



# REPUBLIC OF MOZAMBIQUE

## DIAGNOSTIC REPORT ON TRANSPARENCY, GOVERNANCE AND CORRUPTION

August 2019

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**REPUBLIC OF MOZAMBIQUE**

**REPORT ON TRANSPARENCY, GOVERNANCE AND  
CORRUPTION**

**JULY 2019**

**Prepared with the Assistance of the Legal and Fiscal Affairs Departments of the  
International Monetary Fund**

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## GLOSSARY

AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
AT	Tax Authority
BAU	One-stop shop ( <i>Balcão de Atendimento Único</i> )
BM	Bank of Mozambique
BSA	Bank Supervision Application
CCSPP	Public Project Coordination and Selection Committee
CGE	General State Accounts
CPEC	Central Public Ethics Commission
CSO	Civil Society Organization
CUT	Single Treasury Account
DEEF	Directorate of Economic and Financial Studies
DNFBPs	Designated Non-Financial Businesses and Professions
DSA	IMF's Debt Sustainability Analysis
e-CAF	Public employee register
e-SISTAFE	Mozambique's Integrated Financial Management System
EBITDA	Earnings Before Tax, Depreciation, and Amortization
EITI	Extractive Industries Transparency Initiative
ENH	National Hydrocarbon Company
ERDAP	Strategic Reform and Development Plan
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
GCCC	Central Anti-Corruption Commission
GDP	Gross Domestic Product
GFSM	IMF's Government Finance Statistics Manual
GIFiM	Financial Intelligence Unit
IFMIS	Integrated Financial Management System
IGEPE	Institute for the Management of State Holdings
IGF	Inspectorate General of Finance
IMF	International Monetary Fund
INAMI	Institute of Mines
INP	National Institute of Petroleum
JUE	Customs Single Window
LNG	Liquid Natural Gas
MAEFP	Ministry of State Administration and Public Service
MEF	Ministry of Economy and Finance
MIREME	Ministry of Mineral Resources and Energy
PEFA	Public Expenditure and Financial Accountability
PEP	Politically-Exposed Person
PFM	Public Financial Management
PGR	Public Prosecutor's Office (Attorney General's Office)
PIMA	Public Investment Management Assessment
PLAC	Legislative Anti-Corruption Package
REO	Quarterly Fiscal Reports

RVC	Receipt and Verification Committee
SERNIC	Criminal Investigative Police
SEIJE	Electronic Judicial Record and Information System
SISTAFE	Fiscal Framework ( <i>Lei do Sistema de Administração Financeira do Estado</i> )
SSA	Sub-Saharan Africa
STR	Suspicious Transaction Report
SOE	State-Owned Enterprises
UGB	Beneficiary Management Units
UNCAC	United Nations Convention Against Corruption
USD	United States Dollars
VAT	Value-Added Tax
WGI	Worldwide Governance Indicators

## EXECUTIVE SUMMARY<sup>1</sup>

**Mozambique’s economy is at a turning point, and efforts to address governance and corruption vulnerabilities can have a lasting positive impact.** The current levels of public debt have caused us to take a hard look at our governance and anti-corruption framework and have prompted various reforms to address the vulnerabilities exposed in this framework. In general, the problems in our society, and specifically corruption, have been examined in detail recently and are clearly macro-critical.<sup>2</sup> One study estimated the costs of corruption to Mozambique during the period 2002 to 2014 at up to USD 4.9 billion (approximately 30 percent of the 2014 GDP).<sup>3</sup> The impact of these costs is widespread, affecting taxpayers, public service providers, the financial and private sector, as well as Mozambique’s international reputation.<sup>4</sup> These costs are especially harmful at a time when our country has been hit by a series of shocks, notably the fall in commodity prices, drought, the withdrawal of donor budget support, and, more recently, Tropical Cyclones Idai and Kenneth. At the same time, Mozambique stands poised to reap significant revenues from natural resource reserves, and our duty as the government is to ensure the responsible stewardship of those funds for both current and future generations. By taking meaningful steps now to implement the governance and anti-corruption framework in an evenhanded, consistent, and effective manner, and to support efforts toward transparency and individual and institutional accountability, as the government, we can aim to achieve enduring results.

**We have already taken strides toward addressing governance and corruption vulnerabilities.** Over the last 15 years, we have adopted a comprehensive legislative and institutional framework to address governance and corruption, covering areas such as the administration of justice, business regulation, AML/CFT, state-owned enterprises (SOEs), and the financial sector. Under the new framework, some high-profile cases have been prosecuted.<sup>5</sup> In December 2017, we also prepared an action plan to strengthen governance, transparency, and accountability.<sup>6</sup> Fiscal risks are mitigated through the approval and implementation of a 2017 decree on issuance of debt and guarantees; approval of a new law on state-owned enterprises and a 2018 Decree to regulate other public entities such as

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<sup>1</sup> The Government of Mozambique would like to thank the IMF Legal and the IMF Fiscal Affairs Departments for providing technical assistance to the preparation of this report. IMF staff assisting in the study included Ceda Ogada, Julianne Ams, Alice French (all of the IMF Legal Department), Benoit Wiest (Fiscal Affairs Department), and Esther Palacio (IMF Resident Representative Office in Mozambique). Ari Aisen, the IMF Resident Representative in Mozambique, and his office provided valuable assistance.

<sup>2</sup> See, e.g., Selected Issues Paper, “The Governance Challenge in Mozambique,” IMF Country Report No. 18/66, March 2018 (hereinafter, “IMF Selected Issues Paper”).

<sup>3</sup> Centro de Integridade Pública & Chr. Michelsen Institute, “The Costs of Corruption to the Mozambican Economy: Why it is important to fight corruption in a climate of fiscal fragility,” CMI Report No. 6, December 2016.

<sup>4</sup> *Id.*

<sup>5</sup> See IMF Selected Issues Paper at Box 1.

<sup>6</sup> Although the plan has not been formally adopted and made public, several reforms have been undertaken while others are underway. The reforms laid out in this report complement those already ongoing.

institutes, funds, and foundations; and the creation of a fiscal risks unit.<sup>7</sup> The Bank of Mozambique (BM) has made significant efforts to improve governance, including by working to revise the central bank organic law to address identified governance vulnerabilities; undertaking a revision of the banking law to strengthen the current framework for crisis management and bank resolution and to strengthen supervisory capacity through new regulation, stronger supervision and technical assistance; and putting substantial efforts into tackling money laundering and financing of terrorism. Mozambique has signed many relevant international anti-corruption conventions, and, based on a series of legislation, we are incorporating these standards into domestic law. We are continuing to revise and strengthen the AML/CFT framework, and President Nyusi has identified anti-corruption efforts as a key priority. We also adopted an overarching anti-corruption plan in March 2016 (ERDAP 2016-19), with the main objective of promoting good governance and reducing corruption, pursuant to which each government agency has developed and begun implementing specific anti-corruption measures.

**However, we recognize that weaknesses remain in several relevant areas of the economy.** The governance and anti-corruption framework is not consistently or comprehensively enforced. The rule of law is undermined by the insufficient implementation of existing legislation and regulations, including, in some cases through the absence of necessary regulations and explanatory guidelines. Market regulation is marked by excessive complexity and opaqueness. AML/CFT tools have not yet been effectively mobilized to fully support anti-corruption efforts, particularly by ensuring that transactions related to politically exposed persons are properly monitored, including real property transactions. In the area of fiscal governance, oversight of SOEs and public institutions remains fragmented and incomplete, public investment management lacks procedural discipline, debt management is weak and lacks transparency, and treasury management is marked by inefficiencies and weak controls. We have detected shortcomings in central bank governance relating to insufficient autonomy and the absence of an oversight body to provide checks and balances on the bank's executive functions.

**In order to address some of these remaining weaknesses, we have ongoing and proposed governance reforms, many supported by various donors.** We have recently instituted commercial sections in the courts to address judicial weaknesses, and the legislative process is underway in the government for approval of the legal regime for the Insolvency Administrator, which is on the calendar for the first half of 2019. We are rationalizing business licensing, public financial management, taxation, and customs systems, and are making efforts to digitize and centralize processes and registries. We are overhauling the legal framework governing state-owned enterprises to strengthen governance. At the same time, we are working on strengthening the relatively new institutional framework to fight corruption, to ensure that the institutions have sufficient autonomy, expertise, and funding for effective action.

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<sup>7</sup> The 2017 decree was implemented recently with respect to the sovereign guarantee to the National Hydrocarbon Company (ENH) related to the development of LNG resources in the Rovuma Basin. The guarantee was approved by Cabinet and brought to Parliament as part of the 2019 budget proposal.

**We recognize that effective implementation remains a concern.** First, insufficient budgetary resources is a universal problem, and there is a need for more training and capacity development. This factor is particularly crucial in addressing complex corruption issues and the related financial transactions. Second, we must ensure in a credible manner that the existing laws are more consistently and effectively implemented. Third, we must enhance external institutional oversight to maximize the impact by strengthening its ability to effectively oversee the expenditure of public funds. Fourth, and more generally speaking, we consider that there is scope for strengthening the governance and anti-corruption framework and providing further clarity on responsibilities to prevent a diffusion of accountability among institutions, both through inefficiencies from overlapping institutional mandates in some instances and silos of responsibility in others.

**We also recognize that a lack of transparency may further exacerbate governance concerns and heighten the risk of conflicts of interest.** Opaqueness may breed the conditions for conflicts of interest to thrive. Currently, in some instances information is siloed and difficult to access, and information gaps can lead to uneven application of rules. Though an access to information law has been adopted, we must ensure that it is implemented in an evenhanded manner. A more transparent disclosure of beneficial ownership, extractive contracts, and fiscal reporting can also help allay governance concerns. Moreover, greater transparency of laws and sanctions can help ensure predictability and efficiency, further improving the business environment.

**While recognizing that we play a key role in improving governance and tackling corruption, we cannot do so alone.** Civil society, the private sector, and the development partners in Mozambique also have critical roles to play. In addition, issues related to poor governance and corruption cannot be effectively addressed unless similar attention is paid to their transnational aspects, which need to be handled at a regional and global level, in multilateral and other international fora.

**We are ready and willing to take concrete steps.** Previous opportunities for reform have not always resulted in meaningful improvements to governance. However, conditions are in place for durable progress on improving governance and tackling corruption, building on the reforms that we have undertaken to date. We are committed to these goals at the highest levels of government.



## INTRODUCTION

1. **We are undertaking a fight against public mismanagement at the highest levels of our government.** For example, President Nyusi made anti-corruption efforts a cornerstone of his 2014 presidential campaign, and he emphasized zero tolerance of government corruption in his inauguration speech.<sup>8</sup> President Nyusi doubled down on anti-corruption efforts in 2018, declaring that “it is time to act, relentlessly and concretely,” against corruption.<sup>9</sup> At the launch of the Central Anti-Corruption Commission’s (GCCC)<sup>10</sup> institution-level implementation strategy in March 2018, the president stated: “We must strike at the root of the problem in order to do away with corruption before this malign phenomenon does away with us.”<sup>11</sup> The GCCC has been striving toward this goal, with the head of the GCCC stating in December of last year: “[W]e must not tolerate the phenomenon [of corruption], considering it a crime of small gravity, because its effects, although not immediate, are indeed catastrophic, in health, education, environment, among others. The effects of corruption are comparable to those of a heinous crime, where the lack of a sense of compassion or mercy reigns. We must all act and contribute in the prevention of corruption, denouncing to the authorities the deviant conduct that constitutes this crime.”<sup>12</sup> On the side of the judiciary, the President of the Supreme Court has stressed that, in this time marked by the fight against corruption, judges “must and will continue to act blindfolded, guided only by justice.”<sup>13</sup>

2. **The sentiments noted above have been actualized through a national plan to improve governance and to fight corruption.** Following the disclosure of loans contracted by SOEs, which are commercial companies in which the state owns stakes and/or that are

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<sup>8</sup> Official Statement, Inauguration Ceremony of H.E. Filipe Jacinto Nyusi, President of the Republic of Mozambique, January 15, 2015 (<https://www.mozambiqueembassy.ch/userfiles/downloads/Tomada%20de%20Posse%20do%20Presidente%20Filipe%20Jacinto%20Nyusi%20-%20%20ENGLISH.pdf>).

<sup>9</sup> Government Notice, “Nyusi denuncia corrupção política” (<http://www.portaldogoverno.gov.mz/por/Imprensa/Noticias/Nyusi-denuncia-corrupcao-politica>).

<sup>10</sup> The Central Anti-Corruption Commission (GCCC) is the specialized body of the Public Prosecutor’s Office whose function is to prevent and combat crimes of corruption, embezzlement, illicit economic participation, influence peddling, illicit and related enrichment. <http://www.pgr.gov.mz/index.php/gccc>

<sup>11</sup> Government Notice, “Nyusi denuncia corrupção política” (<http://www.portaldogoverno.gov.mz/por/Imprensa/Noticias/Nyusi-denuncia-corrupcao-politica>).

<sup>12</sup> Intervention of the Director of the GCCC, Ceremony for International Anti-Corruption Day, December 9, 2018 (“Por isso, não devemos tolerar o fenómeno, considerando-o crime de pequena gravidade, porque os seus efeitos, ainda que não imediatos, são, efectivamente, catastróficos, na saúde, educação, ambiente, entre outros. Os efeitos da corrupção são comparáveis ao de um crime hediondo, onde releva a falta de senso de compaixão ou misericórdia. Devemos todos actuar e contribuir na prevenção contra a corrupção, denunciando às autoridades as condutas desviantes, que configuram este crime.”).

<sup>13</sup> Speech by the President of the Supreme Court at the Opening of the 2019 Judicial Year, February 1, 2019 (“O Juiz, que não representa nenhuma das partes no processo e não tem interesse próprio, deve e continuará a agir, de olhos vendados, apenas guiado pelo interesse de realizar a justiça.”)

subject to state guarantees, without going through the procedures required by law,<sup>14</sup> that dramatically highlighted the governance vulnerabilities, we adopted an overarching anti-corruption plan in November 2016, with the main objective of improving good governance and reducing corruption in public administration.<sup>15</sup> This Strategic Reform and Development Plan (ERDAP) covers 2016-19 and was intended to “reinvigorate the Government’s commitment to implement concrete measures” against corruption and to “promote a culture of integrity.”<sup>16</sup>

**3. The impact of government mismanagement and corruption has been intensified in the current climate of limited resources.** In recent years, Mozambique’s economy has been hit by a series of shocks, including the fall in commodity prices, a drought, and the recent devastation of Cyclones Idai and Kenneth. The disclosure in Spring 2016 of the two SOEs’ previously hidden debt, amounting to approximately 11 percent of 2015 GDP, worsened the blow by leading to a withdrawal of donor support. This situation prompted the government and the international community to reexamine Mozambique’s governance framework. The cost of corruption in Mozambique has been examined in detail by the IMF and other observers, particularly over the last two years.<sup>17</sup> A study by the Centro de Integridade Pública and Chr. Michelsen Institute estimated the cost of corruption to Mozambique in the period from 2002 to 2014 at around \$4.8 to \$4.9 billion (over 30 percent of 2014 GDP).<sup>18</sup> It is important to note that the costs of corruption are widespread; taxpayers, private businesses, financial institutions, as well as Mozambique’s international reputation.<sup>19</sup> It is essential for us to establish transparent, responsible measures in the institutions and ensure that best practices, that more generally are critical in tackling severe governance and corruption vulnerabilities and fostering the conditions for higher growth on a more sustainable and inclusive basis, are followed.

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<sup>14</sup> This hidden debt included loans to two enterprises with state ownership and/or subject to state guarantees, Proindicus and MAM, disclosed in April 2016, valued at approximately USD 1.1 billion, and several other smaller bilateral loans (USD 0.3 billion), coming to a total of USD 1.4 billion, equivalent to approximately 11 percent of the 2015 GDP. The loan of USD 0.85 billion of a third state-owned company, Ematum, was discovered at the beginning of 2014. The three companies Ematum, Proindicus, and MAM focus respectively on tuna fishing, providing maritime protection, and shipyard construction. The three enterprises were created shortly before the loans were executed and were all headed by the same CEO, who at the time was a senior officer of the security services.

<sup>15</sup> Additionally, the government prepared an action plan following the debt disclosures specifically designed to strengthen governance, improve transparency, and ensure accountability. IMF 2017 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Mozambique: <https://www.imf.org/en/Publications/CR/Issues/2018/03/07/Republic-of-Mozambique-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-45701>. Although the plan has not been formally adopted and made public, several reforms have been undertaken while others are underway.

<sup>16</sup> See government announcement of the ERDAP (<http://www.cedimo.gov.mz/index.php/noticias/147-governo-aprova-plano-para-eficiencia-da-administracao-publica>).

<sup>17</sup> See, e.g., IMF Selected Issues Paper.

<sup>18</sup> Centro de Integridade Pública & Chr. Michelsen Institute, “The Costs of Corruption to the Mozambican Economy: Why it is important to fight corruption in a climate of fiscal fragility,” CMI Report No. 6, December 2016.

<sup>19</sup> *Id.*

4. **Mozambique receives assistance in various aspects of governance and anti-corruption reforms<sup>20</sup> from a number of donors, including the IMF.** However, there is no central coordination mechanism for these efforts, which could be more effective in ensuring consistency and complementarity and in avoiding duplication.

5. **While we note the important role of the donors and development partners in this process, the domestic players must also provide impetus for reform.** We look forward to assistance from domestic stakeholders for that purpose. For example, civil society must act not only as a watchdog but also as a source of expertise, advocacy, and engagement. The private sector also needs to become part of the solution. On the supply side, it is an important matter to put an end to dishonest practices by foreign enterprises. The current debt crisis illustrates the two sides to corruption—demand and supply. While, as a country, we need to enforce domestic legislation to punish the culprits and enhance checks and balances to ensure that such abuse is not repeated, the problems of illicit financial flows from Mozambique to other countries, loan pushing by foreign banks, and concealment of corrupt proceeds in offshore jurisdictions are issues that need to be addressed at an international level. Further, we must bolster international cooperation on complex multi-jurisdictional cases.<sup>21</sup> Efforts in this regard can only be meaningful with the active cooperation of the private sector, both domestic and international.

6. **While the challenges of governance and corruption are wide ranging, this Diagnostic Report focuses on issues within the macroeconomic sphere.** A list of entities consulted in the preparation of this Report is provided in Annex I. This report is organized as follows: Section II provides an overview of comparative indicators of governance as well as a discussion of the literature in relation to Mozambique; Section III assesses governance and corruption vulnerabilities; and Section IV lays out a consolidated list of reform measures.

## I. COMPARATIVE INDICATORS

7. **There is already a wide range of existing reports on governance and corruption in Mozambique prepared by the government, civil society groups, international organizations and bilateral partners of Mozambique.** We have provided a brief summary of these reports below. See Annex II for further details.

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<sup>20</sup> For a searchable database of non-IMF donor-supported projects in Mozambique, see <http://www.odamoz.org.mz/reports/donors>. For example, the World Bank has been supporting work in, *inter alia*, debt management, public investment appraisal, procurement, implementation of Extractive Industries Transparency Initiative (EITI), investment climate, and insolvency. The African Development Bank focuses largely on infrastructure projects. The European Union is providing support to the judiciary and Public Prosecutor's Office. Switzerland is assisting the Central Anti-Corruption Commission with its strategic plan. The Norwegian government is providing assistance on managing natural resource revenues. The German Agency for International Cooperation is assisting the Ministry of Industry and Commerce with streamlining market regulation. As a matter of external supervision, oversight of natural resources is beyond the scope of the technical assistance. The UK Department for International Development is supporting reform of the commercial legislation and dissemination of statistics.

<sup>21</sup> See IMF Selected Issues Paper at Box 1 and para. 20.

8. **Mozambique’s cross-country governance and corruption indicators have progressively deteriorated.** According to the most recent data (2017),<sup>22</sup> during the past 10 years, the Worldwide Governance Indicators (WGI) deteriorated for all six dimensions. While our country is at Sub-Saharan Africa’s (SSA) average on one indicator (voice and accountability), it has fallen behind neighboring countries on the others (political stability, government effectiveness, regulatory quality, rule of law, and control of corruption). Mozambique’s WGI control of corruption shows a decline since 2010.<sup>23</sup> This performance is in line with the Ibrahim Index of African Governance’s identification of a trend of “increasing deterioration” in this indicator for Mozambique, primarily in overall governance, rule of law, and transparency and accountability. These observations are generally consistent with the perceptions of Mozambique’s population; in the most recent Afrobarometer report (2015), 48 percent of respondents said that the level of corruption has increased over the last year.<sup>24</sup> That report also indicates that, in the opinion of many respondents, most, if not all institutions were involved in corruption, with police, taxes, and local governments<sup>25</sup> heading the list of high perception rates of corruption in the country. Annex II provides further details of cross-country third-party indicators across the areas of governance examined in this report.

9. **We have also fared poorly in both IMF and third-party assessments in the fiscal and AML/CFT areas.** Other assessments in the area of public financial management, such as Public Expenditure and Financial Accountability (PEFA) and fiscal transparency assessments conducted by the IMF Fiscal Affairs Department have highlighted significant vulnerabilities, while recognizing that substantial progress has been made. However, Mozambique’s assessment under the Financial Action Task Force’s 2004 AML/CFT standards found the country to be noncompliant with most of the recommendations and that only four recommendations had been partially met in its 2009 evaluation.<sup>26</sup>

10. **Results from the national surveys that we have conducted have also revealed public perceptions that corruption levels are high.** These poor results are consistent with the findings of cross-cutting or international studies. For example, the second National Assessment of Perceptions of Corruption, carried out by the Ministry of Public Administration in 2010, showed that, in general, the public perceived the police, licensing agencies, procurement of goods and services, customs, and health and education services as

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<sup>22</sup> Worldwide Governance Indicators Databank: <http://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators&preview=on>

<sup>23</sup> Worldwide Governance Indicators: <http://info.worldbank.org/governance/wgi/#reports>

<sup>24</sup> Afrobarometer, Summary of Results, Round 6, Survey in Mozambique, 2015 ([http://afrobarometer.org/sites/default/files/publications/Summary%20of%20results/moz\\_r6\\_sor.pdf](http://afrobarometer.org/sites/default/files/publications/Summary%20of%20results/moz_r6_sor.pdf)). See also, generally, U4 Anti-Corruption Resource Center Expert Answer, “Mozambique: Overview of Corruption and Anti-Corruption,” December 30, 2016; Centro de Integridade Pública & Chr. Michelsen Institute, “The Costs of Corruption to the Mozambican Economy: Why it is important to fight corruption in a climate of fiscal fragility,” CMI Report No. 6, December 2016; U.S. Department of State Investment Climate Statements for 2018: Mozambique.

<sup>25</sup> Afrobarometer, *supra*, no. 22.

<sup>26</sup> See AML/CFT section, *infra*.

the institutions and areas most vulnerable to corruption.<sup>27</sup> The survey also suggested that acts of corruption were considered to be more frequent in the capital city of Maputo, the province of Maputo, and the provinces of Niassa and Zambézia. The government (politicians and government officials), followed by multinational institutions and drug traffickers, were considered to have the greatest influence on corruption practices. These sentiments are particularly powerful in a country where 45 percent of the population is under 15 years old, and dissatisfaction with the *status quo* among the youth could have dramatic and long-lasting impact in the coming years.

## II. EVALUATION

### Overall Evaluation

11. **Our government has sought to address issues of governance and corruption and has adopted legislative measures to tackle some of the identified deficiencies.** We are adopting various laws to improve governance addressing, *inter alia*, the administration of justice; streamlining of business regulations; strengthening the AML/CFT framework; organization and regulation of SOEs and public institutes and funds; improvements to the payroll and integrated financial management systems; modernization of revenue management; and governance of Bank of Mozambique (BM) and the financial sector. As noted in the introduction, corruption in particular is denounced at the highest levels, and, accordingly, Mozambique has ratified the relevant international conventions and passed various laws. Mozambique signed the United Nations Convention Against Corruption on May 25, 2004 and ratified it on April 9, 2008. It ratified the African Union Convention on Preventing and Combating Corruption on February 8, 2006. We have put in place a fleet of domestic laws, further described in the Anti-Corruption section, below. Institutionally, corruption is addressed specifically by the GCCC, the Central Public Ethics Commission, the Receipt and Verification Committee, and the Financial Intelligence Unit, which all operate against a broader background of institutions supporting good governance.

12. **We recognize that, despite these legislative and institutional efforts, governance and corruption challenges in Mozambique remain of a systemic nature, principally due to constraints on effective implementation.** Shortcomings in implementation are attributable in part to low technical capacity, inadequate budgetary resources, the lack of sufficient institutional autonomy, poor oversight and accountability mechanisms, and overlapping responsibilities (leading to duplication, confusion, and diffuse accountability). We are committed to combatting vested interests and stopping impunity related to high-level corruption.

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<sup>27</sup> Cited in Centro de Integridade Pública & Chr. Michelsen Institute, “The Costs of Corruption to the Mozambican Economy: Why it is important to fight corruption in a climate of fiscal fragility,” CMI Report No. 6, December 2016.

## Transparency

13. **An overarching challenge is to improve transparency in government functions in general.** Many critical databases—such as the company registry,<sup>28</sup> the land registry, the movable property registry, and the notarial database—are either entirely or partially manual and are difficult to access and search. This limits our ability to quickly investigate criminal matters, to verify property ownership, and to ascertain tax liabilities; the opacity of registration also enables conflicts of interest to go undetected more easily. Plans discussed in the sections below are in progress to digitize various registries and procedures. By contrast, strategies and information are fragmented among the different government ministries, creating risks that front-line bureaucrats will implement conflicting or outdated regulations.

14. **We are taking several measures to help ensure easier access to information:**

- a. As an initial matter, we will support the establishment of free, public access to all legal instruments in force through a government-operated website. This approach will foster the understanding of applicable rules by officials, the public, and investors. While the Assembly of the Republic will be the ideal body to make this platform available, the government will support the project as much as possible through the incorporation of all regulations and decrees.
- b. We are developing terms of reference for focal points in each ministry and public institution that will continuously compile and update an electronic database of persons in the relevant ministry or institution who fall under the definition of “public servant” in Article 3 of the Public Probity Law and to provide ongoing access to the lists by relevant government entities and commercial banks. Greater transparency in this connection could also help ensure better compliance with a variety of laws, including those on conflicts of interest, asset declarations, and AML/CFT.
- c. We have undertaken to implement the 2014 Right to Information Law; the public has been active in exercising its rights under the law, strengthening a state of democratic law. However, there is a perception that compliance with the Right to Information Law has been uneven. To help encourage timely and appropriate responses to requests for information, we will require ministries and public agencies to establish and publish procedures for responding to public requests for access to information that include contact persons/units within the ministry/agency, deadlines by which the ministry/agency must respond to the requestor, and specific guidance on what types of information may be withheld on the basis of confidentiality. The procedures will establish clear criteria for refusing requests, in line with the law. Each agency will publish statistics on compliance, including the number of requests received, how the agency responded to each request, justifications for negative responses, and the length of time taken to satisfy each request.

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<sup>28</sup> Also known as the “legal entities registry.”

## Rule of Law

15. **We recognize that there are several areas for improvement of the rule of law in Mozambique.** Judicial resources are insufficient, and we require measures to address problems of procedural delays in the administration of justice. Most court processing is currently manual, which can result in files being misplaced and delays in retrieving information. We are in the process of rolling out the Electronic Judicial Record and Information System (*Sistema de Expediente e Informação Judicial Electrónico*, SEIJE), which is now in 20 courts. We have also recently introduced commercial sections within six of the provincial courts for commercial issues such as insolvency, bankruptcy, and commercial debt. With two magistrates allocated to each commercial section, there has been an improvement in the processing of commercial cases, although we recognize that there is a need for more training to support specialization and enhance expertise and efficiency. Further, an insolvency law was passed in 2015. We have prepared draft regulations of this law and are placing a high priority on the passage of such regulations, which will lead to improvements.

16. **We will also enhance transparency around property ownership to create greater certainty on property rights.** The land registry is not centralized but is maintained at the level of local offices. There are also many cases of mismatches that arise from the dual registration system between DUATs (leases for the right to use and occupy land) registered in the mining cadastre (electronic, online and publicly available) and the land registry (a manual system). As part of the consolidated Property Registry Reform, which was enhanced by the approval of Decree-Law 2/2018 of August 23, 2018 establishing the Integrated Real Property Registration System, we plan to digitize the land registry, with registration to be done electronically. Many of the requisite steps will be carried out in 2019. Under the new Real Property Registration Code, the land registry systems will be interoperable, providing for effective data transmission. Moreover, the movable property registry is also a largely manual system in which access to records is a cumbersome process, both for government officials and the public. This registry will also be digitized, both for the registration process and for access to historical records.

## Market Regulation and Business Environment

17. **We have detailed plans to streamline market regulation and to improve the business environment in Mozambique.** The 2019 World Bank Doing Business Report places Mozambique at 174 and 135 of 190 economies for ease of starting a business and ease of doing business, respectively. We know this can be greatly improved.

18. **We will streamline the licensing of economic activities even further.** While the Ministry of Industry and Commerce has established a “one-stop shop” (Balcão de Atendimento Único, BAU) for business registration, there is not a similar streamlined service with respect to licensing. Currently, a representative from each of the government entities with input into the licensing process should sit in the BAU and provide the necessary reviews and approvals. However, the participation of the ministries is not compulsory. We are

drafting legislation, which is currently under legal review, to mandate the participation of relevant ministries in a single one-stop licensing shop. Further, the payment of licensing fees is often not done at a single payment point for statutory reasons. Therefore, the revenue for the provision of licensing services is collected by each entity and is transmitted to the government separately. To streamline this process and reduce interactions that can open rent-seeking opportunities, we will establish through legislation a unified revenue collection service linked to e-SISTAFE.

19. **The Ministry of Industry and Commerce has also taken the lead in consulting with the private sector on additional measures to improve market regulation and to reduce governance vulnerabilities.** A matrix of proposed priorities for reform has been disseminated for both 2018 and 2019, and many reforms are ongoing. For example, the Commercial Code is being reviewed to streamline and simplify procedures for registering companies. Further, ongoing inspections of economic activities will be better coordinated, addressing the private sector's concerns that the sheer volume of inspections, coupled with selective enforcement of regulations, is a resource drain and creates uncertainty as well as opportunities for corruption.

20. **To further assist businesses, we plan to complement the above changes with more targeted dissemination of information and guidance to overcome information asymmetries and a lack of uniform treatment.** We understand that both starting and running a business can be further complicated by the lack of clear information—both for businesspeople and for public officials involved. Different officials often require different documentation, and some continue enforcing outdated rules and regulations. Information is also fragmented across government silos. The Ministry of Industry and Commerce will continue and intensify its outreach to BAU branches and to the public to ensure clearer posting and dissemination of registration and licensing requirements. This will be supported with provincial workshops and other outreach, including on television and social media. The Ministry of Industry and Commerce is also developing a dedicated information portal online. The public repository of legal instruments in force, discussed as a transparency measure above, will further ensure a level playing field and address corruption vulnerabilities.

21. **Further transparency regarding the company registry will also be pursued.** Currently, the company registry is not fully electronic and is not easily accessible. Moreover, the information is not centralized but rather collected and held at the provincial level. We plan to digitize the registry in order to provide for easier access by government agencies and the public. This will allow better cross-checking by law enforcement and tax authorities, as well as by CSOs, to monitor possible conflicts of interest and corruption vulnerabilities. Digitization is already being implemented already for new registrations; we are tackling the challenge of historical records as resources permit. Ultimately, this database can be integrated with other national databases as well. As detailed in the below section on AML/CFT, work is also ongoing to incorporate beneficial ownership information.



## AML/CFT

22. **We are taking steps to resolve the deficiencies in the AML/CFT framework, but improvements are still needed, in particular to ensure its effectiveness.** In 2013, Parliament passed Law No. 14/2013,<sup>29</sup> which addresses deficiencies highlighted in the 2011 Mutual Evaluation Report. Mozambique was last assessed against the FATF 2004 standard by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in September 2018.<sup>30</sup> Areas that we continue to identify as deficient and particularly vulnerable to corruption include: (i) lack of effective supervision of Designated Non-Financial Businesses and Professions (DNFBPs); and (ii) lack of enforceable requirements for financial institutions to identify PEPs. Other salient areas for which progress is also needed are the identification of national ML/TF risks, transparency of the beneficial ownership of corporate vehicles, and mutual legal assistance and asset forfeiture legislation. Mozambique will be assessed under the new FATF standard with an onsite visit in late 2019 and the mutual evaluation discussion in August 2020.

23. **Corruption has been identified as a major risk for money laundering.** In the framework of the Financial Intelligence Unit (GIFiM), we plan to complete a National Risk Assessment by end-2019. In the interim, GIFiM has identified corruption as the fifth most common predicate offense in Mozambique and found the real property and insurance sectors in Mozambique to be particularly vulnerable to laundering proceeds of corruption.<sup>31</sup> So far, however, DNFBPs have not filed STRs as envisaged in the law.<sup>32</sup> To help address this, the Cabinet will prioritize approval of the implementing regulations for GIFiM's organic law. This will allow GIFiM to publish its already-drafted guidelines for reporting by real property and insurance agents, DNFBPs that GIFiM has identified as particularly critical in Mozambique's context. Guidelines for other DNFBPs will follow as resources permit.<sup>33</sup>

24. **Despite the existing legal framework, we recognize that AML/CFT tools have not yet been effectively mobilized to fully support anti-corruption efforts in**

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<sup>29</sup> In August 2014, Law 14/2013 was regulated by the introduction of Decree No. 66/2014 (Regulations Law 14/2013). Pursuant to the coming into effect of the regulations, BM issued guidelines in May 2015 (Notice 4/GBM/2015 for financial institutions on prevention and combating of money laundering and financing of terrorism). The authorities also repealed and enacted a new Penal Code on 31 December 2014, Law 35/2014. The new Penal Code brought in a wider scope of predicate offences to the crime of ML. See ESAAMLG Progress Report for Mozambique 2018.

<sup>30</sup> The initial evaluation was in 2009 and the mutual evaluation report was adopted in September 2011. ESAAMLG. "Mutual Evaluation of Mozambique," September 2011 (<http://www.fatf-gafi.org/documents/documents/mutualevaluationofmozambique.html>).

<sup>31</sup> The five most common predicate offenses, in order of decreasing frequency, were identified as: unusual transactions (unknown source of funds), tax offenses, foreign exchange offenses, bank fraud, and corruption.

<sup>32</sup> See recommendation from ESSAMLG Progress Report for Mozambique 2018, retrieved at: <https://www.esaamlg.org/reports/Progress%20Report%20Mozambique-2018.pdf>

<sup>33</sup> Other areas identified as vulnerable in Mozambique's context include the sale and resale of automobiles, and the purchase and sale of precious stones and metals.

**Mozambique.** The government is committed to meeting all its international obligations in this regard.

- a. Due diligence on PEPs can be improved. Under the 2013 revisions to the AML law, banks are required to conduct enhanced due diligence on PEPs.<sup>34</sup> However, the number of STRs filed by financial institutions is low and of varying quality. As a part of detailed inspections that are performed, and as a result of reports released by GIFiM, BM has strengthened inspections and levied sanctions against all institutions that file STRs with omissions, especially with regard to PEPs. The compilation and updating of the list of “public servants,” as defined under the Public Probity Law, could also help improve the identification of PEPs if shared with commercial banks. Alternatively, this exercise could help with the development of a clearer list of positions falling under the definition of PEPs, thus enabling more effective due diligence.
- b. Assessments also highlight concerns with regards to limited availability and transparency of beneficial ownership information and signal several weaknesses in the asset declaration system, which could further hamper the ability to comply with PEPs requirements in accordance with international standards.<sup>35</sup> In reviewing the Public Probity Law, as further discussed in the below section on the anti-corruption framework, improvements to these aspects will be carefully considered. With respect to beneficial ownership, the Ministry of Justice is working on legislation to allow the consistent collection of information on beneficial owners through the company register. This effort will be bolstered by the above-described digitization of the company registry to allow easy access by agencies such as GIFiM. Further, as part of the inspections and financial information reports received from GIFiM, BM has strengthened requirements for adequately identifying beneficial owners under the terms of the law.

25. **The GIFiM is also seeking to improve cooperation with other institutions.** Domestically, the government will advance the memoranda of understanding pending between GIFiM and, respectively, the GCCC and the Public Prosecutor’s Office (PGR). Internationally, GIFiM has sought to join the Egmont Group, a body of 159 financial intelligence units serving as a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF). The Council of Ministers will prioritize this request.

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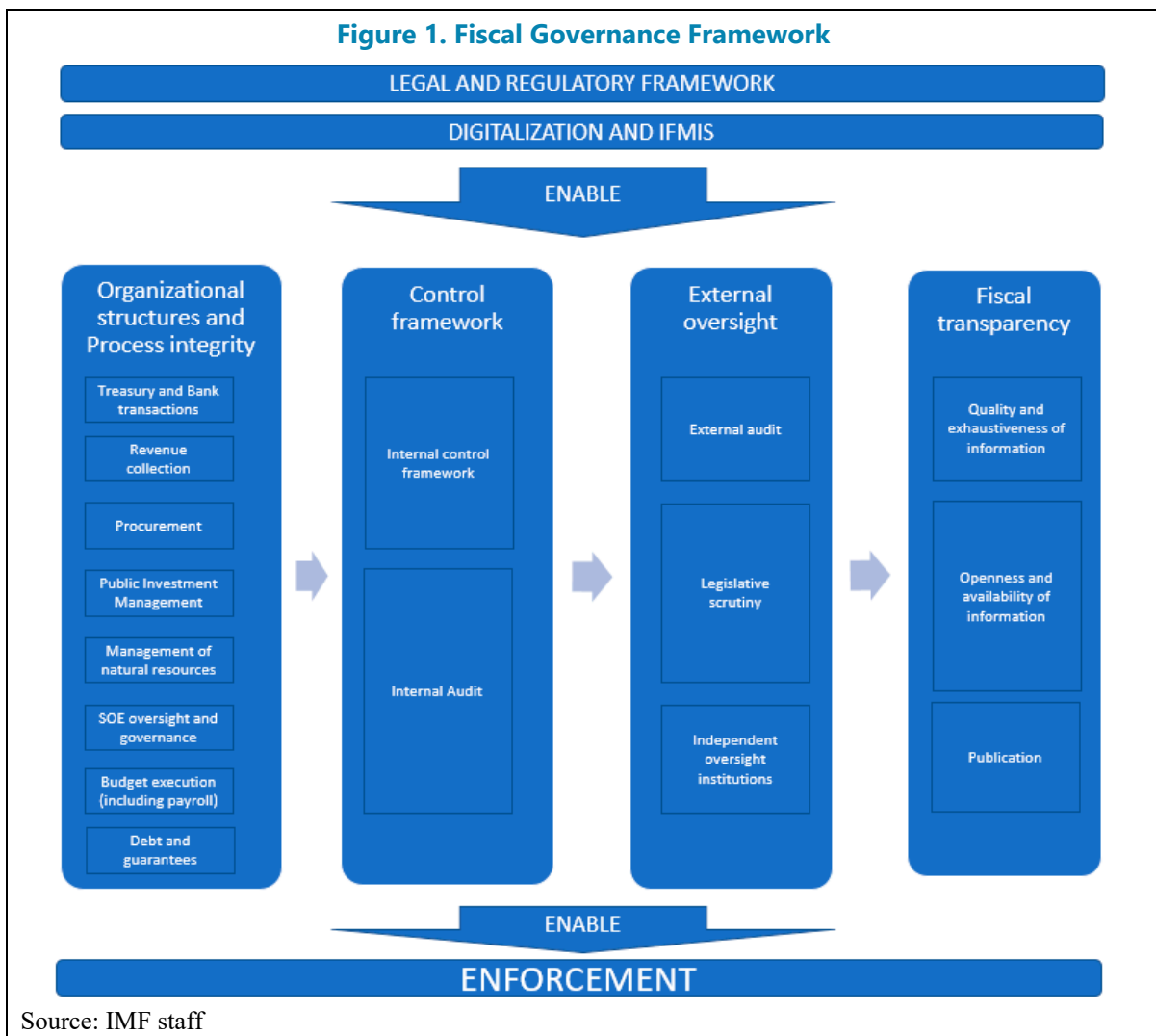
<sup>34</sup> Further, under articles 16 and 17 of Decree No. 66/2014 of October 29, together with Chapter III, Section II, Subsection XIV of the guidelines, the institutions that the BM supervises are required to have a database of their PEP clients, and it is to be updated yearly.

<sup>35</sup> For example, see UNCAC assessment available at: <http://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/ExecutiveSummaries2/V1804096c.pdf>

26. We also recognize that, as conditions permit, it will be important to provide GIFiM with additional resources, including additional compliance officers and analysts, to further strengthen its capacity.

### Fiscal Governance and Transparency

27. This section assesses key pillars of fiscal governance: integrity of key public financial management (PFM), revenue and customs administration processes, the control framework, the external oversight and fiscal transparency, as well as two overarching elements, which are the legal framework and the integrated financial management system (IFMIS).<sup>36</sup> The section focuses on main bottlenecks within the framework that warrant immediate actions to help solve the most problematic issues in fiscal governance in Mozambique. Figure 1 shows the framework used for this analysis.



<sup>36</sup> Management of natural resources is described under the extractive industries section.

28. **We recognize that sizeable and short- to medium-term actions in PFM processes, controls, and transparency can restore key aspects of fiscal governance and reduce vulnerabilities to corruption.** Critical areas on which we plan to focus include openness of public procurement procedures; surveillance and transparency of SOEs; regulatory framework and transparency in the management and approval of public sector debt to ensure sustainability; restoration of a sound budget execution procedure (chain of expenditure); and implementation of a formalized control framework on critical aspects of PFM by the Inspectorate General of Finance (IGF). The Administrative Tribunal will assess the PFM and the framework for supervision implemented by the IGF within its sphere of competence and as the external supervision authority.

29. **Our PFM framework, IFMIS, and Treasury Single Account are important reforms that support good PFM.** Reforms undertaken during the last 20 years have resulted in a PFM system featuring good fundamentals that include a fiscal framework (*Lei do Sistema de Administração Financeira do Estado*, SISTAFE Law), a modern IFMIS system (e-SISTAFE) and a treasury single account (CUT) for central government liquidities. These tools are supported through the government's medium-term PFM reform strategy (Strategic Plan for Public Finances 2016-2019).

- The SISTAFE law, adopted in 2002, provides a comprehensive public financial management framework, taking into account international standards and relevant practices.
- The IFMIS covers planning and budgeting, budget execution, and reporting and is extensively rolled-out, including at district level and has contributed to improve the frequency and timeliness of fiscal reports, which are classified in accordance with international standards (FTE, 2015).
- The majority (80 percent or more) of central government's cash balances are now managed through the Treasury Single Account, which is reconciled daily through e-SISTAFE. However, there are still substantial funds (services at the district level, small amounts of tax collected and externally financed projects) outside the TSA (PEFA, 2015).

*PFM Legal and regulatory framework*

30. **Our legal and regulatory framework has been strengthened over time but needs further revisions on key issues related to debt management and surveillance of SOEs.** The government recently adopted a decree on public debt management, and a new law on SOEs was passed, followed by a corresponding decree. We will carry out a comprehensive review of the legal framework for PDM to assess its general effectiveness from a good governance perspective and identify possible gaps and areas for improvement. Furthermore, there are areas that require clarification in order to ensure: (i) proper oversight of SOEs, and

(ii) proper management, approval, and surveillance of public debt, including the debt of SOEs.

**31. We will amend the decree on public debt management (decree 77/2017) to:**

- Include provisions that clarify the contracting and guaranteeing of public debt. These measures will, *inter alia*: (i) provide details on the power of the Minister responsible for the area of finance to delegate powers on an exceptional basis for carrying out public debt management operations (Article 9(2)); and (ii) clarify the procedure under Article 12 for *ex-post* ratification by the Council of Ministers of guarantees that have already been issued, with a view to providing legal certainty about the treatment of such guarantees.
- Revise the provisions under Article 30 referring to the revocation of all provisions that contradict the decree, which creates legal uncertainty as the decree is a lower-ranking instrument than laws.
- Clarify, for statistical or accounting purposes, the public debt limits, and whether debt contracted or guaranteed by SOEs should be included in general government debt (in compliance with accounting and statistical standards).
- Add provisions to grant the Minister responsible for the finance area powers to oversee (including to set quantitative limits, to approve, and to monitor) borrowing and guarantee transactions of SOEs and subnational governments (as appropriate).

**32. We will amend the law and decree on SOEs to:**

- Clarify the provisions of the decree on SOEs (in application of the Law 3/2018) and the decree on public debt management regarding the approval of public debt accrued by SOEs.
- Specify the purpose and functions of the new agency envisaged by law to coordinate and oversee SOEs—i.e. clarify whether it is the owner of the SOEs in Mozambique or performs functions related to state ownership (e.g., by acting as an agent of the relevant state bodies that are owners of the SOEs);
- Include provisions for a clear delineation of the responsibilities of the Ministry of Economy and Finance (MEF) with respect to monitoring and strengthening SOE debt contracting;
- Incorporate clear and robust fit and proper requirements for the selection of SOE board members that ensure professionalism and competency at the board level;
- Clarify that articles 2 and 36 of the law and article 3 of the decree on SOEs apply to enterprises with exclusive or majority state shareholding.

*Revenue collection*

33. **Despite a good track record of implementing reforms in revenue administration, we recognize that vulnerabilities to corruption remain.** Tax collection is below potential for several reasons, including the size of the informal economy, insufficient digitization of transactions and strong rent-seeking practices around high-profit businesses. There are also a wide range of VAT exemptions and special reliefs which add unnecessary complexity and result in significant lost revenue and opportunities for corruption. Further gains in efficiency and transparency are expected from improvements to the taxpayers register, introduction of a modern revenue management system (e-tributação), reduction of exemptions, a voluntary compliance and institutional risk management strategy with improved audits, establishment of a large taxpayer unit focusing on the top one hundred taxpayers, and enhancement of the VAT-refunds process.

34. **The Tax Authority (AT) is implementing the 2018-2022 strategic plan to carry out key reforms to strengthen governance of revenue collection.** This plan includes actions to modernize the tax-payment process and to streamline procedures. Along with increasing transparency, these measures will help facilitate trade and improve the business environment in Mozambique. We also have a simplified tax system for small business taxpayers, which streamlines reporting and accounting obligations, that lowers both the costs of complying with tax obligations, as well as the costs of auditing and monitoring for the AT. There are also indications that the simplified system encourages businesses to move to the formal sector.

35. **We are also taking actions to tackle vulnerabilities to corruption within revenue administration.** Recently, the AT approved its Anti-Corruption Strategy and an associated action plan, which includes the revision and dissemination of the Code of Conduct for AT employees. AT also signed a Memoranda of Understanding with the GCCC and the Ministry of the Interior under which joint activities to combat corruption are carried out.

36. **We recognize that illegal capital flows are still a challenge and are conducting specific training for managers in the areas of customs valuation, investigation, and risk management.** Although customs administration has improved with the introduction of the single window (JUE), customs procedures are still identified as an area of pronounced weak governance, opening vulnerabilities to corruption.

*Public procurement and public investment management*

37. **Despite a sound legal and institutional framework, we recognize that a large percentage of government bids are not competitive.** According to the 2015 Public Expenditure and Financial Accountability (PEFA) assessment, over 50 percent of the total amount of public acquisitions (public works and goods and services) are procured by direct

bidding.<sup>37</sup> Recent statistics on public tendering published for end-2017 by the Unit for the Supervision of Acquisitions within the MEF show that only a third of both central and provincial procurement is awarded through open tendering procedures. Complaint mechanisms appear inefficient,<sup>38</sup> and capacity in the multiple spending agencies to implement tendering procedures is weak. The government is developing a public procurement and asset management module in e-SISTAFE (called MPE), including an e-procurement platform to record all steps from appraisal to awards of bids with the objective of regaining control over budget execution and strengthening transparency of the whole procurement process.

**38. Despite recent progress, public investment is still affected by severe weaknesses.** Since the last Public Investment Management Assessment (PIMA) that took place in November 2015, the Directorate of Economic and Financial Studies (DEEF) strengthened project appraisal based on a list of criteria. The final decision, whether favorable or not, is taken during a meeting of the Public Project Coordination and Selection Committee (CCSPP) and registered in the meeting minutes. The aim at this stage is to work on creating a legal basis for the mandatory appraisal process. Other shortcomings in Public Investment Management underlined by the 2016 PIMA, such as delays in the partners' disbursement of project funds or weaknesses in monitoring projects, remain.

**39. While several ongoing initiatives will prove beneficial in the long term, we will take the following immediate actions to improve governance over public procurement:**

- Adoption of a legal framework for investment rendering appraisal mandatory for all capital expenditure above a certain threshold. The threshold will be carefully chosen according to the capacity of the CCSPP so that it can effectively review all projects in a timely manner. Appraisals will be based on a list of predefined, standard criteria.
- Publication of all decisions issued by the CCSPP. We consider that a summary of the meeting minutes would be the most practical format.
- Adoption and publication of the manual on identification, formulation, and assessment of public projects, that includes the list of criteria evaluated during project appraisal. This action will be complemented by capacity-building activities in sectors proposing the projects;
- Publication of quarterly statistics on public procurement. The reports will contain statistics on public procurement (contracts procured through open competitive tenders vs. direct awarding).

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<sup>37</sup> Mozambique. *PEFA Assessment of Public Finance Management*. 2015.

<sup>38</sup> PEFA score: "D": the analysis of complaints is not performed by an organization that contains members from the private sector and civil society

*Surveillance and transparency of SOEs*

40. **The public sector is vast and complex, rendering it particularly vulnerable to governance issues, mismanagement and corruption.** The non-financial public sector includes government entities (line ministries and spending agencies) at the central, provincial and district levels; public and autonomous entities; the social security fund; and a variety of public enterprises. As reflected in the Reform Measures (Section III), we will continue to take steps to clarify the beneficial ownership structure and the system of participation in order to enhance oversight of public companies. Reforms to operationalize a single oversight unit for all SOEs are ongoing, but we will issue a government ownership assessment that will be regularly updated. The recently-adopted SOE law and the related draft decree now empower a single agency to be the sole public entity overseeing SOEs. We will further amend the decree on SOEs (see para. 32) to clarify proper oversight and debt approval of SOEs. However, we recognize that an essential prerequisite for good governance in this area is a comprehensive census, in the form of an audit, of all government shares in any private company. In conducting this census, we intend to apply the IMF’s Government Finance Statistics Manual (GFSM) 2014 definition of SOEs<sup>39</sup> to identify and to classify public corporations based on their economic nature. This registry will allow us to develop a clear view of the government’s SOE portfolio, which we can then leverage to establish and enforce clear governance rules, to prevent conflict of interest, and to monitor financial performance of the most troubled companies. In this regard, we intend to take the following steps:

- Publish a list of all private companies with public-sector shareholders. This list will be compiled using the definition of SOEs in GFSM 2014.
- Assess the level of government ownership in each company identified on the list, taking into account direct and indirect participation of all public-sector entities or companies.
- For all government-controlled companies, publish a list showing the share held by the government, together with the capital stock, liabilities, and key financial performance indicators focused on financial risks (Box 1 provides examples).
- For non-government-controlled companies (i.e. where the government holds a minority share), publish a list showing the name of the company and the share held by the government.

**Box 1: Example of Financial Risk Indicators for SOEs**

Financial risk indicators for SOEs are those that provide information on the risk of a public enterprise not being able to meet its financial obligations.

<sup>39</sup> [GFSM 2014](#), paragraph 2.31 defines public corporations as “entities that are capable of generating a profit or other financial gain for their owners, are recognized by law as separate legal entities from their owners, and are set up for purposes of engaging in market production.”



$\text{Debt to equity} = \frac{\text{Debt}}{\text{Equity based on operating assets and liabilities}} \times 100$	$\text{Interest Coverage} = \frac{\text{Earnings before interest and tax}}{\text{Gross interest expense}}$
$\text{Debt to operating assets} = \frac{\text{Debt}}{\text{Average operating assets}} \times 100$	$\text{Current ratio} = \frac{\text{Current operating assets}}{\text{Current operating liabilities}} \times 100$
$\text{Total liabilities to equity} = \frac{\text{Total liabilities}}{\text{Total equity}} \times 100$	$\text{Leverage ratio} = \frac{\text{Total operating assets}}{\text{Equity based on operating assets and liabilities}} \times 100$
$\text{Operating liabilities to equity} = \frac{\text{Operating liabilities}}{\text{Equity based on operating assets and liabilities}} \times 100$	$\text{Short term debt coverage} = \frac{\text{Operating cash flow}}{\text{Current liabilities}} \times 100$

Source: *How to Improve the Financial Oversight of Public Corporations*, Allen, R. and M. Alves. 2016. Washington: International Monetary Fund.

### *Public debt management*

41. **According to the latest available information, total public sector debt in nominal terms reached about 110 percent of GDP in 2018.** Public sector debt service is expected to consume a significant share of public revenue over the next several years.

42. **While we are now on a prudent borrowing path, better debt management and enhanced transparency is warranted.** To improve the management and transparency of public debt, we recently approved a decree on issuance of debt and public guarantees. Although this new decree contains provisions aligned with good practices, making approval of debt mandatory (under certain conditions) by the MEF, it requires amendments to further enhance and clarify the PDM framework (see paragraphs 30-31). The decree applies to the public sector as a whole; we will clarify remaining uncertainties on the practical modalities of approving subnational government and SOE debt. The exact modalities, particularly for SOE debt, will be further elaborated in the decree implementing the SOE law (see above section on the legal framework). As laid out in the Reform Measures (Section III), we will also strengthen debt reporting transparency with quarterly debt statistical reports.

### *Budget execution*

43. **We recognize that the budget execution process entails major challenges.** Currently, because of the volatility of revenues and the short-sighted cash projections, the Treasury Department issues a weekly release of cash to UGBs for paying their invoices, but there is no recording nor monitoring of commitments at the time obligations incur. Instead, spending units keep invoices and contracts in ad-hoc ledgers outside of the e-SISTAFE and record the three phases simultaneously in the electronic system, although the SISTAFE Law defines an expenditure process with three separate stages (i.e. commitment, verification, and payment).

44. **This system has adverse impact on public finances and opens vulnerabilities to arrears, mismanagement and corruption.** In the current context, as arrears accumulate and third-party suppliers face payment uncertainty, the number of suppliers dwindles. This, in

turn raises the risk of non-transparent arrangements (including bribes and kickbacks) between the public administration and third-parties. It also encourages suppliers to ask for payment before delivery, which is contrary to good practice and can lead to poor service delivery. Finally, it further deteriorates the reputation of the government for conducting transparent and sound business relations.

45. **We will restore budget execution based on a sound chain of expenditure to reduce key governance vulnerabilities.** A new functionality is currently being implemented to record procurement contracts involving for capital expenditures in e-SISTAFE, with the objective to ensure budget allocations exist before launching the tender procedure. However, the process issue—i.e., the way of executing expenditure—will be solved first and, as noted in recent IMF technical assistance reports,<sup>40</sup> restoring the normal chain of expenditure does not need any new development in the IFMIS. The following measures will be adopted and implemented:

- The budget department will set quarterly ceilings for commitments in spending agencies, based on revenue forecasts.
- We will issue a decree or an administrative order making the real-time recording of commitment and verification of expenditure mandatory for all units operating within the e-SISTAFE and making mandatory the attachment (subject to invalidity) of the commitment note issued by e-SISTAFE for each purchase.
- The government will publish the above-mentioned decree or administrative order and organize a communication campaign targeting suppliers to explain the new procedure and will train spending agency managers accordingly.
- We will involve internal control and internal audit functions (see section below) in regular assessments and controls to ensure the chain of expenditure is effectively restored.

*Control framework, internal and external audit*

46. **While our internal and external audit entities score adequately in PEFA and FTE evaluations, we recognize the need to strengthen internal control in the Beneficiary Management Units (UGBs).** The current controls are not effective and have not prevented UGBs from exceeding budget allocations and accumulating arrears because of loose commitment controls on goods and services. The internal control environment currently has scope for improvement, and inspections of goods and services are conducted only on a documentary basis. We recognize that a sound control framework is based on three key features:

- **Risk assessment:** A proper risk assessment assists management in public institutions to make informed decisions about the level of risk they are prepared to assume and to

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<sup>40</sup> Taiclet, et. al. *Regaining Control Over Budget Execution*, 2018.

implement the necessary controls/mitigating measures in pursuit of the entities' objectives.

- **Control framework:** A control matrix, in the form of a table, which is the most common way to draft a control environment. Management should ensure that the documented controls are effective, meaning all stakeholders are actually performing the mandated controls. For this, evidence of the performed controls should be retained.
- **Assessments on effectiveness:** Management, internal audit and external auditors should regularly assess whether the control environment is effective by reperforming some of the controls.

47. **We will continue strengthening control over the wage bill.** The legislative framework is comprehensive and clear, and wage bill execution and control have steadily improved following the implementation of a payroll management system (e-Folha) and routine “proof of life” (“*prova di vida*”) exercises. The public employee register (e-CAF), based on updated biometric information, is used as a source of verification for payroll processing. Further, large and increasing number of payroll transactions are run through the banking system, which increases traceability of payments. However, hiring practices and bonuses and overtime payments still lack effective control. The IGF will undertake a targeted audit of the sectors where this problem is most prevalent to better identify control weaknesses. Also, the Ministry of State Administration and Public Service (MAEFP) will verify ex-ante each request for new recruits against the approved staff ceiling, prior to its submission to the Administrative Tribunal.

48. **The IGF and Administrative Tribunal will take the lead in implementing and regularly assessing a control framework in UGBs based on a few key controls.** To this end, we will implement the following measures:

- IGF, together with a group of previously-selected UGBs, will develop a matrix to assess the transparency of public procurement procedures, and the use of the e-SISTAFE to record all phases of the chain of expenditure execution.
- The Administrative Tribunal will assess the efficacy of the control system in the UGBs and will issue its own opinion.

#### *Fiscal reporting and transparency*

49. **According to the 2014 FTE evaluation, fiscal reporting is in line with basic and good practices.** Fiscal reports include information on the central government's cash position, debt, and financial assets and cover the budgetary central government and part of the general government. However, the institutional coverage of fiscal reports is still limited. In particular, it does not provide complete and reliable information on the operations performed by the social security fund and numerous autonomous entities, which are likely to be significant.

Important elements of the balance sheet such as the current value of arrears and of shares of corporations owned by the State, are not reported.

50. **We however recognize that public access to key, reliable, and timely fiscal information need to be strengthened.** Some information is available to citizens, including budget summary information; quarterly fiscal reports (REO) published 45 days after the period in reference; and the General State Accounts (CGE) are published annually following approval by the Assembly of the Republic. The Administrative Tribunal will issue its report and opinion on the General State Accounts by November 30 of the year following the reference year. In order to improve fiscal transparency, we will publish the fiscal risk statement on a yearly basis and continue to improve transparency and publication of other key fiscal reports.

### Extractive Sector Governance

51. **Extractive industries are an important part of the Mozambican economy with considerable growth potential as natural gas exploitation comes on-stream.** Extractive industries fall under the responsibility of the Ministry of Mineral Resources and Energy (MIREME), which has three oversight organizations for energy (Institute of Energy), mining (Institute of Mines, INAMI) and oil/gas (Institute of Petroleum, INP). Crucial to the country's overall economic growth is the liquid natural gas (LNG) project, anticipated to contribute upwards of several billions of dollars in future revenues to advance the country's living standards. Mining activities are controlled by the MIREME in the form of prospecting and research licenses; mining concessions; mining certificates; mining passes; licenses of mining processing; and licenses of commercialization of mineral products.<sup>41</sup> The technical and financial criteria for the allocation and registration of mining licenses are set out in Annex 10 of the Mining Law Regulation.<sup>42</sup> Applications for mining licenses are made to the INAMI and referred to the MIREME for approval. For license processing, we have implemented an online registry (Flexicadastre), which also provides for public access. The revised Mining Law, which was adopted in 2014, specifies that mining contracts must be published in the Official Gazette, however we recognize that this requirement has not always been consistently enforced, and contracts negotiated since 2015 have not been published.<sup>43</sup> We will ensure that, going forward, all contracts will be published in an easily accessible manner. We will continue our cooperation with civil society and publish as much information relating to mining contracts as possible to foster a greater level of transparency and accountability in this sector. We will continue to seek agreement with contractual parties to publish contracts signed prior to the Mining Law's adoption.

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<sup>41</sup> Activities are governed by the Mining Law (Law No. 20/2014) and regulation (Decree no. 31/2015).

<sup>42</sup> <http://www.tete.gov.mz/por/Media/Files/Decreto-31.2015-Regulamento-de-> Law of Mines

<sup>43</sup> Only five contracts appear on the designated site and these are dated 2015.  
[http://www.mireme.gov.mz/index.php?option=com\\_phocadownload&view=category&id=11:contratos-mineiros&Itemid=150#](http://www.mireme.gov.mz/index.php?option=com_phocadownload&view=category&id=11:contratos-mineiros&Itemid=150#)

52. **Given the importance of this sector to the public, we recognize that greater transparency and predictability of processing times is needed in the award of mining licenses.** Therefore, for licenses awarded through a bidding process, we will publish in an easily accessible and consistent manner evaluation criteria, final bids, relative ratings of bids and ensure that the independent verification of final award in a readily available and accessible format online. As resources permit, we will also make the licensing application process fully electronic, with public access to application information. We will also provide applicants notifications at each stage of licensing process and provide information on the processing timelines the applicant should expect, as established in the law and corresponding regulations. In order to enforce adherence to the application/approval process timeline, as defined in the law, each extractive oversight entity will establish and publish clear guidelines for the procedural aspects of application and approval process that include contact persons/units within the agency and deadlines by which the agency must respond to the requestor at each stage. Each oversight entity shall publish statistics on compliance, including the number of applications received and the length of time taken to complete each stage of the licensing process.

53. **We are also committed to transparency regarding state participation in the extractives sector, given that opacity can give rise to serious potential conflicts of interest.** Extractive oversight entities should not be subjected to political interference in making technical decisions. Direct and indirect state participation in the extractive industries sector should be fully disclosed. Mozambique is committed to EITI standards and we have placed a high priority on ensuring compliance with EITI's beneficial ownership requirements. We will also ensure that such beneficial ownership information is held in a publicly available registry. In the interim, we will require the reporting of beneficial ownership information in license applications, which will be published.

54. **The government is also committed to ensuring transparency in resource revenue management.** To this end, Mozambique will undertake an updated IMF Fiscal Transparency Evaluation which will include Pillar IV on resource revenue management. This will present an opportunity to receive input from the perspective of international best practices. Following the evaluation, we intend to implement its recommendations, tailoring them to Mozambique's circumstances.

### **Central Bank Governance and Operations**

55. **We have undertaken to adopt international best practices with respect to governance.** In the internal control area, following the recent assessment of the effectiveness of the Bank of Mozambique's revamped organizational and decision-making structure, BM will implement further changes identified as critical, including formalizing guidelines on each unit's functions and further streamlining the organizational structure. In addition, we will revise the Central Bank Organic Law, which is already ongoing, has been identified as a priority. This review will strengthen BM's mandate, limit monetary financing, and improve BM's autonomy and governance structure, notably by introducing checks and balances in line with recommendations of the 2016 IMF Safeguard Report. Next steps include collection

of feedback from various stakeholders, consultation with Fund staff on alignment with leading practices for central banks, submission to BM's Board for approval, and presentation to the Cabinet, Council of Ministers, and Parliament.

### **Financial Sector Oversight**

56. **Rapid growth in the banking sector over the last decade has exposed certain vulnerabilities.** Encouraged by our resource-rich economy's potential for growth, the number of banks increased by nearly 100 percent (from 10 to 19) between 2005 and 2017, and branch networks increased from 218 in 2005 to 659 in 2017. The Mozambican banking sector is highly concentrated with the four largest banks—all foreign-owned—holding almost 80 percent of loans and deposits. The deposit base is narrow with the 4.9 million bank accounts active in 2017, held by about 33 percent of the adult population. After a series of domestic and external shocks during 2015-2016, the banking system concluded a cycle of fast credit growth that led to increased bank vulnerabilities<sup>44</sup> and the resolution of two banks in the last quarter of 2016.<sup>45</sup> Since then, NPLs have increased to 13.4 percent in August 2018 (from 5.7 percent in 2016) largely due to a slowdown in the economy, high real interest rates, accumulation of domestic spending arrears, and tighter supervisory oversight. Overall, the banks are liquid, well-capitalized, and profitable on average, while main vulnerabilities pertain to sovereign risk exposure, government and SOEs arrears to suppliers, slow economic recovery, and high real interest rates.

57. **We are strengthening oversight of the financial sector after the banking stress of 2016, but challenges remain.** The intervention in Moza Banco and the liquidation of Nosso Banco tested regulations on credit risks and loan provision and highlighted deficiencies in several aspects of the current legislation, chief among them the lack of an adequate bank resolution system. We will continue to address bank vulnerabilities, including through new regulations to increase capital and liquidity requirements, stronger supervision, and enforcements of prudential requirements. We are improving financial sector oversight by separating onsite and off-site functions. However, there are challenges that require further training of staff and improvements in supervisory tools to enhance the capacity to collect, analyze, and use data to improve market oversight. We have also identified a need for an external assessment of the BSA supervision platform to identify weaknesses and to help improve it. In addition, BM is working to modernize the safety net and crisis management framework that would allow it to address bank failures in an orderly fashion. Modernizing the framework implies a consistent reform of laws, including the central bank law, the banking law, the bank liquidation law, the law of the deposit insurance fund, the corporate insolvency law, and the capital market law. Potential concerns are that gaps in the regulatory environment and governance weakness in small financial institutions may allow criminal elements to take control. This increases banks' operational risks, which are also heightened

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<sup>44</sup> IMF Country Reports No. 18/65 and 18/66.

<sup>45</sup> BM resolved two banks that failed because of excessive credit risk and ineffective governance. Moza Banco, the fourth largest bank with six percent of the system assets, was put under administration, and Nosso Banco with one percent of assets was liquidated after failing to comply with capitalization requirements.

by the fact that their cash balances relative to deposits may facilitate concealment of the proceeds of corruption and illicit activities. BM has begun to focus on sanctioning commercial banks for non-compliance in following regulations.

58. **One reform priority is the revision of the banking law.** We are revising the banking law in line with international best practice, while carefully tailoring it to Mozambique's circumstances. The revised banking law will include an effective crisis management framework, which will provide for: (i) a clear and adequate scope of coverage; (ii) relevant set of resolution powers and tools; (iii) suitable recovery and resolution planning requirements; and (iv) robust funding arrangements, which are suited to Mozambique. A clear framework for administrative bank liquidation will also be adopted. In addition, the revision aims to strengthen the licensing and supervision system to ensure that it operates properly. For example, new suitability and fit and proper requirements will be introduced for shareholders and managers of credit institutions and financial companies, with a corporate governance system and new capital reserves for own funds.

### **Anti-Corruption Framework**

59. **We have a relatively new anti-corruption framework in place.** In 2004, the initial anti-corruption law was adopted, and it was further enhanced in 2012 by the Legislative Anti-Corruption Package (PLAC). This package included a revised and consolidated Criminal Code, a revised Criminal Procedures Code, a Witness Protection Law, a Public Probity Law.

60. **There is also a broad institutional anti-corruption architecture in place.** Within our larger governance framework, several institutions play specialized roles in the fight against corruption. The *Central Public Ethics Commission (CPEC)*, established by the Public Probity Law of 2012, serves as a high-level body focused on conflicts of interest of public officials.<sup>46</sup> Its role is to offer non-binding opinions on potential conflicts of interest, bringing them to the attention of the public or, if needed, relevant authorities for investigation and prosecution. The *Administrative Tribunal* conducts ex-ante examination of government procurement contracts. The *Public Prosecutor's Office (PGR)* conducts investigations and prosecutions and has also recently been mandated with ex-ante review of government procurements above a MT 2.55 million<sup>47</sup> threshold to ensure compliance with relevant rules and regulations.<sup>48</sup> The PGR also houses the *Central Anti-Corruption Commission (GCCC)*

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<sup>46</sup> CPEC is composed of nine individuals serving for three-year terms, with three each being elected by the parliament, judiciary, and government. Members serve without compensation on a part-time basis, meeting once weekly.

<sup>47</sup> Contracts between the central government and other entities when the amount exceeds 600 minimum national salaries in the Civil Service.

<sup>48</sup> Under the Constitution (Article 229.2(b)), the Administrative Tribunal has the duty of ex- ante examination of the legality and budget coverage of instruments and contracts that are subject to the jurisdiction of the Administrative Tribunal. Law No. 4/2017, the Organic Law on the Public Prosecutor's Office (Article 4(x)) gives the PGR the authority to audit, as guarantor of legality, contracts between the central government and other entities when the amount exceeds 600 minimum national salaries in the Civil Service. With the adoption of a memorandum of understanding between the Public Prosecutor's Office and the Administrative Tribunal that clarifies the division of supervision responsibility, there are plans to evaluate whether it

and the *Receipt and Verification Committee (RVC)*. The GCCC, with a staff of investigators and magistrates, is mandated with investigating and prosecuting corruption and related crimes.<sup>49</sup> The RVC is in charge of collecting and verifying asset declarations from public officials. The *Financial Intelligence Unit (GIFiM)* receives and analyzes suspicious transaction reports, focusing on reports from commercial banks, and prepares detailed reports for follow up by law enforcement in cases of possible money laundering or financing of terrorism.

**61. The plans to improve the functioning of our anti-corruption framework can be broken down into three aspects:** legislative reforms, implementation improvements, and institutional strengthening.

#### *Legislative reforms*

**62. We believe that it is an important matter to revise the Public Probity Law.** The objective of the revision of the law would be to make it clearer and more coherent by eliminating incongruities and ambiguity, including rules that have been omitted, and adopting consistent terminology. The amendments will address a variety of aspects, including: (i) better defining its scope and clarifying to which individuals the various requirements apply; (ii) strengthening the definition of conflict of interest; and (iii) requiring submission by new public servants upon hiring of a declaration of interests. The amendment progress will likely be completed during the legislative term beginning in 2020 due to the complexity of the issues. To support these amendments, we will also establish published procedures for reporting conflicts of interest. Such procedures shall indicate the person or unit to whom potential or actual conflicts shall be reported and statements of no conflict of interest should be submitted upon hiring; appropriate confidentiality protections; procedures for recusal, including criteria for waiver; and procedures for escalating conflict-of-interest concerns to the GCCC for further investigation. We will also clarify several other procedures called for by the Public Probity Law, including those for receipt of gifts, submission of asset declarations, and sanctioning non-compliance with obligations. A draft decree with respect to procedures for sanctions under the Public Probity Law has already been prepared, and prompt passage is considered critical.

**63. We are also committed to aligning our laws with our international obligations.** We are in the process of addressing legislative deficiencies highlighted in various assessments against international standards; these reforms will proceed as quickly as practicable. Examples of legislative deficiencies highlighted in various assessments include non-compliance of the asset recovery provisions with UNCAC standards, failure to

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will be necessary to alter this responsibility in order to minimize overlap or limit the number of contracts that have to be submitted to one or both entities for review.

<sup>49</sup> The criminal investigative police (SERNIC) provides investigators on secondment to the GCCC. While SERNIC must refer all corruption investigations to the GCCC, it may, in parallel, pursue corruption-related economic and financial crimes under its own authority.



criminalize certain corruption-related offenses, a weak system to identify ultimate beneficiaries, and needed updates to the insolvency regime.

*Improvements in the implementation of legislation*

64. **We view the uniform and effective implementation of the laws in place as a pressing issue.** Consistent and comprehensive enforcement of the current legal framework would help Mozambique address many corruption risks. Under the Public Probity Law, and in order to promote the dissemination of relevant information and enhance anti-corruption resources available to public officials, ministries and public agencies currently have their own public ethics commissions, which are under the guidance and coordination of the CPEC and which guarantee and supervise implementation of the standards of the conflict of interest system within the agency. The role of these committees will be enhanced through the preparation and publication of terms of reference. These committees will be formally tasked with advising, training, and keeping management, staff, and the public informed about conflict-of-interest and anti-corruption measures and integrity policies within their ministry or agency. These committees will be enabled to carry out their function effectively and free from any undue influence and shall be permitted to maintain the confidentiality of their sources in accordance with Mozambique's whistleblower law. Committee members will either be staffed full time on such tasks or provided sufficient time away from their other work to carry out these duties effectively.

*Institutional strengthening*

65. **We recognize that nearly all institutions would welcome further resources and training.** Given current economic constraints, the government needs to carefully consider how to deploy limited resources. We understand that limited budgets have prevented institutions from fulfilling their mandates. Institutions have not had sufficient funds to set up tribunals; hire the requisite numbers of magistrates, investigators, auditors, and analysts; maintain electronic systems and set up websites; and raise salaries to requisite levels to mitigate corruption concerns. This will be addressed as conditions permit. We also recognize the need to invest in human resources through training. In particular, we will continue and strengthen our training programs for specialists who deal with complex corruption and related financial transactions to provide in-depth and continuing education to keep pace with the rapidly changing financial and technological landscape. Legislative amendments currently in train will also seek to enhance the independence of institutions such as the CPEC.

66. **We will also seek to strengthen the GCCC in particular.** The government supports the GCCC's initiatives to enhance its operations, including the establishment of a Maputo provincial office, the establishment of an electronic platform for public complaints of corruption, and the expansion of public communications. Many of these measures will proceed as resources permit. As priorities, we intend to reduce to writing the GCCC's detailed procedures for investigating and prosecuting corruption cases. While these procedures are guided by the Codes of Criminal and Civil Procedure, we recognize the

importance of providing clear criteria to limit discretion within the process—for example, by laying out clear criteria for the assignment of cases to investigators and magistrates following pre-trial investigation. Further, in order to strengthen existing coordination between the GCCC and SERNIC, we are assessing how to better recognize the important contributions SERNIC officers make during their secondments to the GCCC.<sup>50</sup> While the GCCC may ultimately require the ability to hire and retain its own investigators on a more permanent basis, our assessment has already shown the need to create an anti-corruption brigade in SERNIC to better manage members and plan training. We will continue to work on better coordination between the two institutions and consider enacting regulations setting minimum periods for rotation of SERNIC personnel assigned to the GCCC; empowering the GCCC to extend rotations on an as-needed basis; and ensuring that promotions and compensation within SERNIC take into account time spent on secondment to the GCCC.

### III. REFORM MEASURES

67. **We are committed to addressing the governance and corruption challenges set out above and to strengthening governance and anti-corruption.** This section provides further details on and prioritizes key commitments laid out above, focusing on a few areas that the government sees as underpinning the broader reforms.

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
<b>TRANSPARENCY</b>				
<b>1</b>	Compile an electronic list of those defined as “public servants” as defined in the Public Probity Law in each ministry and public institution	Develop terms of reference for focal points in each ministry/public institution who will compile and continuously update an electronic list of those persons who come under the definition of “public servant” (Article 3 of the Public Probity Law) and provide ongoing access to these lists by relevant government agencies.	High	Central Public Ethics Commission

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<sup>50</sup> The placement of SERNIC members in the GCCC follows the procedures in the General Statute on Public Officials. Additional training is provided both on the job at the GCCC and through the Legal and Judicial Training Center.

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
2	Regulate and report on compliance with public requests for access to information	Require public agencies to establish and publish procedures for responding to public requests under the 2014 Right to Information Law that include contact persons/units within the agency and deadlines by which the agency must respond to the requestor. The procedures must establish clear criteria for refusing requests, in line with the law. Each agency shall publish statistics on compliance, including the number of requests received, how the agency responded to each request, justifications for negative responses, and the length of time taken to satisfy each request. Lists of documents and types of information which may be withheld as confidential will be developed and disseminated to those working in public administration and to the public.	Medium	Ministry of Justice
3	Establish publicly accessible repository of laws	Ensure free, public access to all legal instruments in force on a government-operated website.	Medium	National Assembly
<b>RULE OF LAW</b>				
4	Finalize and implement insolvency regulations	Finalize and implement regulations on insolvency in line with the insolvency law (Decree No. 1/2013) and adopt legislation regulating the activity of insolvency administrators, in line with best practices.	High	Ministry of Justice
5	Digitize and make accessible to the public the land and movable property registries	Digitize land and movable property registries and, with respect to property of public officials provide for public access in order to enhance transparency and to allow for easy access by ministries and civil society.	Medium	Ministry of Justice
<b>MARKET REGULATION &amp; BUSINESS ENVIRONMENT</b>				
6	Consolidate licensing for all economic activities	Unify licensing for economic activities under a single entity. Mandate centralized payment of licensing fees, linked to e-SISTAFE.	High	Ministry of Industry

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
7	Digitize and make accessible to the public the company registry	Digitize company registry and provide for public access in order to enhance transparency and to allow for easy access by ministries and civil society.	Medium	Ministry of Justice
<b>AML/CFT</b>				
8	Develop and effectively implement regulations and procedures for DNFBP registration and filing of STRs	In order to further promote the reporting of suspicious transactions, and in line with FATF standards, approve regulations and publish and implement guidelines for real property and insurance agents to register with GIFiM and file STRs.	High	Council of Ministers; GIFiM
<b>FISCAL GOVERNANCE</b>				
9	Strengthen the PDM regulatory framework	Revise the public debt management decree and the law and decree on SOEs in line with the fiscal governance and transparency section of this Report.	High	Mozambique Government
10	Strengthen transparency of SOE management	Publish, annually: (i) a complete list of entities comprising the SOEs <sup>51</sup> and other public bodies, such as funds and institutes with financial risks indicators (see section on fiscal governance); (ii) a link to the annual financial statements with the opinion of the external auditors for the main SOEs (to be listed in the report); and (iii) the percentage of government share in corporations where the government is not the main shareholder.	High	IGEPE, debt management unit

<sup>51</sup> “SOEs” (SEE: “Sector Empresarial do Estado” according to Article 2 of law 3 / 2018 and compliant with GFSM 2014) includes public enterprises and enterprises with exclusive or majority State shareholding.

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
11	Strengthen sustainability and transparency of public debt and investment decisions	Provide a clear description of borrowing limits and approval at the level of the MEF / Council of Ministers for SOEs. Publish quarterly, comprehensive and timely reports for public sector debt, guarantees and on-lending. Adopt Public Investment law with provisions to make project appraisal by DEEF mandatory and to publish a summary of its decisions.	High	IGEPE, debt management department
12	Chain of expenditure	Restore the chain of expenditure by issuing quarterly commitment ceilings for spending agencies and issue a decree or administrative order that: (i) makes the real-time recording of the commitment and verification of expenditures mandatory for all units operating within e-SISTAFE; and (ii) make mandatory the attachment of the commitment note issued by e-SISTAFE for each purchase and inform suppliers.	High	DNT, DNPO
13	Control framework	Adopt and implement a formalized control framework regularly assessed by IGF and AT to report on integrity and compliance of key PFM processes on major risks identified (such as public procurement, recording of commitments in e-SISTAFE, salaries and wages).	High	IGF, AT
14	Disclosure of fiscal risks	Resume annual disclosure of the fiscal risk statement covering all major fiscal risks.	Medium	Gabinete de Gestão de Risco
15	Transparency in Procurement	(i) Publish quarterly reports containing statistics on public procurement processes (contracts procured through open competitive tenders vs. direct awarding); and (ii) publish the manual of public procurement procedures.	Medium	Central Unit on Public Procurement (UFSA)
<b>EXTRACTIVE SECTOR GOVERNANCE</b>				

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
16	Compliance with EITI beneficial ownership requirement	(i) Amend commercial code to ensure adequate definition of beneficial ownership and legally compel companies that apply for or hold a participating interest in an oil, gas or mining license or contract to disclose their beneficial owner in line with EITI compliance (by 2020). (ii) Ensure that beneficial ownership information is held in a publicly available registry.	High	Ministry of Mines
17	Transparency in licensing—beneficial ownership	Require reporting and publication of beneficial ownership in license applications.	High	Ministry of Mines
18	Transparency in licensing—procedures	Enforce timing of application/approval process, as defined in the law, by requiring each extractive oversight entity to establish and publish clear guidelines for the application and approval process that include contact persons/units within the agency and deadlines by which the agency must respond to the requestor. Each oversight entity shall publish statistics on compliance, including the number of applications received and the length of time taken to complete each stage of the licensing process.	Medium	Ministry of Mines
19	Award of mining licenses	Publish in an easily accessible and consistent manner evaluation criteria, final bids, associated scores and bid awards and independent verification of final award. Make licensing application process fully electronic, with public access to application information; provide applicants notifications at each stage of licensing process and information on timelines established in the law.	Medium	Ministry of Mines

	<b>MEASURE</b>	<b>DESCRIPTION</b>	<b>PRIORITY</b>	<b>RESPONSIBLE ENTITY</b>
<b>20</b>	Fiscal Transparency Evaluation	Undertake an updated Fiscal Transparency Evaluation which includes Pillar IV on resource revenue management and implement the recommendations.	Medium	Ministry of Finance
<b>CENTRAL BANK GOVERNANCE</b>				
<b>21</b>	Complete the revision of the Central Bank Organic Law	Revise BM's Organic Law to strengthen BM's mandate, limit monetary financing, and improve its autonomy and governance structure, notably by introducing checks and balances.	High	BM
<b>22</b>	Assess effectiveness of organizational structure	Following the recent assessment of the effectiveness of BM's organizational and decision-making structure, implement further modifications identified as critical, including formalizing guidelines on each unit's functions and further streamlining the organizational structure.	Medium	BM
<b>FINANCIAL SECTOR OVERSIGHT</b>				
<b>23</b>	Complete the revision of the banking law	Revise banking law to modernize the safety net and crisis management framework, in line with international best practice as applicable in the case of Mozambique.	High	BM
<b>ANTI-CORRUPTION FRAMEWORK</b>				
<b>24</b>	Enhance procedures for pursuing corruption cases	Develop clear, written procedures for the GCCC on the steps for investigating and prosecuting corruption cases, including establishing clear criteria for assignment of cases.	High	Ministry of Justice

	MEASURE	DESCRIPTION	PRIORITY	RESPONSIBLE ENTITY
25	Review Public Probity Law, including to strengthen prevention of conflicts of interest	Review the Public Probity law to, <i>inter alia</i> : (i) better clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; and (iii) require submission by new public servants upon hiring of declaration of interests. Establish published procedures for reporting conflicts of interest. Such procedures shall indicate the person or unit to whom potential or actual conflicts shall be reported; appropriate confidentiality protections; procedures for recusal, including criteria for waiver; and procedures for escalating conflict of interest concerns to the GCCC for further investigation.	High	Ministry of Justice
26	Adopt procedures to enhance compliance with Public Probity Law	Adopt procedures to clarify ambiguities in the Public Probity Law including, <i>inter alia</i> : (i) procedures for addressing the receipt of gifts; (ii) procedures for submitting asset declarations, including limitations on the ability to amend or correct declarations; and (iii) procedures for applying sanctions regarding non-compliance with obligations.	Medium	Ministry of Justice
27	Review the asset declaration system to enhance compliance	Digitize the asset declaration process and facilitate public access to filed declarations. Publish a list of individuals required to file asset declarations and whether each has complied. Revise the form for asset declarations to ensure it collects all relevant information to fulfill its objectives and to ensure it requires all categories of information contemplated under the Public Probity Law.	Medium	Ministry of Justice



	<b>MEASURE</b>	<b>DESCRIPTION</b>	<b>PRIORITY</b>	<b>RESPONSIBLE ENTITY</b>
<b>28</b>	Enhance framework for reporting conflicts of interest—contact point	Prepare and publish terms of reference for public ethics contact person or unit within each government agency tasked with coordinating corruption- and conflict-of-interest-prevention measures within the agency. Such person or unit will be tasked with advising, training, and keeping management, staff, and the public informed about corruption prevention measures and integrity policies. These persons or units will be enabled to carry out their function effectively and free from any undue influence. The person or unit shall directly report to the head of the agency and be permitted to maintain the confidentiality of their sources. Such person or unit will either be staffed full time on such tasks or provided sufficient time away from his or her other work to carry out these duties effectively.	Medium	Ministry of Justice
<b>29</b>	Enhance coordination and human resource management between the GCCC and SERNIC	Enact regulations setting minimum periods for rotation of SERNIC personnel assigned to the GCCC; empowering the GCCC to extend rotations on an as-needed basis; and ensuring that promotions and compensation within SERNIC take into account time spent on secondment to the GCCC.	Medium	Ministry of Justice

**ANNEX I. LIST OF GOVERNMENT ENTITIES PARTICIPATING IN THE DIAGNOSTIC REPORT  
AND OTHER ENTITIES CONSULTED**

***Government Entities***

Administrative Tribunal  
Bank of Mozambique  
Central Anti-Corruption Commission (GCCC)  
Central Public Ethics Commission  
Central Unit on Public Procurement (UFSA)  
Corporate Registry Office  
Criminal Investigative Police (SERNIC)  
Directorate of Economic and Financial Studies  
Financial Intelligence Unit (GiFM)  
Institute for the Management of State Holdings (IGEPE)  
Inspectorate General of Finance (IGF)  
Institute of Mines (INAMI)  
Institute of Energy  
Ministry of Mineral Resources and Energy  
Ministry of Justice  
Ministry of Economy and Finance  
Ministry of Industry and Commerce  
National Institute of Statistics  
Pharmaceutical Drug Center  
Public Debt Office  
Public Prosecutor's Office (PGR)  
Receipt and Verification Committee  
Tax Authority

***Judiciary***

Superior Council of Magistrates  
Supreme Court of Mozambique

***International Organizations***

African Development Bank  
Delegation of the European Union to Mozambique  
World Bank

***Foreign Governments***

High Commission of the Republic of South Africa in Mozambique  
UK Department for International Development

***Nongovernmental Organizations***

Bar Association

Centro de Integridade Pública (CIP)  
Publish What You Pay Mozambique (Kuwuka JDA)

***Business Sector***

Anadarko  
Associação de Comércio, Indústria e Serviços (ACIS)

## ANNEX II. SUMMARY OF MAIN INDICATORS<sup>52</sup>

### Rule of Law

This Report looked at Rule of Law indicators for Mozambique. The below table shows Mozambique’s scores when measured for enforcing contracts and resolving insolvency by the WB Doing Business Report. The 2019 Doing Business indicators gives Mozambique a comparatively low rank with “distance to the frontier scores” of 39.78 for enforcing contracts (“distance to frontier” is represented on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier). This score puts Mozambique 167<sup>th</sup> of the 190 economies assessed, with an estimated enforcement cost of 53.3% of the contract value and a time cost of 950 days. This is an improvement over 2017 numbers, which estimated the enforcement costs at 119% of the contract value. Mozambique’s insolvency “distance to the frontier” of 46.89 ranks it 84<sup>th</sup> among the 190 economies assessed, with an average recovery of 29.1 cents on the dollar in 1.5 years. Also included is the WB CPIA assessment of Mozambique on property rights and rules-based governance. The CPIA assessment for property rights and rules-based governance scores Mozambique just 2.5 on a scale of 1 (low) to 6 (high). The Ibrahim Index of African Governance gave Mozambique a Rule of Law score of 53.8 on a scale of 0 to 100, ranking it 31 of 54 countries assessed, with a downward and accelerating trend of “Increasing Deterioration.” Mozambique receives 3 on a scale of 0 to 10 in rule of law rankings by the Bertelsmann Transformation Index and 33.9 on a scale of 1 to 100 in the property-rights measure of the Index of Economic Freedom. Judicial effectiveness was ranked 35.2 on a scale of 0 to 100 by the Index of Economic Freedom.

	Indicator	Mozambique Score	
Rule of Law	Doing Business Report <sup>53</sup> Scale 0 (low) – 100 (high)	Enforcing contracts	39.78
		Resolving insolvency	46.89
	CPIA Scale 1 (low) – 6 (high)	Property rights and rules-based governance <sup>54</sup>	2.5

<sup>52</sup> Many of the indicators examined in this annex captures *perceptions* of the extent to which power is exercised for private gain, including petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. They are compiled from various sources and may be aggregated from different surveys of enterprise, citizen, and expert perceptions. Other indicators draw on survey feedback and address people’s *direct experiences* with (petty) bribery. Differences in reported bribery might in part be subject to cultural differences in respondents’ willingness to report it. Indicators are subject to different time series and country coverage. Caution should be exercised in interpreting all scores presented in this annex.

<sup>53</sup> 2019: <http://www.doingbusiness.org/en/data/exploreeconomies/mozambique#>

<sup>54</sup> 2017: <https://data.worldbank.org/indicator/IQ.CPA.PROP.XQ>

Ibrahim Index of African Governance Scale 0 (low) – 100 (high)	Rule of Law <sup>55</sup>	53.8
Bertelsmann Transformation Index <sup>56</sup> Scale 1 (low) – 10 (high)	Rule of Law	3
Index of Economic Freedom <sup>57</sup> Scale 1 (low) – 100 (high)	Rule of Law—Property Rights	33.9
	Judicial Effectiveness	35.2

### Market Regulation and Business Environment

International indicators which assess market regulation and the business environment show that Mozambique faces significant challenges. In terms of regulatory quality, the Worldwide Governance Indicator places Mozambique at the 25<sup>th</sup> percentile of economies, with a score of -0.73 on a scale of -2.5 (low) to +2.5 (high), just under the SSA average of the 28<sup>th</sup> percentile. The World Bank Doing Business Report for 2019 places Mozambique at 174 and 135 of 190 economies for ease of starting a business and ease of doing business, respectively. Mozambique’s score, on a scale of 0-100, for ease of doing business is 55.53 compared to 51.61 for SSA. The CPIA assessments on the business regulatory environment (which considers the extent to which the legal, regulatory, and policy environments help or hinder private businesses in investing, creating jobs, and becoming more productive) and the quality of public administration both rated Mozambique at 3 on a 1 to 5 scale. For its trade policies, Mozambique received a slightly better rating of 4 in the CPIA assessment. The Bertelsmann Transformation Index scores Mozambique generally in line with the SSA average for relevant indicators, while Global Insight Business Risk gives Mozambique a score of 0.33/1. The African Integrity Index shows that many of Mozambique’s governance shortcomings are in practice, rather than in the legal framework.

<sup>55</sup> 2017: <http://iiag.online/>

<sup>56</sup> 2018: <https://www.bti-project.org/en/reports/country-reports/detail/itc/moz/>

<sup>57</sup> 2019: <https://www.heritage.org/index/country/mozambique>

	Indicators on Market Regulation		Mozambique Score
Market Regulation	WGI <sup>58</sup> Scale -2.5 (low) – +2.5 (high)	Regulatory Quality	-0.73
	CPIA Scale 0 (low) – 6 (high)	Q6: Business Regulatory Environment <sup>59</sup>	3.0
		Q15: Quality of Public Administration <sup>60</sup>	3.0
		Trade: 2017 <sup>61</sup>	4.0
	Bertelsmann Transformation Index <sup>62</sup> Scale 0 (low) – 10 (high)	Consensus Building	4.6
		Steering Capability	4.7
		Resource Efficiency	2.7
		Private Property	5.5
		Market Organization	4.5
	Global Insight Business Risk <sup>63</sup> Scale 0 (low) – 1 (high)		0.33
	Africa Integrity Index <sup>64</sup> Scale 0 (low) – 100 (high)	In practice, major public procurements involve competitive bidding.	0
In practice, civil servants' work is not compromised by political interference.		0	

<sup>58</sup> 2017: [info.worldbank.org/governance/wgi/index.aspx?fileName=wgidataset.xlsx](http://info.worldbank.org/governance/wgi/index.aspx?fileName=wgidataset.xlsx)

<sup>59</sup> 2017: <https://data.worldbank.org/indicator/IQ.CPA.BREG.XQ?view=chart>

<sup>60</sup> 2017: <https://data.worldbank.org/indicator/IQ.CPA.PADM.XQ?view=chart>

<sup>61</sup> 2017: <https://data.worldbank.org/indicator/IQ.CPA.TRAD.XQ>

<sup>62</sup> 2018: <https://www.bti-project.org/en/data/>

<sup>63</sup> 2017: [info.worldbank.org/governance/wgi/pdf/WMO.xlsx](http://info.worldbank.org/governance/wgi/pdf/WMO.xlsx)

<sup>64</sup> 2018: <https://aii.globalintegrity.org/scorecard?country=mozambique&year=2018>

	In practice, civil servants are appointed and evaluated according to professional criteria.	0
	In practice, citizen requests for public information are effective.	0
	In practice, the government actively enforces the protection of patents, copyrights, trademarks or other intellectual property rights.	25
	In practice, the Office of National Statistics (ONS) produces detailed and timely data on employment.	50
	In practice, there is a government policy/strategy to increase citizen access to the Web.	50
	In practice, roads/bridges networks between towns and cities exist and are maintained.	25
	In practice, there is a functioning safety monitoring system for air transport.	75

### **Public Financial Management and Fiscal Transparency**

The key indicators concerned with public financial management and fiscal transparency are derived from a series of diagnostics, including the Public Expenditure and Financial Accountability (PEFA), the Fiscal Transparency Evaluation (FTE), the performance assessment report using the Tax Administration Diagnostic Assessment Tool (TADAT), the Public Investment Management Assessment (PIMA), the Debt Management Performance Assessment (DeMPA), the Open Budget Index (OBI), the validation report of the Extractive Industries Transparency Initiative (EITI), and the preliminary assessment of the public procurement system using the OECD Methodology for Assessing Procurement Systems (MAPS). These several diagnostics capture the performance of the key systems, processes and institutions, and levels of governance, where highest scores are associated with practices meeting internationally recognized standard of good performance. A selected set of these indicators is presented below.

## PEFA

Mozambique has undertaken several PEFA assessments in the last decade. In 2015, public financial management performance was assessed for 31 performance indicators applying two complementary versions of the PEFA Framework (2015 testing version<sup>65</sup> and 2011 methodology<sup>66</sup>). The assessment showed that Mozambique has continued to improve its PFM system, with increased performance in areas such as fiscal transparency and budget reporting, although further reforms are needed to make the system fully consistent with international good practice.

		PEFA Indicators	Mozambique 2015 Scores <sup>67</sup>
Fiscal	2015 testing version methodology	PI.2 Composition of expenditure outturn compared with original approved budget	D+
		PI.4 Classification of the budget	C
		PI.5 Comprehensiveness of information included in budget documentation	D
		PI.6 Extent of reporting on extra-budgetary operations	C+
		PI.8 Performance information for achieving efficiency in service delivery	C
		PI.9 Public access to key fiscal information	D
		PI.10 Fiscal risks management	C+
		PI.11 Public investment management	D+
		PI.12 Public asset management	C+
		PI. 18 Legislative scrutiny of the annual budget law	C+
		PI.19 Revenue administration compliance	C+
		PI.23 Transparency, competition and complain mechanisms in procurement	D+
		PI.25 Effectiveness of internal audit	C+
		PI.27 Quality and timeliness of in-year budget reports	C+
		PI.29 SAI independence and external audit of the government's annual financial reports	D+
		PI.30 Legislative scrutiny of external audit reports	D+
		2011 methodology	
PI.16 Predictability in the availability of funds for commitment of expenditures	C+		
PI.20 Effectiveness of internal controls for non-salary	C+		

<sup>65</sup> PEFA assessment: <https://pefa.org/sites/default/files/MZ-Dec15-PFMPR-Public-Meth15-ENG.pdf>

<sup>66</sup> PEFA assessment: <https://pefa.org/assessment/mz-2015-pfmpr-final-en>

<sup>67</sup> Scale D (low) – A (high).



## FTE

Mozambique was the first African country to undertake and publish the FTE, in 2014. This evaluation showed that fiscal reporting and budgeting practices are broadly in line with basic and good practices. However, the disclosure and management of fiscal risks are inadequate and should be improved in the medium term to face the challenges that may arise from the expected increase in natural resource revenues.

	FTE Indicators	Assessment	Mozambique 2014 Scores <sup>68</sup>
Fiscal	1.1.1 Structure of the Public sector	No registry of public sector entities consistent with international practices	Not Met
	1.1.3 Coverage of Stocks	The annual financial reports cover cash and debt, but most of the State's assets and liabilities are not reported	Basic
	1.1.5 Tax Expenditures	Tax expenditure has increased to 3% of GDP, but limited information on revenue loss is published annually	Basic
	1.3.2 Data Consistency	The fiscal reports include basic reconciliation between the balance and the financing, but limited internal consistency checks may reduce the reliability of the fiscal reports (discrepancies)	Basic
	1.4.4 Reliability	The requirements of SISTAFE are not fully met and also impact the reliability of financial statements	Not Met
	2.4.1 Fiscal Policy Objectives	No comprehensive set of fiscal targets and fiscal rules in place to manage the expected natural resource revenue, and no regular reports on numerical objective for the main fiscal aggregates	Not Met
	3.1.2 Specific Fiscal Risks	Fiscal operations prone to various specific fiscal risks not yet addressed, disclosed and quantified	Basic
	3.2.2 Asset and Liability Management	Borrowing is authorized by law and some risks surrounding the government's debt holdings are analyzed and disclosed, but the risks analysis is too limited in respect of the significant stocks of debts and financial assets of the public sector	Basic
	3.2.3 Natural Resources	Lack of public information on the volume and current value of the natural resources, which represents the main assets and fiscal risk in Mozambique	Not met
	3.2.5 Guarantees	Government guarantees, and their management policy are not disclosed	Not met
3.2.6 Financial Sector Exposure	Financial exposure of government has not been quantified and disclosed annually (deposits represent 40% of GDP)	Not Met	

<sup>68</sup> Scale: Not Met (low), Basic, Good, Advanced (high).

3.2.7 Major and Multi-Annual Contracts	No published government report including total rights, obligations, and other exposures under major and multi-annual contracts	Not Met
3.3.2 Public Corporations	Direct transfers between the government and public corporations are disclosed on an annual basis, but fiscal risks resulting from financial performance of public corporations are not assessed	Basic
3.3.3 Quasi-fiscal activity	No qualitative discussion of quasi-fiscal activities in the budget (QFAs resulting from electricity pricing policy estimated in 2009 at 7 % of GDP, or 19% of budget)	Not Met
3.3.4 Health and Social Security	The current financial position of social security is not disclosed annually; INSS financial situation and liabilities are not monitored	Not Met

### TADAT Diagnostic

Mozambique was also one of the first countries in the world to assess its system of tax administration using the TADAT, in 2015. Despite progress achieved in modernizing revenue collection, the assessment showed that the basis for a solid system is not yet in place: the taxpayer register is incomplete and inaccurate, on-time filing and payment rates of core tax returns are low, and there is no consolidated compliance and institutional risk management strategy.

	TADAT Indicators	Mozambique 2015 Scores <sup>69</sup>
<b>Fiscal</b>	P1-1. Accurate and reliable taxpayer information	D
	P1-2. Knowledge of the potential taxpayer base	C
	P2-3. Identification, assessment, ranking, and quantification of compliance risks	D
	P3-8. Time taken to respond to information requests	D+
	P4-10. On-time filing rate	D
	P5-11. Timeliness of payments	D
	P5-12. Stock and flow of tax arrears	C+
	P6-13. Use of tax audits and other initiatives to detect and deter inaccurate reporting	C
	P6-14. Coverage of automated information cross-checking	D
	P6-15. Monitoring the extent of inaccurate reporting	D
	P7-17. Stock and flow of dispute cases	C+
	P7-18. Time taken to resolve disputes	D
	P7-19. Degree to which dispute outcomes are acted upon	D
	P8-21. Use of efficient collection and reporting systems	C

<sup>69</sup> Scale D (low) – A (high).

P9-23. External oversight of the tax administration	C+
P9-26. Publication of activities, results, and plans	C+

### PIMA Diagnostic

The PIMA is a diagnostic tool for evaluating the quality of a country’s public investment management practices. This tool was piloted in Mozambique in 2015. The assessment showed that Mozambique has relatively strong institutions for budget comprehensiveness, but further strengthening public investment management would increase efficiency of public investment for economic growth. The overall process to select projects and assess their socio-economic outcomes, and to ensure transparency and monitoring during budget implementation, remains an important weakness.

	PIMA Indicators	Mozambique 2015 Scores <sup>70</sup>
Fiscal	1.a. Permanent Fiscal Rules for Fiscal Policy	Low
	1.b. Fiscal rules to protect Public Investment	Low
	4.c. Contingent PPPs Liabilities	Low
	5.b. Independent Regulators Setting the Prices of Economic Infrastructure services	Low
	5.c. Government Oversight of SOEs Investment	Low
	7.c. Information on PPPs Transactions in the Budget Documentation	Medium
	9.a. Cost-Benefit Analysis for Capital Projects	Medium
	9.b. Appraisal of Projects	Low
	9.c. Risks Taken into Account in Project Appraisals	Low
	10.b. Government Publishes and Adheres to Standard Criteria for Project Selection	Medium
	10.c. Pipeline of Approved Investment	Low
	11.a. Total Project Outlays Appropriated by Parliament	Low
	12.a. Commitment of Expenditure on Capital Projects	Low
	12.b. Cash for Project Outlays Timely Released	Low
	13.c. Ex-post Audits of Capital Projects	Low
	14c. Ex post Review and Evaluation of Major Projects	Low
	15.a. Surveys of Public Assets	Medium
15.b. Non-Financial Asset Values Recorded in the Government Balance Sheets	Medium	

<sup>70</sup> Scale low – high, measuring conformance with good international practice, where low indicates that a basic level of good practice is not met.

## DeMPA Evaluations

Mozambique has done two DeMPA evaluations of the government debt performances in 2008 and in 2017. The latest assessment showed mixed track records in government debt management capacities and institutional arrangements over the last decade. Although the technical and analytical skills have been improving, the lack of adequate debt management policies and procedures, as well as persisting weaknesses in front and back office functions are worrying and require immediate actions.

	DeMPA Indicators		Mozambique 2017 Scores <sup>71</sup>
<b>Fiscal</b>	DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	C
		2. Managerial Structure: Loan Guarantees	D
	DPI-3	1. DMS: Quality of Content	D
		2. DMS: Decision-Making Process	D
	DPI-4	1. Debt Reporting and Evaluation: Debt Statistical Bulletin	D
		2. Debt Reporting and Evaluation: Reporting to Parliament or Congress	C
	DPI-5	1. Audit: Frequency and Comprehensiveness	C
		2. Audit: Appropriate Response	D
	DPI-6	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	D
	DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation and Publication of a Borrowing Plan	D
	DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D
	DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	D
		2. On-lending: Availability and Quality of Documented Policies and Procedures	D
	DPI-11	1. Effective Cash Flow Forecasting	D
DPI-13	1. Segregation of Key Staff Duties	C	
DPI-14	1. Debt Records: Completeness and Timeliness	D	
	2. Debt Records: Registry System	D	

## Extractive Industry Governance

In 2017, the International Secretariat of the Extractive Industries Transparency Initiative concluded that Mozambique has made meaningful progress in implementing 2016 EITI Standards. The EITI Board, at the conclusion of Mozambique's validation, highlighted that meaningful progress had been made, and they took note of the authorities' inclusion of

<sup>71</sup> Scale D (low) – A (high).

transparency provisions in the 2014 Petroleum and Mining Laws and encouraged strong implementation of the law. However, the authorities were given 18 months to carry out several corrective measures to address shortcomings. These shortcomings included the need for more comprehensive disclosure of state participation and revenues; for more transparency in the allocation and transfer of licenses; for the disclosure of beneficial ownership; and for more transparency regarding in-kind revenues, SOE transactions and quasi-fiscal expenditure, and data quality and accessibility. The 2017-2018 EITI progress report noted progress in several areas but continued to highlight possible further reforms.

	EITI Categories	EITI Requirements	Mozambique 2017 Scores
<b>Extractives</b>	Licenses and contracts	2.5 Beneficial ownership	Not assessed
		2.6 State participation	Inadequate progress
	Revenue collection	4.4 Transportation revenues	Inadequate progress
		4.5 SOE transactions	Inadequate progress
	Socio-economic contribution	6.2 SOE quasi-fiscal expenditures	No progress
	Outcomes and impact	7.2 Data accessibility	Not assessed

### **Corruption**

Various corruption-related indicators (see table below) highlight concerns for Mozambique. For example, Transparency International’s Global Corruption Barometer for 2015-17 found that 30-40% of survey respondents said they paid a bribe when they came into contact with a public service in the 12 months prior to the survey. In the more detailed results available for 2013, survey respondents indicate that 30-40% paid a bribe to the tax, permitting, land, judicial, education, and medical authorities; 65% paid a bribe to the police. In the Worldwide Governance Index for Control of Corruption, Mozambique was rated -0.86 on a scale of -2.5 (weak) to 2.5 (strong) with a steady decline since 2010 where the score was -0.45. The WB’s CPIA rating for “Transparency, Accountability and Corruption in Public Sector” scored Mozambique a poor 2.5 on a 6-point scale. The Ibrahim Index of African Governance gave Mozambique an overall governance score of 51 out of 100, which led to a ranking of 25 of 54 countries; transparency and accountability received 30.5/100, ranking Mozambique 34 of 54. The overall trend for both measures was “Increasing Deterioration.” Maplecroft gave Mozambique 1.43 on a 10-point scale for the effectiveness of official efforts to combat bribery. In the transparency and accountability category of the Africa Integrity Index which consists of 56 indicators covering rule of law, accountability, elections, public management integrity, civil service integrity, and access to information, several shortcomings are identified in the case of Mozambique, including in the independence of its bodies mandated to receive and investigate cases of alleged public-sector corruption and in the investigation of top-level corruption. Afrobarometer has also gathered opinions of Mozambicans regarding

the conduct of government officials.<sup>72</sup> In Afrobarometer’s 2013 round, 63% of respondents saw no difference between the ruling party and the state. At the same time, 66% agreed or agreed strongly that state resources should only be used for state business and should not be used for political party business. In the same survey, 61% of Mozambicans agreed or agreed strongly that members of parliament should not be allowed to hold any other public position. Opinion was split regarding the neutrality of the GCCC, with 42% agreeing that it performed its duties neutrally, and 29% agreeing with the statement that the GCCC made decisions that favored particular people or political parties.

	<b>Indicators on Corruption<sup>73</sup></b>		<b>Mozambique Score</b>
<b>Corruption</b>	WGI <sup>74</sup> Scale -2.5 (low) – +2.5 (high)	Control of Corruption	-0.86
	CPIA Scale 0 (low) – 6 (high)	Q16: Transparency, Accountability and Corruption in Public Sector <sup>75</sup>	2.50
	Ibrahim Index of African Governance <sup>76</sup> Scale 0 (low) – 100 (high)	Overall Governance	51
		Transparency and Accountability	30.5
	Maplecroft <sup>77</sup> Scale 0 (low) – 10 (high)	Ranks 198 economies on the prevalence of bribery and the effectiveness of official efforts to combat it on a scale 0-10	1.43
	Africa Integrity Index <sup>78</sup> Scale 0 (low) – 100 (high)	In practice, allegations of corruption against senior level politicians and/or civil servants of any level are investigated by an independent body.	0
In practice, the body/bodies that investigate/s allegations of public sector corruption is/are effective.		25	

<sup>72</sup> Afrobarometer and Centre for Research on Governance and Development, “The Quality of Democracy and Governance in Mozambique, Results from the Afrobarometer Round 5 Survey in Mozambique,” June 26, 2013 ([http://afrobarometer.org/sites/default/files/media-briefing/mozambique/moz\\_r5\\_presentation1.pdf](http://afrobarometer.org/sites/default/files/media-briefing/mozambique/moz_r5_presentation1.pdf)).

<sup>73</sup> See also Transparency International 2015-17 Global Corruption Barometer – [http://files.transparency.org/content/download/2161/13659/file/GCB%20Citizens%20voices\\_FINAL.pdf](http://files.transparency.org/content/download/2161/13659/file/GCB%20Citizens%20voices_FINAL.pdf)

<sup>74</sup> 2017: <http://info.worldbank.org/governance/wgi/#reports>

<sup>75</sup> 2017: <https://data.worldbank.org/indicator/iq.epa.tran.xq>

<sup>76</sup> 2017: <http://iiag.online/>

<sup>77</sup> Access to Maplecroft’s data is by registration only: <https://portal.maplecroft.com/accounts/login/?next=/portal/>

<sup>78</sup> 2018: <https://aiglobalintegrity.org/scorecard?country=mozambique&year=2018>

		In practice, appointments to the body/bodies that investigate/s allegations of public sector corruption support/s the independence of the body.	0
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### ANNEX III. DEFINITIONS OF “CORRUPTION” AND “GOVERNANCE”

In 2017 the IMF published the policy paper entitled “The Role of the Fund in Governance Issues—Review of the Guidance Note—Preliminary Considerations”<sup>79</sup> This paper gives the definition of some key terms, drawing from the work done by other agencies, such as the World Bank, the United Nations Development Programme, and the Organisation for Economic Co-operation and Development. The definitions are repeated here, as they are relevant for this Diagnostic Report.

- “Governance” refers to the institutions, mechanisms, and practices through which governmental power is exercised in a country, including for the management of public resources and regulation of the economy. This includes processes at the country level, including institution-level structural arrangements. It is an inherently neutral term, describing the framework for exercising authority, not characterizing its results.
- “Good governance” is a more normative concept, which recognizes that the quality of governance can impact its effectiveness and efficiency in achieving desired outcomes.
- Regarding “corruption,” a definition that has been generally accepted is “the abuse of public office for private gain.” This definition has been adopted by a variety of organizations, including the World Bank, and is consistent with the provisions of the United Nations Convention Against Corruption (UNCAC).<sup>80</sup> The definition focuses on abuse by public actors, meaning that fraudulent acts perpetrated exclusively by private citizens are not covered.<sup>81</sup> It is recognized, of course, that corruption is often facilitated—and sometimes initiated—by private actors (for example, the offering of a bribe) and, therefore, that any meaningful anti-corruption strategy needs to address behavior within the private sector. It should be emphasized that an act can be corrupt even if it does not result in direct financial gain; an official also engages in a corrupt act if, as a result of political interference, he or she abuses public office. Moreover, although corruption is often associated with the misapplication of the law, it can also pervert the law-making process itself, i.e., where the decisions of legislators are

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<sup>79</sup> Available at <https://www.imf.org/~media/Files/Publications/PP/2017/pp080217-the-role-of-the-fund-in-governance-issues-review-of-the-guidance-note.ashx>. This paper laid the analytical foundation for the IMF’s current guidance on involvement in governance issues, which was published in April 2018 (<https://www.imf.org/~media/Files/Publications/PP/2018/pp030918govpaper.ashx>).

<sup>80</sup>Article 19 of UNCAC on Abuse of Functions states: “Each State Party shall consider adopting such legislative and other measures as may be necessary to establish as a criminal offence, when committed intentionally, the abuse of functions or position, that is, the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity.” UN General Assembly, 2003.

<sup>81</sup> For example, tax evasion and illicit cross-border flows engaged in solely by private actors are generally outside the scope of this definition except to the extent they relate to the proceeds of corruption.



motivated exclusively by private interests, often as result of the influence of powerful business networks (“state capture”). Finally, the Fund has concluded that systemic corruption has a particularly pernicious effect on economic performance.<sup>82</sup>

The foregoing discussion illustrates that governance and good governance are broader concepts than corruption. It is possible for a country to have poor governance even in the absence of significant corruption, for example, because of ineffective, inefficient, or inequitable policies and institutions. The presence of corruption, however, generally indicates shortcomings in good governance. Accordingly, it should be acknowledged that any effective strategy for addressing corruption problems must be more comprehensive than simply anti-corruption measures to have a lasting impact; durable solutions will encompass governance improvements more broadly, including with regard to transparency, accountability, appropriately balanced regulation, and effective institutions. In sum, promoting good governance is the most durable way of addressing systemic corruption.

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<sup>82</sup> The May 2016 IMF Staff Discussion Note “Corruption: Costs and Mitigating Strategies” (SDN/16/05) defines “systemic corruption” as circumstances where “corruption is no longer a deviation from the norm, but is manifested in a pattern of behavior so pervasive and ingrained that it becomes the norm.” “Systemic corruption” has also been defined as corruption that “is both pervasive and organized, affecting different levels of government, and practiced by bureaucrats and politicians alike in nearly all government departments” Alam, M. Shahid, 1989, “Anatomy of Corruption: An Approach to the Political Economy of Underdevelopment,” *The American Journal of Economics and Sociology*, Vol. 48, Iss. 4, pp. 441-456.