 1963 and became political commissar in 1990; bright and well read, he learned his capitalism from Marx. Both understood the need for a negotiated settlement for the war. Peace talks with Renamo<sup>40</sup> were carried out in Rome 1990-92 and Guebuza was the main negotiator for the government. Both Chissano and Guebuza understood that Soviet central planning was over and there was a need to move to the market. And both saw the need to keep it inside the Frelimo party. They supported rapid privatisation, but followed the step-by-step line on other economic changes.

Industry, finance and other ministers, as well as national directors (top civil servants), who were directly involved in the privatisation process, and their friends and family, became heads and senior officials of private companies and banks - often while still in government posts. President Joaquim Chissano's extended family were involved, and Chissano refused to publish a list of his property. The Frelimo party established a holding company, SPI, chaired by former Industry

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<sup>35</sup> Paul Fauvet and Marcelo Mosse (2003), *Carlos Cardoso: Telling the Truth in Mozambique*, 159, Cape Town: Double Storey Books; briefing to journalists 11 Oct 1986. He was killed in a still-unexplained plane crash in South Africa on 19 October 1986. Joaquim Chissano became president.

<sup>36</sup> Luísa Diogo (2013) *A Sopa da Madrugada: Das reformas à transformação económica e social em Moçambique: 1994-2009*, Porto: Porto Editora.

<sup>37</sup> Luis Landau (1998), *Rebuilding the Mozambican Economy, Assessment of a partnership*, Washington, DC: World Bank Operations Evaluation Department, p 3, Made public 1 Feb 2013. <https://bit.ly/Moz-Landau-88>

<sup>38</sup> South African Breweries took over two of Mozambique's three breweries. Cimpor of Portugal took the cement factories.

<sup>39</sup> Joseph Hanlon (2004). Do Donors Promote Corruption?: The Case of Mozambique. *Third World Quarterly* 25(4): 747-763 [doi: 10.1080/01436590410001678960](https://doi.org/10.1080/01436590410001678960)

<sup>40</sup> A multi-party system was accepted and Renamo became the official political opposition party.

Minister Octavio Mutembe, who also became chair of Banco Austral (below). SPI was given shares in many privatised companies.<sup>41</sup>

Armando Guebuza had been Transport and Communications Minister (1987-94), and many of the companies in which he had a major investment were linked to that. He did not produce things, but served as the key link for global companies. He owned Tata Mozambique which won contracts to import buses, had interests in Cornhelder which won port management contracts, and had an interest in Vodacom mobile telephones. By the time of his election as president in 2004, Armando Guebuza had become one of the richest men in Mozambique.

The new capitalists had no capital. In 1988 the 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. 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 secret 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" - a polite way to say the Bank admits it put "substantial pressure" on honest Mozambican bankers to bend the rules to give loans to privatised companies they knew could not repay.<sup>42</sup>

In a 2004 article<sup>43</sup>, I noted that "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." And for the new businesses, government and donors were major customers, and contracts with both were based on patronage, and often kickbacks.

### **Who are Mozambique's oligarchs?**

Each shock therapy country is different, and not all those with political power became oligarchs. Some are richer than others and the boundary is inevitably fuzzy, but the guiding principle is that they have political power and use it successfully for personal economic gain.

A recent study of Mozambicans looked at 729 politically-exposed persons (PEPs)<sup>44</sup> and found only 326 were owners of companies<sup>45</sup>. By our definition, not all of that smaller group are oligarchs, while a few oligarchs are not PEPs. We suggest there are fewer than 100 oligarchs in Mozambique.

It is important to remember three things:

- 1) Shock therapy and the creation of oligarchs only began in the 1987-95 period, up to 20 years after the liberation war.
- 2) Most oligarchs depend on patronage, and the president changes every 10 years, which reshuffles patronage, with some oligarchs falling from grace.
- 3) Some people with political power try to become oligarchs but fail.

We suggest four categories of Mozambican oligarchs, with a few of the key oligarchs:

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<sup>41</sup> Joseph Hanlon (2002), Bank Corruption Becomes Site of Struggle in Mozambique, *Review of African Political Economy*, Vol. 29(91) 53-72

<sup>42</sup> Hanlon (2004) 750; Luis Landau (1998), *Rebuilding the Mozambican Economy, Assessment of a partnership*, Washington, DC: World Bank Operations Evaluation Department, p 63. <https://bit.ly/Moz-Landau-88>

<sup>43</sup> Hanlon (2004) 749

<sup>44</sup> Those who were on the Frelimo Central Committee and/or had been provincial governor, vice minister, minister or president.

<sup>45</sup> Sam Jones, Felix Schilling, and Finn Tarp (2021), Doing business while holding public office: Evidence from Mozambique's firm registry, University of Copenhagen, Development Economics Research Group, Working Paper 08-2021

## 1. Oligarchs by right of participation<sup>46</sup> in the independence war

+ Raimundo Pachinuapa and Alberto Chipande, are 82 and 83 years old. Chipande is still a member of Frelimo's ruling Political Commission, while Pachinuapa only retired in September 2022.

+ Former presidents Joaquim Chissano and Armando Guebuza.

+ Graça Machel, former education minister and widow of the first president.

Some have died but the others are now in their 70s and 80s and have unquestioned power in Frelimo. They are recognised as the founders and *donos* - owners and chiefs - of Frelimo. Some also are seen as the *patrões* - owners or managers, as of a shop or business - of the individual provinces where they were born. For example, the *patrão* of Cabo Delgado province is Albert Chipande and below him a group of generals from his Makonde ethnic group. The late Bonifácio Gruveta<sup>47</sup> was the unquestioned *patrão* of Zambézia province. A few oligarchs in the second group (below) have risen to this status; for example former prime minister Luísa Diogo is sometimes seen as the *patroa* of Tete province.<sup>48</sup>

To build their political and economic power bases, the *patrões* needed to build their client networks. In part because many of independence fighters were poorly educated and had no business experience, they drew in clients with education and skills. Three groups of people came up through this patronage system and some became oligarchs in their own right, sometimes changing patrons as they rose.

## 2. Younger with early post-independence prominent roles

These are people who backed Frelimo but many were still in school during the independence war and were generally better educated. They enthusiastically became involved with Frelimo, rose to take prominent roles, and only later became oligarchs.<sup>49</sup>

## 3. International links

A less high profile group are people who had international links who became facilitators for the oligarchs and became oligarchs themselves. Two are prominent.

+ Celso Correia organised the bank finance to allow Mozambique to buy the Cahora Bassa dam, became involved in businesses with Guebuza and became an oligarch in his own right. He then came to be super minister of Agriculture and Rural Development under President Nyusi.

+ Momade Bachir Sulemane (MBS) was named a "drug kingpin" by the United States; he facilitated the heroin trade which became one of Mozambique's biggest exports, and was close to President Joaquim Chissano.

There is an overlap with group 2, with several members of that group gaining international links when they had bank or finance roles.

## 4. Children and extended family

It is nearly 50 years since the end of the independence war and the children of prominent independence fighters are now gaining economic power. Some are not well known, but two are prominent and have become oligarchs:

+ President Filipe Nyusi is the son of independence fighters and rose to power with the patronage of Chipande.

+ Samora Machel Jnr is now chair of Pachinuapa's Montepuez Ruby Mining.

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<sup>46</sup> Most were fighters, but others were political prisoners of the Portuguese, clandestine Frelimo inside Mozambique, and diplomatic representatives of Frelimo.

<sup>47</sup> Died in 2011.

<sup>48</sup> Edson Cortês (2018), *Velhos Amigos, Novos Adversários: As Disputas, Alianças e Reconfigurações Empresariais na Elite Política Moçambicana*, PhD thesis, Universidade de Lisboa, Instituto de Ciências Sociais. 233, 253. <http://hdl.handle.net/10451/32314> Author name more usually spelled Cortez.

<sup>49</sup> We have only named a few oligarchs, in part because space is not available to give their business details, and in part because some would argue they are merely rich. Armando Guebuza said his wealth came from raising ducks; he did have a duck farm, but the claim was so ridiculous it became a meme. Cortês (2018) has 13 tables with the business interests of members of government.

Bitter infighting has emerged over the past decades. All of the new oligarchs used their political power over assets, land, and contracts to gain economic power and global links. But those who are not original *donos* always require a patron, who may marginalise them as clients, or who, like former presidents, lose some of their own power. Oligarchs rise and fall, and there is now increasing pressure to pass oligarch-like power to the next generation.<sup>50</sup>

#### 4. Austerity, corruption, the blind eye and crocodiles - the 1990s

There was a tense and conflictual relationship between Fund and Bank as they vied for dominance in Mozambique. The Bank followed the Washington Consensus line and wanted to lend large amounts of money to Mozambique for reconstruction and privatization. The IMF followed the neo-liberal Washington Consensus 2 line and wanted to cut both government and aid spending.

Broadly the World Bank was dominant in the late 1980s, promoting privatisation but allowing a step-by-step liberalisation of markets in a country still at war. The IMF took control of government spending; in just two years, between 1986 and 1988, at the height of the war, government health spending was cut from \$3.50 to \$0.68 per person.<sup>51</sup>

The end of the Cold War brought a new harder line, marked by the Houston G7 summit rejection of Gorbachev's plea for support for step-by-step liberalisation. The rejection and harder line was backed by the new US President George H W Bush and the still serving UK Prime Minister Margaret Thatcher. In keeping with that, the IMF became top dog in Mozambique. But there was a fierce battle over two issues - wages and aid. The IMF wanted curbs on both to control inflation.

In a 1991 report the Bank called for a "pay raise in the civil service" and said that in Mozambique "the wage bill of the civil service remains very low" in comparison to other sub-Saharan countries.<sup>52</sup> But between 1990 and 1995 the minimum wage was cut from \$30 per month to \$15. UNDP and UNICEF issued a booklet in 1995 saying two-thirds of Mozambican civil servants were below the absolute poverty line and could not buy enough food.<sup>53</sup> Not only did the IMF reject the call to raise wages, it successfully pressed the UNDP and UNICEF to quietly withdraw the booklet, which has never been posted on the web.<sup>54</sup> But as I note below, the wage issue became a very public battle in 1995.

The biggest and most unexpected issue was that the IMF decided that spending on reconstruction would be inflationary, and it imposed sharp curbs on aid for post-war reconstruction (which angered donors who planned a large increase in funding). The proxy war had caused massive destruction of rural commerce. The IMF could never explain how repairing bridges to allow trade to resume was inflationary.

"We had a major battle with the IMF, because it did not want the donor money that reached the State coffers to be spent, alleging that it would lead to a lot of inflation, while the government wanted to use the money" for repairing war damage and development, wrote Johnny Flentø, who was a Danish embassy economist in Mozambique 1996-99 and returned as ambassador 2007-11.<sup>55</sup> He points out that Luísa Diogo, then Deputy Finance Minister and later Prime Minister, "argued that paying wages to teachers and nurses would not create much inflation, since they would buy the minimum for their survival. And the increase in the wages fund would be due to an

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<sup>50</sup> President Armando Guebuza supported his daughter Valentina Guebuza to become an oligarch and heir to the family fortune, but in 2016, at age 36, she was shot and killed by her husband.

<sup>51</sup> Hanlon (1991) 180

<sup>52</sup> World Bank (1991), Mozambique: Public sector pay and employment review. Report 9815-Moz. Washing DC

<sup>53</sup> Adebayo Abebayo, Reginal Green, and Abdou Janha, (1995), Pay, Productivity and Public Service: Priorities for recovery in sub-Saharan Africa, UNICEF & UNDP.

<sup>54</sup> Personal communication from a top UNICEF official. The booklet was never posted on the web.

<sup>55</sup> Interview in Luísa Diogo 2013, *A Sopa da Madrugada - Das reformas à transformação económica e social em Moçambique: 1994-2009*, Porto Editora, Porto, Portugal. The English translation, *Soup Before Sunrise - From the Reforms to Economic and Social Transformation in Mozambique 1994 - 2009*, is only available on Kindle.

increase in the number of teachers, and not so much to individual wage rises. ... We tried to tell the IMF this, but in vain."

### ***The other agenda***

The IMF's agenda was not just inflation control. The new "free market" came as part of a package which involved a dramatic change of social and economic relations. The laws and ethics of the socialist era no longer applied and the market ruled.

Austerity and falling wages meant that nurses, teachers, police, clerks and others could no longer feed their families from their wage. But the "free market" meant that nothing was free. Mothers taking their children to school or a health post did not like having to give money to teachers and nurses for what had been a free service, but they knew that teachers and nurses needed money to feed their own children, so the extra "fee" was paid. Once that was established, it was a small step to charge for a school place or a passing mark. Three decades later, extra money for the teacher, clerk or police remains the norm. It was a defacto privatization of state services.

The other agenda was explicit, although never written. A minister and others were told by an IMF official that good people should be taken out of government, "where they are wasted", and moved to the private sector or international agencies.<sup>56</sup> Embassies and aid agencies paid high dollar salaries, 10 times or more the government salaries. A senior administrator or professional in government or a parastatal could earn more as an embassy clerk or driver.<sup>57</sup> So national directors quit their jobs and became secretaries or junior donor officials. It was demeaning, but their children could eat properly.

But donors and especially the World Bank began to notice that they could not advance their aid projects because key people in ministries had left to work for donors. So they began to compensate for low salaries by paying supplements to key civil servants. Donors held conferences and seminars where they paid dollar per diems, and paid consultancy fees for work done for donors instead of what the civil servants were supposed to do for government. None of this was advertised and all required donor patrons, which in turn required doing what the foreign patron wanted. Again, it was a comprador relationship - selling time and allegiance to the donors and the BWIs.

### ***Crocodiles***

The final important aspect was that shock therapy imposed what was called a "free" market, but in which most people had no freedom. Lea Ypi grew up in Communist Albania and is now a professor at London School of Economics. In her book *Free: coming of age at the end of history* (2021)<sup>58</sup> she talks about her memories of "freedom". First as a child under Enver Hoxha, "freedom" meant basic social security and "Uncle Enver" made all the decisions. Hoxha died in 1985. The World Bank and Shock Therapy arrived in 1992. Now freedom was economic, and Vincent van de Berg was sent by the World Bank to take the decisions - based on his experience imposing shock therapy on other developing countries. Just another dictator. He was known as "the crocodile", partly because of the appropriate crocodile logo on the Lacoste shirts he wore. "Freedom" under a World Bank dictator was not acceptable either, and in 1997 the Albanian government that supported shock therapy was thrown out

In the mid-1990s, Mozambique had two Washington-based all-powerful "crocodiles", Sérgio Pereira Leite, IMF Southern African Division Chief, and Phyllis Pomerantz, World Bank Country Operations Manager for Mozambique. Both were based in Washington DC. Both were involved in the bank privatisation issue (below), and both came to very public attention in 1995. The dictatorial

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<sup>56</sup> Personal communication from the minister.

<sup>57</sup> World Bank (1991) p i.

<sup>58</sup> Lea Ypi (2021) *Free: coming of age at the end of history*, Allen Lane, Penguin; Talk: 1 Nov 2021 [https://www.youtube.com/watch?v=3Ub\\_Nb772VA](https://www.youtube.com/watch?v=3Ub_Nb772VA)) and a linked LSE talk.

power came because at that period, donors had decided that they could only give aid to countries with IMF and World Bank programmes.

The first multi-party election had been held in late 1994. Joaquim Chissano's government took office in January 1995, and both Bank and Fund put the screws on the new government. In September 1995 the new government decided to raise the minimum wage to \$20/mo. On 23 September 1995 an outraged Sérgio Leite in a televised press conference in Maputo condemned the hike; three days later in a closed donor meeting he warned that the IMF would declare Mozambique off-track which would force a stop in donor aid.<sup>59</sup>

Donors were already upset because the war was over and damage to roads and bridge meant the economy could not restart, but Leite was restricting donor spending on reconstruction because it was, he said, inflationary. Hurried meetings followed. On 6 October, major donors, including the US, Dutch and Swiss ambassadors and representatives of the United Nations and European Commission, issued an unprecedented public statement that backed the government's economic team, warned against "disruption in financial support", and opposed IMF caps on their aid for reconstruction. The IMF did not declare Mozambique off track but retaliated by tightening control of reconstruction aid. However the next year it was forced to ease off.<sup>60</sup>

Phyllis Pomerantz arrived in Maputo in 1995 with the *Country Assistance Strategy* (CAS) already written, and presented it to a meeting of ministers in the dining room of the World Bank representative's house. It contained something unprecedented in a CAS: seven "necessary conditions" and if any was not met it would lead to a suspension of the World Bank programme. They included privatising 12 more named enterprises, including a bank; a veto over sectoral budgets, and "adherence to IMF targets." But the key condition was the end of cashew nut processing in Mozambique, with a loss of 10,000 jobs. There was a huge protest from ministers at the table. Pomerantz's response was simple: if you do not agree, I will not present this package to the World Bank board, and without a programme, aid will stop and children will starve. The "crocodile" had spoken.<sup>61</sup>

The issue was an export surtax on unprocessed cashew nuts, to help local industry. The World Bank had agreed a \$50 mn desperately needed loan. Luísa Diogo, who as Deputy Finance Minister had been sitting at the Bank dining table, takes up the story in her book *Soup Before Sunrise*: "24 hours before the money was due to arrive ... Phyllis Pomerantz phoned us asking 'So how's this question of liberalising the surtax? Are you liberalising the surtax or not? We will not release the \$50 mn that you are expecting tomorrow, if you don't sign the liberalisation of the surtax tonight. The liberalisation of the surtax must be sent tonight by fax.'" Diogo asked for discussion. She replied: "I don't want a dialogue. Either you do what I say or there's no money." Again the "crocodile" had spoken. The Finance Minister Tomaz Salomão, who had also been at the table, commented: "Phyllis Pomerantz was a woman who was all smiles at the table, but who was very cynical." And he told World Bank president James Wolfenson that "the World Bank was responsible for the collapse of the cashew industry".<sup>62</sup>

There was significant international publicity and even protests, creating unusual embarrassment for the World Bank - which temporarily curbed the "crocodiles". The World Bank was demanding that "we follow the Washington Consensus blindly" and putting pressure to privatise what were

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<sup>59</sup> Joseph Hanlon (1996a), *Peace without profit: How the IMF blocked rebuilding in Mozambique*, 49-50, Oxford: James Currey. Abebayo, Green, and Janha, (1995).

<sup>60</sup> Joseph Hanlon (1996b), *Strangling Mozambique: International Monetary Fund "Stabilization" in the World's Poorest Country*, *Multinational Monitor* 17(7-8) July-August 1996.

<sup>61</sup> The term "necessary conditions" had apparently never been used before and was not used afterwards. Joseph Hanlon (2000), *Power without Responsibility: the World Bank and Mozambican cashew nuts*, *Review of African Political Economy* 27(83) 29-45. Joseph Hanlon & Teresa Smart (2008) *Do bicycles equal development in Mozambique?*, Woodbridge, Suffolk, UK: James Currey, 36-50. Hanlon (1996a) 34.

<sup>62</sup> Luísa Diogo 2013, *A Sopa da Madrugada*. Luísa Diogo was Deputy Finance Minister 1994-2000 under President Joaquim Chissano and Finance Minister Tomaz Salomão, then Minister 2000-2005, then Prime Minister 2004-2010 - holding both posts 2004-5. She has been chair of the bank ABSA Moçambique since 2012

considered key industries - electricity, the airline, and the railways, Diogo wrote. But the bad publicity and embarrassment caused by cashew forced the World Bank to back down, she said. The key industries were not privatised.

## 5. See no evil - Oligarch 'licenses' and impunity - banks and drugs

I defined oligarchs in section 2 as the people with party and business links who used their political power to gain control over land, resources, industries, international trade and finance and who turn their new assets into money by extracting rents, usually through links with international capital which were fostered by ending financial controls.

Mozambican oligarchs need two things - money and permission to operate - which initially could only be granted by outsiders, the lenders and donors. And the oligarchs needed informal permission or "licences" to act in ways that previously would have been seen as corrupt or illegal.

Both money and permission to operate have a domestic as well as international component. Oligarchs also require a "licence" directly or indirectly from someone at the top of the ruling party, to ensure they can acquire land, contracts, and money from elite-dominated banks. Changes of president meant that some oligarchs lost their patrons and thus lost their "licence".

Oligarch "licences" are informal and covert, with the Frelimo elite looking at what is not said and not done by the international community. In this section we show how it was not simply that the BWIs and donors ignored state and aid contracts, as well as land and privatised businesses, going to oligarchs, and loans not being repaid. As I show below, donors and the BWIs turned a blind eye to massive fraud and three assassinations. And two of the biggest sectors of international trade, worth hundreds of millions of dollars a year, were - and still are - conducted clandestinely, but with open knowledge of the international community, and just treated as part of the "free market". Informal "licences to operate" are a very open blind eye.

In Mozambique, much of the initial money came from bi-lateral donors and the BWIs. Banking proved a contentious area. Top priority was to get the state out of banking. In practice, the BWIs wanted some foreign control of the banking system, but with involvement of oligarchs who had enough freedom to provide money to their peers. And the BWIs pushed through obviously corrupt privatisations of the state banks.

### **Bank assassinations**

At independence, Frelimo moved slowly on banking, initially keeping the colonial escudo as currency and simply transforming the colonial Banco Nacional Ultramarino into the new state Bank of Mozambique (Banco de Moçambique, BdM). Portuguese private banks proved hostile to the new government and were facilitating capital flight, and in 1977 the government finally nationalised all remaining Portuguese banks.<sup>63</sup> Four banks were merged into BdM and two were merged to form the People's Development Bank (Banco Popular de Desenvolvimento, BPD).<sup>64</sup> BdM remained both a central bank and commercial bank, and they were only separated in 1992, with BdM only as central bank and a new Banco Comercial de Moçambique (BCM).

The first new private bank, Banco Internacional de Moçambique (BIM, Mozambique International Bank), opened in 1994. BPD and BCM were eventually privatised. All three banks becomes mired

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<sup>63</sup> Marc Wuyts (1986) *Money and planning for socialist transition: The Mozambican experience*, Milton Keynes (UK): Open University:172

<sup>64</sup> Only the British-Portuguese Banco Standard Totta de Moçambique (BSTM) was allowed to remain private, and continues to trade as part of the now South African Standard Bank.

in scandal linked to new oligarchs and foreign partners. In each one, a person who tried to investigate the scandal was assassinated.<sup>65</sup>

**BIM** was promoted by the World Bank's International Finance Corporation (which owned 25%). It was run and 50% owned by Banco Comercial Portugues (BCP), founded by Jardim Gonçalves. The rest was owned 22.5% by Mozambican government organisations and 2.5% by the Community Development Foundation (Fundação para o Desenvolvimento da Comunidade, FDC) of Graça Machel, widow of first president Samora. Its first chair was former Prime Minister Mario Machungo and its managing director was from BCP, Jose Alberto de Lima Felix.

BIM quickly attracted substantial foreign currency deposits that did not seem to be justified by the market, which suggested money laundering. Managing director José Lima Felix began looking more closely and found things which worried him. He was shot and killed on 2 December 1997. There were no further investigations into money laundering or into who ordered the killing of Lima Felix.

The two state commercial banks **BCM** and **BPD** had extended credit to keep companies running during the 1980s proxy war and large debts had built up that could not be repaid. Both had also been corrupted by the World Bank's late 1980s privatisation process. BcM governor Adriano Maleiane wanted the banks privatised, but knew no serious bank would take them and wanted to clean them up first. Then the "crocodiles" spoke. The World Bank's Phyllis Pomerantz, as part of her "necessary conditions" in 1995, required the privatisation of BCM. Then the 11 April 1996 joint IMF-World Bank Policy Framework Paper, which set conditions that the government must meet, required BCM be brought to point of sale by June 1996 and BPD by the end of 1996. Maleiane argued, correctly, that the only privatisations on offer were corrupt.

**BCM.** The only offer for BCM was by António Simões, a Portuguese businessman, whose family had a small company in Maputo and who was involved in the privatisations. He had won the support of António Branco, Industry Minister 1980-92, and of Octávio Muthemba<sup>66</sup>, Deputy Industry Minister 1989-92 and then Minister 1992-94, and chair of the Frelimo party holding company SPI. This allowed Simões to borrow money he never repaid, particularly highly concessional long-term loans with aid money from Norway, France, Germany, Sweden and Switzerland. Those countries had paid no attention to how their money was used and later when pressed by local journalists, could find no records of the loans; this underlined again donor funding for the conversion of Frelimo leaders into oligarchs.<sup>67</sup> On 26 July 1996, a month after the BWI deadline, BCM was privatised to a Simões consortium which included Chissano family interests; IMPAR, the insurance company that had already been privatised to members of the Frelimo elite; and Banco Melo in Portugal

Banco Mello eventually gained a controlling interest in BCM. In January 2000 Jardim Gonçalves' BCP took over Banco Mello in Portugal, which gave it control of BCM in Maputo. BCP already controlled BIM. On 4 October 2000, BCM announced an accumulated \$127mn loss and \$162 mn bad debt provision. At a 24 October 2000 press conference in Maputo, Gonçalves made clear that the Mozambique government had accepted BCP control of both BIM and BCM. He also said that he knew where the BCM losses had occurred, but he would not reveal them. In exchange for keeping quiet about the Mozambican elite, he could control half the banking system. In 2010 Jardim Gonçalves was fined €1 million by the central bank, Banco de Portugal, for financial infractions.

Carlos Cardoso, Mozambique's best investigative journalist and editor of *Metical*, had been assiduously investigating BCM, and a \$13 mn fraud. On 22 November 2000, he was gunned down

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<sup>65</sup> The story is told in more detail in Joseph Hanlon (2001a), Mozambique's banking crisis: Killing the goose that laid the golden eggs, published originally in *Metical*, in Portuguese, as a series, 17 September through 3 October and Hanlon (2000), Hanlon (2002) and Hanlon (2008)

<sup>66</sup> Sometimes spelled Mutemba, without the h.

<sup>67</sup> When journalists later found some of the records and offered them to one of the donor-lenders, the reply was that they had no interest in the records and did not want them.



as he was driven home. It seemed intended to be a public execution, a warning to those who questioned bank privatisation.

That left **BPD** still to be privatised. Octávio Muthemba, then chair of the Frelimo party holding company SPI, set up a Frelimo-linked group called Investar to take over BPD, but could not find foreign bankers willing to back him. The IMF allowed the deadline to slip six months, but said that aid would be cut off if BPD was not privatised by the end of June 1997. President Joaquim Chissano made a state visit to Malaysia 19-21 March 1997 with Muthemba. The Malaysian Prime Minister Mahathir Mohamed requested Southern Bank Berhad (SBB) to participate. Privatisation went ahead on 3 September 1997. The Bank was renamed Banco Austral and was 40% state, 30% SBB, and 30% Investar. Muthemba became chair.

Banco Austral was soon in trouble. At the insistence of BdM, KPMG carried out an audit in November 2000 which chronicled bad loans, bad accounting, theft and fraud in the first three years of private management. This included totally improper and illegal loans to Octávio Muthemba and other owners of the bank. On 3 April 2001, SBB pulled out. Many senior government figures simply wanted Banco Austral closed, in order to just bury the scandal, as had already been done with BCM.

Instead the central bank (BdM) intervened and took over Banco Austral. The new chair was António Siba-Siba Macuacua, BdM director of banking supervision and a highly respected economist. Adriano Maleiane told a press conference on 3 April 2001 that Banco Austral needed a recapitalisation of about nearly \$150mn. On 19 June Banco Austral published in the daily *Notícias* a list of more than 1000 individuals and companies with overdue loans.

BdM advertised for a foreign bank to take over, and there were two serious proposals. It selected the South African bank ABSA<sup>68</sup>, which was to begin its due diligence audit on Monday 13 August 2001. But on Saturday 11 August, António Siba-Siba Macuacua was murdered by being thrown down the stairwell of Banco Austral's 15 storey headquarters in downtown Maputo. ABSA did take the bank in the end.

### ***See no evil***

There were no prosecutions of the mismanagement of the banks, for illegal lending, or of the killers of Siba-Siba - who were known. The actual gunmen who killed Lima Felix and Carlos Cardoso were caught and convicted - but no one who ordered the killings was identified or prosecuted.

Donor support seemed 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 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".<sup>69</sup> I argue that Vieira's statement is correct. Donors were rewarding what they saw as "good performance" - and were seen to be telling the oligarchs that the international community accepted grand theft and murder as part of the new "free market". Donors were, in effect, confirming the oligarchs' "licences to operate".

In 2001, the World Bank, UK, Norway and others had explicit policy of not pursuing past corruption; instead their policy was to pursue "reform".<sup>70</sup> Norad (Norwegian aid) said pursuing corruption was too expensive and emphasis must be placed on preventing corruption. The UK said priority was to build institutional capacity. And the World Bank argued that: "It is not the Bank's role to identify and

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<sup>68</sup> Because of corporate ownership changes ABSA became Barclays in 2007 and returned to the name ABSA in 2019.

<sup>69</sup> *Domingo* (Maputo), 2 December 2001.

<sup>70</sup> Hanlon (2004) and Hanlon (2008) 121

prosecute individual offenders, but rather to address the various aspects of policy and institutional reform that are likely to be critical in reducing corruption".<sup>71</sup>

The World Bank and key donors had polices that the oligarchs could get away with anything - including murder. This was their "licence" to steal and kill in the name of the "free market". And two decades later, the oligarchs still believe this.

## **Heroin**

The drugs trade is the most blatant example of donor acquiescence in the growth of oligarchs through illegal commerce. For centuries dhows have plied a coastal trade, linking the Makran coast of Pakistan with Dubai and east Africa, as far south as the Mozambican islands of Ibo and Iha de Moçambique. The proxy war of the 1980s cut off normal north-south communication because the only north-south road, the N1, was closed. Heroin smugglers are always looking for new routes, and with the reopening of the N1 in 1992, they saw such a new route. Heroin is taken from Afghanistan south to the Makran coast and loaded onto Jelbot dhows. These are seagoing motorised wooden dhows but at 15-23 metres long are difficult to spot from satellites. They have concealed compartments which can carry a tonne (1000 kg) of heroin, but if stopped pretend to be fishing vessels.

The dhows stop 30 to 40 km off the coast of Cabo Delgado and Nampula provinces. They are met by fishing boats which drop the drugs on a designated beach, from which they are taken to warehouses in Nacala and Nampula. Drugs are divided into parcels of 20-100 kg which are hidden in vehicles which drive 3000 km to Johannesburg, South Africa. From there, the heroin is put into containers of wine, stone or other goods and shipped to Europe.<sup>72</sup>

When I first reported this in 2001, I estimated one tonne a month of heroin was passing through Mozambique. It had a value more than all legal foreign trade combined, and the amount of money that stayed behind added \$30-\$50 mn to the local economy<sup>73</sup> - from police checkpoints to customs to senior people and to the Frelimo party. My sources were largely the major national and international drug agencies, so it was no secret to key donors and lenders. The Crown Agents had a contract for Mozambique customs 1997-2006. I was told informally that the brief to the Crown Agents was purely to increase revenue. Implicitly, then, the Crown Agents agreed not to deal with improper imports which were not evading tariffs, notably heroin.

Momade Bachir Sulemane (MBS) is a prominent and wealthy Mozambican businessman. Officially he imports and sells white goods, but on 1 June 2010 MBS was designated as a "drug kingpin" by United States President Barack Obama. A decade earlier, for my 2001 article, I was briefed by an international drugs control official that MBS was the main heroin trader in Mozambique, but I did not name him because of fear of libel.

MBS had close links to President Joaquim Chissano, who was publicly identified as guest of honour in 2001 at MBS's second son's lavish wedding.<sup>74</sup> Links to MBS were passed on to Armando Guebuza when he was elected President in 2004. MBS's new \$32 mn Maputo Shopping Centre was then the largest in Mozambique, and at the official opening in 2007 Guebuza praised it a model of private investment.<sup>75</sup>

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<sup>71</sup> Helping countries combat corruption, World Bank, 2002. Apparently no longer available. The World Bank's own Eastern Europe study admitted this did not work: S Pradhan *et al*, *Anticorruption in Transition-A Contribution to the Policy Debate*, Washington, DC: World Bank, 2000, p 1, [https://www.researchgate.net/publication/308198451\\_Anticorruption\\_in\\_Transition\\_A\\_Contribution\\_to\\_the\\_Policy\\_Debate](https://www.researchgate.net/publication/308198451_Anticorruption_in_Transition_A_Contribution_to_the_Policy_Debate)

<sup>72</sup> Some heroin is also brought into Mozambique in containers.

<sup>73</sup> Joseph Hanlon (2001b), O grande negócio da droga, *Metical* 1017, 28 June 2001; English translation: Drugs now biggest Mozambique business, available on <https://bit.ly/MozHeroin2001>

<sup>74</sup> *Savana* (27 April 2001)

<sup>75</sup> *Noticias* 23 June 2006, AIM English 9 May 2007. *Savana* on-line, 20 Oct 2009.

By the time of my next report in 2018<sup>76</sup>, 40 tonnes or more of heroin per year was moving through Mozambique. This made it the country's largest or second largest export (after coal). It added \$100 mn per year to the economy of Mozambique, as profits, bribes, and payments to senior Mozambicans and Frelimo.

Except for the one condemnation of MBS by the United States, the international community - donors, lenders and international agencies - chose to remain silent on heroin trafficking. Mozambique's elite have every reason to believe that oligarchs and the heroin trade are a normal part of the new "free market".<sup>77</sup>

## 6. No one could be *that* stupid

In 1996 I wrote: "The IMF admits that Mozambique has been assiduously following its advice for five years, yet each year the economy gets worse. The IMF, with supposedly the best collection of economists in the world, sees nothing strange in this, and simply tells Mozambique to carry on with more of the same. Mozambicans are now beginning to insist that, while the world's best economists may not be as bright as peasant farmers, they cannot possibly be that stupid. Could it be that the IMF programme really is successful, but that it has different goals and a different agenda from what the Mozambicans are told?"<sup>78</sup>

"The IMF uses the same programme everywhere because it is trying to do the same thing everywhere - to create a dependence on the North," explained trade union leader Soares Nhaca in 1995. "It is not trying to resolve the problems of hunger and underdevelopment here, but to satisfy the needs of the Northern economies." It is not accidental that IMF policies are widening wealth differentials; they are intended to create a new rich in Mozambique, he argued. And that new rich will buy Western goods and play a key role in administering the recolonization being imposed by the IMF, he said.<sup>79</sup>

Twenty-five years ago, Mozambique's Catholic bishops were already angry. "The images, plans and programmes of the World Bank and IMF for our continent and our country constitute an integral component of neo-colonialism."<sup>80</sup>

Of course there are huge variations within donor agencies and embassies and even within the BWIs. But at key points they act collectively; many donor meetings and cocktail parties in gardens shape a least a public consensus. Despite the assassinations of Carlos Cardoso, who many aid

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<sup>76</sup> Joseph Hanlon (2018), The Uberization of Mozambique's heroin trade, London School of Economics International Development Working Paper 18-190. <http://bit.ly/Moz-heroin> That report was a background paper to the larger report Simone Haysom, Peter Gastrow and Mark Shaw (2018) The heroin coast: A political economy along the eastern African seaboard."

Global Initiative against Transnational Organized Crime and Enact. <https://globalinitiative.net/wp-content/uploads/2018/07/2018-06-27-research-paper-heroin-coast-pdf.pdf> See also Simone Haysom (2020) Drug trafficking - From the maskani to the mayor: The political economy of heroin markets in East and Southern Africa", Enact, 5 Mar 2020. <https://enactafrica.org/research/research-papers/from-the-maskani-to-the-mayor-the-political-economy-of-heroin-markets-ineast-and-southern-africa>

<sup>77</sup> Two recent changes to the drug trade do not change the basic point. First, the drug trade is dependent on roads and the insurgency in Cabo Delgado has cut the main roads used by drug traders. Dhows are now sailing further south and drugs are being landed on beaches in Nampula province. Second, production in Afghanistan has changed. It was discovered locally that the common, wild herb known locally as "oman" is ephedra which can be used to make ephedrine, the key component of methamphetamine, which is easier to produce locally than heroin. Shipments through Mozambique are now half heroin and half crystal meth. Secunder Kermani, "Meth and heroin fuel Afghanistan drugs boom", BBC News, 12 Dec 2021; *Mozambique News Reports & Clippings* 539, 21 April 2021

<sup>78</sup> Hanlon, Joseph (1996) "No one could be *that* stupid", ch 12 of Hanlon, Joseph *Peace without Profit*, Oxford: James Currey.

<sup>79</sup> Hanlon, Joseph (1996) *Peace without Profit*, Oxford: James Currey, p 107. Book available free on <https://bit.ly/Peace-wo-Profit>

<sup>80</sup> Ponsi, Francisco (1995) A situação actual de Moçambique no contexto da Africa. Paper distributed to Mozambique's Catholic bishops at a conference 11 July 1995 Maputo.

officials and ambassadors knew personally, and Siba Siba, the donor consultative group which contained all the main donors gave Mozambique more money than it asked for.

It should have been obvious that the only way to "rapidly" turn communists into capitalists was to turn politically powerful people into oligarchs. Apparently progressive Nordic donors said they did not look at past corruption and did not ask what the oligarchs did with their aid money.

The hidden agenda was not hidden at all; in shock therapy the agenda may not have been spelled out, but the results were there for all to see. Neoliberalism was at the time - and in many ways still is - a powerful ideology and many of those in embassies and the BWIs actively supported the dogma. And they were increasingly under pressure from their capitals to promote foreign investment and local comprador, rent-seeking capitalism. Mozambique became a donor darling with money flowing in.

Mozambique was a popular posting for diplomats and aid workers, who hoped the next posting would be as good. Even those unhappy with the growing poverty and inequality did not want to risk their next contract or promotion in an aid industry with patron-client relations similar to the ones being created in Mozambique. It was hard to even question an ideology that appeared to have such wide backing. So those who were uncomfortable became wilfully blind or looked away. They did not rock the boat.

### ***Turning a blind eye is equivalent to a nod and a wink***

So many blind eyes were turned that I have lost count. Progressive Nordic donors who did not ask how loan funds to oligarchs were used or if they were repaid. There was not even a slap on the wrists for the killing of Carlos Cardoso.

Angry anti-narcotics officials from big donor government agencies told me details of the heroin trade and involvement of the new oligarchs; they had also told their ambassadors, who looked away. When a group of donors met in response to my heroin article in 2001<sup>81</sup>, they decided to say the article was fake news and drug trafficking was not happening.

President Joaquim Chissano personally negotiated for the giant Brazilian Companhia Vale do Rio Doce<sup>82</sup> to open a mine in Moatize, Tete. The contract was signed in June 2007, and involved \$120 million signing fee for the government. But IMF spending caps still restricted development spending, so the money had to be kept off the budget and out of Mozambique. So the IMF and donors agreed a \$120 million slush fund could be kept in a New York bank account controlled by Chissano.<sup>83</sup> Nothing was said.

Smuggling of controlled hardwoods such as pau ferro (ironwood), ebony and mahogany has been the subject of repeated and detailed reports by environmental NGOs, naming the oligarchs in control. Data for 2014-16 suggests a minimum of \$100 mn and 7000 containers of timber lost per year.<sup>84</sup> That many containers are hard to hide; I remember standing on a hillside in Pemba looking down at the dock and seeing the containers of logs. Not a whisper from the BWIs or donors.

The 1999 Presidential Election was highly flawed with 557,000 fraudulent votes.<sup>85</sup> The EU electoral observation mission was unusually critical.<sup>86</sup> The head of the 2019 EU Electoral Mission, Nacho

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<sup>81</sup> Hanlon, Joseph, (2001) O grande negocio da droga, Maputo: *Metical* 1017, 28 June 2001.

[http://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d13\\_5483.pdf](http://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d13_5483.pdf)

<sup>82</sup> Now just Vale.

<sup>83</sup> Selemene, Tomás. *Alguns Desafios na Indústria Extractiva em Moçambique* [Some extractive industry challenges in Mozambique]. Maputo: Centro de Integridade Pública, 2009, 14.

<sup>84</sup> <http://www.globaltimber.org.uk/mozambique.htm>; 2016 are latest values reported. A 40 foot container holds about 70 m<sup>3</sup>, so that unreported 500,000 m<sup>3</sup> of logs would fill more than 7000 containers.

<sup>85</sup> *Mozambique Political Process Bulletin 2019 General Elections* 96, 26 Jan 2020.

<sup>86</sup> European Union External Action (2020), EU Election Observation Mission – Mozambique Final Report General and Provincial Assembly Elections 2019, 12 February 2020, [eueom\\_moz2019\\_final\\_report\\_en.pdf](https://www.eueom.org/mozambique/mozambique-2019-final-report)

Sanchez Amor, led the follow up mission in March in Maputo. His report showed that none of the 20 recommendations had been acted on. On 21 March he met with Foreign Minister Verónica Macamo, but only told her "if would be nice" if some of the reforms suggested might be implemented.<sup>87</sup>

Blind eyes were publicly turned to things that three decades ago would have been seen as totally unacceptable, including drug and precious wood smuggling, assassinations, putting money from a foreign mining company in a New York bank account, and stealing elections. For the oligarchs and those under them, the blind eye to very public actions was seen as a nod and wink, expanding their "license" to operate and what can be considered part of the free market.

In the 1980s and 1990s Mozambique had attracted less global economic interest because it was not, like another former Portuguese colony, Angola, a natural resource state. But with the end of the proxy war garimpeiros, prospectors, geologists and oil companies began to study the north of Mozambique more closely, and in 2005-2015 there were major resource discoveries, especially in Cabo Delgado. Suddenly Mozambique was a resource country. And oligarchs who had previously taken their rents from government contracts, trade (legal and illegal) and aid began to look much more closely at gaining mining and resource concessions. It was still rentier and comprador, but at a much higher level.

Watching the wealth being generated by resources in Cabo Delgado, local people finally rebelled. The first shots were fired in a new civil war with an attack on Mocimboa da Praia on 5 October 2017, which has escalated. In the next working paper, we will show in more detail how shock therapy caused Mozambique's resource curse and the current civil war.

### ***It was obvious that shock therapy was pro-rich***

As early as 1998 a study of 25 European and Asian post-communist "transition" economies, titled "Winners take all,"<sup>88</sup> concluded that "the level of income inequality has risen in every post-communist country with the exception of the Slovak Republic." This has been "driven by a substantial concentration of incomes in the highest income group." The gains of reform "have been highly concentrated among a narrow group of winners." And the study stresses the importance of rents for the winners.

In 2013 former Prime Minister and Finance Minister Luísa Diogo pointed to the way the neo-liberal policies pushed by the IMF and World Bank were leading to "the shocking gulf between the haves and the have-nots. In other words, we had people who were getting rich and others who were staying poor and the trend was for this gulf to widen."

But it was only in 2018, the year after the war started, that some in the World Bank began to worry that growth was "pro-rich". "Mozambique is among the most unequal countries in sub-Saharan Africa", the Bank reported. "Nearly one in two Mozambicans are trapped in chronic poverty and close to 25 percent of the population is highly vulnerable to fall into poverty."<sup>89</sup> Four years later in June 2022 the World Bank repeated the message.<sup>90</sup> "Mozambique's impressive growth rates have disproportionately benefitted those at the top of the income distribution in urban areas."

But no change in policy has been forthcoming. IMF and World Bank "crocodiles" set Mozambique on its course. The success of shock therapy is the "impressive growth" - but at a price of growing

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<sup>87</sup> AIM, UE augura reformas na administração eleitoral, 21 March 2022.

<sup>88</sup> Joel S. Hellman (1998), *Winners Take All: The Politics of Partial Reform in Postcommunist Transitions*, *World Politics*, Jan., 1998, 50(2) pp. 224, 226, 228, <https://www.jstor.org/stable/25054036>

<sup>89</sup> Strong but not Broadly Shared Growth, World Bank Mozambique Poverty Assessment, April 2018; <https://documents1.worldbank.org/curated/en/248561541165040969/pdf/Mozambique-Poverty-Assessment-Strong-But-Not-Broadly-Shared-Growth.pdf>

<sup>90</sup> Shireen Mahdi & Fiseha Haile Gebregziabher (2022).

poverty and inequality, and the creation of oligarchs. This process has been controlled by the oligarchs, to benefit themselves and foreign companies, leaving little for poorer local people.

Even the prestigious and conservative *The Economist* (28 May 2022) is challenging what it now accepts as a BWI "ideology." In an article headlined "Ideology versus Prosperity" it notes that "over the past 20 years China has been the biggest and most reliable source of growth in the world economy." The reason is that it has "taken a practical approach to making the country richer, mixing market reforms with state control."<sup>91</sup>

Mozambique tried in the late 1980s to do that and was forced by the Bretton Woods Institutions, backed by the donor community, to choose the shock therapy ideology over prosperity. And Mozambique remains one of the poorest countries in the world. Many commentators blame greedy and corrupt Mozambicans. This working paper has shown how the international community taught the Mozambican elite that greed is good and central to the new free market, and that what they had been taught was corrupt in the bad old days of socialism was now acceptable in the new free market. Only money matters, and not development or serving the people. The World Bank may wring its hands about poverty and inequality, and staff this year (2022) even suggested the need for a "new model",<sup>92</sup> but the Bank offers no suggestions about how to change the model it helped to impose.

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<sup>91</sup> *The Economist* 443, 28 May 2022, 9, Ideology versus prosperity.

<sup>92</sup> Fiseha Haile Gebregziabher & Fernanda Massarongo (2022).