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## The costs of corruption to the Mozambican economy

Why it is important to fight corruption  
in a climate of fiscal fragility

Centro de Integridade Pública (CIP)

Chr. Michelsen Institute (CMI)

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## ACRONYMS

ADM	Aerportos de Moçambique
AGE	Applied General Equilibrium
AML	Anti-Money Laundering
AR	Assembleia da República
AT	Autoridade Tributária de Moçambique
AUCPCC	African Union Convention on Preventing and Combating Corruption
BM	Banco de Moçambique
BOT	Build, Operate and Transfer
CB	Concessional Borrowing
CFM	Caminhos de Ferro de Moçambique
CFPOA	Canadian Corruption of Foreign Public Officials Act
CSO	Civil Society Organisation
DFID	Department for International Development (UKAid)
EDM	Electricidade de Moçambique
EIA	Environmental Investigation Agency
EITI	Extractive Industry Transparency Index
FCPA	Foreign Corrupt Practices Act
FCPA	Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
FIPAG	Fundo de Investimento e Património de Agua
GAZEDA	Gabinete das Zonas Económicas de Desenvolvimento Acelerado
GCCC	Gabinete Central de Combate à Corrupção
GCPV	Gabinete Central de Proteção a Vítima
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GNI	Gross National Income
GPI	Corruption Perception Index
ICVL	International Coal Ventures Limited
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
INE	Instituto Nacional de Estatísticas
IRPC	Imposto sobre Rendimento de Pessoas Coletivas (corporate income tax)
IRPC	Imposto Simplificado para Pequenos Contribuintes
IRPS	Imposto sobre Rendimento de pessoas Singulares (income tax)
JUE	Janela Única Eletrónica (single electronic window)
LIBOR	London Inter Bank Offered Rate
LNG	Liquefied Natural Gas
MCNET	Mozambique Community Network
MNC	Multinational Company
NCB	Non-Concessional Borrowing
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
P–A–C	Principal–Agent–Client
PAF	Performance Assessment Framework
PAP	Programme Aid Partners
PEP	Politically Exposed Person
PLAC	Pacote Legislativo Anticorrupção
SADC	Southern African Development Community
SEC	Securities and Exchange Commission
SME	Small and medium sized enterprises
SOE	State-owned Enterprise
SPAC	SADC Protocol against Corruption
TA	Tribunal Administrativo
TDM	Telecomunicações de Moçambique
TIMS	Trade Information Management System
UFSA	Unidade de Formação e Supervisão de Aquisições
UKBA	UK Anti-Bribery Act
UNCAC	UN Convention against Corruption
VA	Value Added
VAT	Value Added Tax
WB	World Bank
WWF	World Wildlife Fund

## CONTENTS

	Acronyms	3
	Contents	4
	Disclaimer, confidentiality of sources and credits	6
	Executive Summary	7
	<b>SECTIONS</b>	
<b>1</b>	<b>Introduction</b>	<b>15</b>
1.1	Corruption Damages Development	16
1.2	Mozambique: Perceptions of Corruption	18
1.3	Anti-Corruption Legislation	20
1.4	The Need to Measure Corruption	21
<b>2</b>	<b>Economic Context</b>	<b>23</b>
2.1	Aspects of the Political Economy of Mozambique	23
2.2	Present Macro-Economic Challenges	24
2.2.1	Government Debt	24
2.2.2	Tax Collection	25
2.2.3	Import Dependence and Currency Exposure	26
2.2.4	Open Economy and Global Context	27
2.3	Implications	28
<b>3</b>	<b>Putting Numbers to Corruption: A Methodological Approach</b>	<b>30</b>
3.1	Approach to Case Selection	30
3.1.1	The Principal-Agent-Client Model	30
3.1.2	Types of Corruption	31
3.1.3	Sectors	32
3.1.4	Time Frame	32
3.2	Methodology: Sampling, Producing Evidence and Estimating Costs	33
3.2.1	Non Purposive Sampling and Role of the Researcher	33
3.2.2	Generation, Types and Qualification of Evidence	34
3.2.3	Data Verification and Assumptions	34
3.3	Translating Evidence and Assumptions into Costs of Corruption	34
3.3.1	Measuring Effects of Corruption	36
<b>4</b>	<b>Results and Analysis</b>	<b>37</b>
4.1	Overview on Results	37
4.2	The Economic Costs of Corruption	38
4.2.1	Impact on Value Added, Overall and by Economic Sector	38
4.2.2	Impact on the Public Budget	39
4.3	Discussion of Value Added Loss in a National Accounts (Input-Output) Framework	41
4.4	Indirect Costs and Impact	42
4.4.1	On Poverty	42
4.4.2	On Public Sector and Social Welfare (Health and Education)	43
4.4.3	On Natural Resources, Environment and Tourism	44
4.4.4	On Foreign Aid	47
4.5	Budget Distortions of Maintaining Political Economy Prone to Corruption	49
<b>5</b>	<b>Corruption, Business and Investment</b>	<b>51</b>
5.1	Direct Costs and Major Corruption Concerns: Customs and Trade	51
5.1.1	Customs and Bribery	51
5.1.2	Trade Mis-invoicing	52
5.1.3	The Single Electronic Window (JUE)	53

5.2	Indirect Costs and Impact	54
5.2.1	Impact on the Structure of the Private Sector	54
5.2.2	Value for Money, Doing Business and Investment	59
<b>6</b>	<b>Conclusion and recommendations</b>	<b>61</b>
6.1	Conclusions	61
6.1.1	Effects on the economy and public services	61
6.1.2	Effects on Business and Private Sector	62
6.1.3	Effects on Reputation	63
6.1.4	Corruption and Domestic Politics	63
6.2	Recommendations	64
6.2.2	Recommendations: Medium to Long Term	67
<b>7</b>	<b>Annexes</b>	<b>68</b>
7.1	Corruption: Principal-Agent-Client (PAC) Model	68
7.2	Categories of Corruption	69
7.3	Sample of Cases	70
7.4	Input-Output Table A and B	71
7.5	Bibliography	72

### TABLES

Table 1:	Total cost of corruption cases in relation to economic aggregates	14
Table 2:	Types of corrupt relationships	31
Table 3:	Sectors considered	32
Table 4:	Total cost of corruption cases in relation to economic aggregates	37
Table 5:	Value added (VA) and estimated cost of corruption in Million US\$ and percent (2014)	38
Table 6:	Budget and costs of corruption in million US\$ and as a percentage	40
Table 7:	Total cost of corruption cases in relation to economic aggregates	61

### FIGURES

Figure 1:	Mozambique: Corruption perception Index	18
Figure 2:	Corruption and fraud related cases, 2007-2013	19
Figure 3:	External debt stock, FDI and Revenues as % of GDP	25
Figure 4:	Cost of corruption by production sector in per cent (average 2012-2014)	39
Figure 5:	Cost of corruption by budget functional sector in per cent (average 2012-2014)	40
Figure 6:	ODA as a percentage of Gross National Income, 2007-2013	47
Figure 7:	ODA donor commitments, 2007-2013	48
Figure 8:	Mozambique: net disbursements of ODA by type, 2007-2013 (million US\$)	49
Figure 9:	Principal-Agent-Client Corruption actor model	68

### BOXES

Box 1:	Public tenders for construction	17
Box 2:	EMATUM	35
Box 3:	Brief explanation of input-output table	41
Box 4:	Corruption Traffic Police	43
Box 5:	Corruption in road construction	44
Box 6:	Elephant poaching	45
Box 7:	Non-official use of fuel and travel allowance by civil servants	50
Box 8:	Attempts to privatize TDM?	58

## DISCLAIMER, CONFIDENTIALITY OF SOURCES AND CREDITS

The research for this study was conducted by a team of researchers and staff of both *Centro de Integridade Pública* (CIP) Maputo/Mozambique ([www.cip.org.mz](http://www.cip.org.mz)), and the *Chr. Michelsen Institute* (CMI), Bergen/Norway ([www.cmi.no](http://www.cmi.no)), the latter operating the U4 Anti-Corruption Resource Centre ([www.U4.no](http://www.U4.no)). The opinions expressed in the study do neither necessarily represent those of these institutions nor those of their senior management.

Their joint endeavour in this undertaking would not have been possible without thorough (economic) research, the review of available literature and the information provided by a considerable number of Mozambicans and foreigners living inside and outside Mozambique. The informants cover a wide societal spectrum, ranging from present and former government officials, technicians, representatives of public and private companies inside and outside Mozambique and members of the Judiciary. For obvious reasons, the identity of the sources cannot be revealed.

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***No nosso país a incompetência e a ilegalidade,  
quando não são premiadas, facilmente se  
refugiam na impunidade.***

***In our country incompetence and illegality,  
if not awarded, easily take refuge in impunity.***

– Rui Baltazar Alves, former Minister of Justice, of Finances and  
former President of the Constitutional Council

## EXECUTIVE SUMMARY

### Introduction and overview

What is the price that Mozambique has to pay for the widespread corruption in the country? What is the cost of corruption for the Mozambican economy, the state and its people? The present study aims at providing succinct answers to those questions.

In a nutshell: the estimated average annual cost of corruption, as observed during the ten years from 2004 to 2014, is up to 4.9 billion US \$, equivalent to around 30% of the 2014 GDP and 60% of the 2015 budget. This burden caused by corruption is certainly crippling for the budget, the economy, business and socio-economic development and welfare.

The present study is the result of five months' worth of intensive work of a study team composed of researchers and staff of both Centro de Integridade Pública (CIP) Maputo/Mozambique ([www.cip.org.mz](http://www.cip.org.mz)), and the Chr. Michelsen Institute (CMI), Bergen/Norway ([www.cmi.no](http://www.cmi.no)), the latter operating the U4 Anti-Corruption Resource Centre ([www.U4.no](http://www.U4.no)).

It is hoped that this study, launched on the 9th of December 2015, the International Anti-Corruption Day – an occasion which also marks the 10th anniversary of CIP – provokes the necessary and wide debate on the causes and implications of corruption in Mozambique and ways to curbing it and thus easing its burden on state, economy and society.

The background, methodology and findings of the study are summarised as follows:

### Corruption: International and national context

An increasing body of literature demonstrates how corruption damages the social fabric of a society and has toxic effects on the economy. Others argue that corrupt practices may 'grease the wheels' of economic growth and be a means of economic necessity and political settlement among elites in development countries (Khan, 2004). However, one needs to consider that one type of corruption may be more damaging than another. However, the overall net effect of widespread and endemic forms of corruption, as the overwhelming weight of studies and analyses indicate, is damaging to an economy and retards development (Lambsdorff, 2007). The argument of corruption 'greasing the wheels' and contributing positively to economic development is thus difficult to uphold.

The damaging effects of corruption, or rather the **perception** thereof, are measured globally, e.g. by Transparency International (TI) through their global *Corruption Perception Index (CPI)*. And the damaging effects on economic growth, poverty, income distribution, investment, capital productivity and social sectors such as health and education among others are being studied worldwide. Ten years ago, the World Bank estimated that each year, 20 to 40 billion US\$, corresponding to 20% to 40% of official development assistance, are stolen through high-level corruption from public budgets in developing countries and hidden overseas (cited in Wickberg, 2013:2). A recent study by researchers of the U4 Anti-Corruption Resource Centre (U4) and the Chr. Michelsen Institute (CMI) in Norway concludes that corruption not only undermines development and reduces the effectiveness of development aid, but also damages poor people disproportionately, given that illicit financial flows are a consequence of flourishing corrupt practices, often amongst the rich in society. The authors estimate that an amount of up to 1 trillion US\$ is drained every year from developing countries (Johnson *et al.*, 2015).

Regarding the African continent, it has been estimated that 'during the 1990s corruption cost African economies about 148 billion US\$ per year, or about 25 percent of Africa's total output' (Wickberg, 2013). Other reports show that during one year, corrupt African politicians and civil servants divert amounts in excess of 30 billion US\$ in development aid to foreign bank accounts. The impact of corruption is especially hard on the poor with estimates showing that low-income households in Africa spend as much as 2–3% of their income on bribes (Kimenyi & Mbaku, 2011). The real illicit flows from Africa grew at an average rate of 12.1% annually over a 39-year period. Illicit flows of money from Africa as a percentage of Gross Domestic Product (GDP) stand at some 8% (Astorga *et al.*, 2012).

According to the most recent global *Corruption Perception Index (CPI)* in 2014, **Mozambique** holds position 119 of 175 countries, with a score of 31 points in a range between 0 (highest) and 100 (lowest). Compared with previous years, there is not much of a change in terms of score (2012: 31; 2013: 30), although Mozambique slightly improved its overall position from the rank of 123<sup>rd</sup> which it held in 2012. In the African context, Mozambique, together with Sierra Leone and Tanzania, ranks 20<sup>th</sup> in the list of the 20 most corrupt countries in Africa. The rather unchanging situation during the past three years is also reflected in the World Bank's *Country Policy and Institutional Assessment (CPIA)* indicator on transparency, accountability and corruption in the public sector. Mozambique, with its score of 3 (on a scale of 1 = low and 6 = high) being constant since 2011, holds a position somewhere in the middle.

In the *Ibrahim Index of African Governance (IIAG)*, Mozambique, scoring 52.2 (out of 100) holds a middle position, ranking 22<sup>nd</sup> out of all 52 African countries assessed. The country scores lower than the average in Southern Africa, and the overall score has slightly deteriorated since 2009 (by –2.2 points). The IIAG's (partial) accountability index' overall accountability score decreased by 3.3 points between 2009 and 2014. This index includes aspects such as corruption in the public sector (including office bearers in government and public administration) and in rural areas, accountability and transparency, abuse of office and diversion/misuse of public funds. There has been a negative change in this index since



2009, with the exception of the sub component 'Access to Information'.<sup>1</sup>

It is known from international comparative studies that, on average, the increase in the CPI of one unit triggers a 0.59 percentage point decrease in the growth rate of per capita income (Ugur & Dasgupta, 2011). Under this assumption, corruption in Mozambique would have had no effects on growth since the corruption perception indices have remained more or less constant over the past three years.

Concerning the domestic efforts to gauge corruption in Mozambique, the second national *Assessment of the Perception of Corruption* was commissioned in 2010 by the Ministry of Public Service. The results show that police, licensing departments, procurement units and customs services, as well as the health, education services and justice, are considered to be foci of endemic corruption by businesses and households. Corrupt practices are perceived to be most frequent in the capital Maputo, the centre of political, governmental and administrative power. The government (politicians and government officials), followed by multinational businesses and drug traffickers are institutions perceived to have a considerable influence on corrupt practices. Another study suggests that the foci of corruption in Mozambique are Public Financial Management (budget processes; public procurement; revenue administration), the judiciary, police, and environment, natural resources and extractive industries (Martini, 2012).

According to the 2014 annual report of the Attorney General to Parliament, between 2012 and 2013 an accumulated total of 876 corruption related cases, including fraud and embezzlement, were registered with the institution and its subordinated Central Anti-Corruption Agency (*Gabinete Central de Combate a Corrupção – GCCC*) and its regional delegations. Out of these, 296 indictments were made with 138 cases being judged (PGR, 2014). The total of all registered corruption-related cases only represents 2% of all criminal cases during that period. The total damage to the state's treasury attributable to corruption was estimated to be around 2 million US\$.

The crux with this type of information is that little data is based on targeted specialised research, or, as in the case of the GCCC, on investigated cases, but rather on perceptions of the problem. Hence the data produced may be vulnerable to subjective bias in terms of values, habits, and expectations, etc., of the observer.

Taking the above perceptions as a point of departure, the research team posed the **questions**: Are the above assumptions on the dimension of corruption and its perceptions plausible? Is there an observable shift in major forms of corruption? **Can an alternative methodology and way of measuring and estimating the real cost of the corruption to the economy be employed**, to gain a better understanding of and gauge the immediate, direct and indirect effects of corruption on an economy?

The present study takes up the challenge of measuring corruption using the case of Mozambique. We introduce and apply an approach to measure corruption and its effects on the economy, by quantitative estimates for a considerable number of cases of corruption either revealed or researched. The approach is informed by recent studies on measuring corruption (CMI, 2014; DFID, 2015). We thus attempt to take the approach of measuring perceptions of corruption considerably further by providing informed estimates. The aim is to make policy makers and the public aware of the deadweight burden that corruption entails for socio-economic development; an oppressive burden, which households, public and private alike, have to bear. With a clearer understanding of that burden and the elements of which this is composed, the perspectives on avenues and measures to reduce or partially eliminate that weight may become clearer.

## A brief look at the economy

As corruption is damaging to the economy, we first seek to understand the character of this damage, and its consequences, regarding structural and cyclical aspects of the Mozambican economy.

From a **structural perspective**, Mozambique's formal economy, as reflected in national

1 The Right of Access to the Information Act was promulgated on the 29<sup>th</sup> of December 2014.

and international statistics and documents, is characterised by an export-oriented extractive economy, in which little capital is retained and accumulated for domestic investment and economic diversification, and industrialisation. This type of economy is 'porous' (Castel-Branco, 2015), i.e. open and exposed to the volatility of global markets and the self-interests of international financial capital. Capital investment is primarily 'rewarded' overseas and not within the country, e.g. in the sense of revenue, since most of the megaprojects have been benefitting from generous tax holidays and other privileges (CIP, 2013a; b). With its high degree of openness, porosity and neglect of the small scale agriculture and inward oriented industrialisation, the economy does, in its structure, resemble that of its colonial predecessor. Little transformation has taken place, especially in favour of the interests of small-scale agriculture and the rural population at large which constitutes the overwhelming majority of the country's population (Mosca, 2011).

From a political economy perspective, Mozambique's economy may be characterised as one in which a predominant party, Frelimo, has established hegemonic power over the state, the economy and the resources the country is endowed with. The established social, political and economic order has been characterised as a Limited Access Order (Levy, 2012), i.e. an order in which access to benefits is limited to those belonging to the established hegemonic elites and those who support them in a clientelist relationship. These elites can be considered to be self-serving principals or patrons, who consolidate power by organising groups of clients through offering financial, organisational, economic, etc., benefits and access to resources in exchange for their support. The relationship and distribution of power, resources and influence do not necessarily take into consideration the structure and dynamics of formal productive institutions, i.e. the formal economic and fiscal system. For this reason, opportunistic economic behaviour and all forms of rent seeking and predation as well as corruption, are intrinsically part of a clientelist political economy (Khan, 2010).

The **economic outlook for 2016** is characterised by an interaction of a number of constraining factors which produce **considerable budgetary constraints**, and less space for manoeuvre regarding spending on priority social sectors, recurrent cost (salaries), infrastructure investment and debt repayment. Others speak of an economic crisis bound to worsen, and requiring stabilising measures, such as a loan by the IMF to the country.<sup>2</sup> The following are amongst the constraining factors:

- a. Despite a projected growth of the economy of 7% (in constant price terms) for 2015, corresponding roughly to a per capita growth rate of 4.6% under the assumption of 2.4% population growth per annum, there are clear signs of contraction. The recent downward adjustment of the annual growth projections (of initially 8% or more) is indicative of a less favourable global and domestic environment for the Mozambican economy in the near future with increasing economic, investment and fiscal risks (IMF, 2015), and the prospects for the gas business become less certain than they were during the past few years due to globally depressed energy (oil and gas) prices.
- b. Mozambique's total public debt (foreign and domestic), measured as a percentage of GDP, increased between 2012 and 2015, from around 40% on average between 2008 and 2014 to well above 50% in 2014, and is expected to reach almost 60% in 2016 (IMF, 2015). In nominal terms, public debt increased from 4.8 billion US\$ in 2012 to 7 billion US\$ in 2014, where 1.5 billion US\$ thereof are debt incurred by three 'projects' financed by Non Concessional Borrowing (NCB), namely EMATUM, the Maputo-KaTembe bridge and the Maputo Ring Road, the latter two are financed by China. Reliance on NCB does not only exhaust the cushion of credit for projects promising short to medium term returns, it may also trigger a spiral of more financing needs or more borrowing, and/or a reduction in the budget deficit through raising of revenue and/or reduction of spending. Both have a negative impact on private sector activity and growth and thus on revenue generation (Staines & Nucifora, 2010). The increasing indebtedness and

<sup>2</sup> Joseph Hanlon, *More austerity & price rises predicted in economic crisis*. MOZAMBIQUE 304. News reports & clippings. 25 November 2015.

the present mix of debt (NCB/CB; domestic/foreign) may have caused the downgrading of Mozambique's creditworthiness by two agencies, Standard's and Poor and Fitch.

- c. The generation of revenue by the *Autoridade Tributária de Moçambique (AT)* may slow down, since it appears that the tax collection returns from increased fiscal effort are declining. The Value Added Tax (VAT) collection may be indicative: with around 8% of total tax collection on average, it has been almost constant during the past five years. There has been an increase in direct taxes on income and profit (ISPS and ISPC) during the past couple of years, attributable, in the case of ISPC, to revenue from taxing exceptional windfalls caused by the sale of concessions, notably in the gas exploration business. Increasing the income and profit tax yield from non-extractive industries of the economy and from individuals will be hampered by the present unfavourable economic cycle and the already high tax burden, which drives business to evade tax and 'escape' into the informal sector.
- d. There are very strong signals from various branches of business all over the country (tourism, manufacturing, agriculture, real estate, etc.) that the economy is slowing down, with an exception of some investments and projects in the extractive industries (e.g. ruby and graphite mining in Cabo Delgado, and gas/oil extraction in Inhambane). *Não há dinheiro* (There is no business) is a complaint often heard throughout the country and across various branches of industry. Inflows of Foreign Direct Investment (FDI) had its boom period between 2010 and 2013, with a decrease in 2014. Depending on the world economic trends and commodity prices, this tendency may continue. The depreciation of the Metical, particularly against the US\$,<sup>3</sup> has advantages for exporters, but hits importers by increasing the prices of important fuel, food and other consumer goods on which the country is structurally dependent. The dramatic depreciation of the Metical may, however, not only be caused by a globally strong dollar, but also by an increasing domestic demand for 'hard currency'. This may, in turn, mirror a reduced trust in the Metical (MT) under the present conditions of uncertainty, and the expectations of price increases for basic commodities and food.<sup>4</sup>
- e. Regarding global factors, the global demand and price prospects for the major Mozambican exports (namely minerals, coal, metal/aluminium and some agricultural products) are not very encouraging, with the exception of unprocessed tobacco, rubies and graphite. Low commodity prices, in turn, increase the pressure on the balance of trade and services. Mozambican energy exports to the region, a major potential market, have suffered from the lack of commitment of potential buyers, notably South Africa. China's economic downturn will certainly affect its demand for resources, and its capacity to support Mozambique with NCB facilities, apart from putting a question mark behind its role as a potential market for Mozambican LNG. Furthermore, Mozambique's donor landscape and volumes of aid have also suffered profound changes. This is mainly felt within the Programme Aid Partners (PAP) group, which gives budget support to the Mozambican Treasury in various forms. Not only has the total number of PAPs been reduced from 19 to 14 in 2015, but the volume of aid has also decreased substantially, contributing to financing the budget with less than 30% at present as compared to around 50% about ten years ago. Gone are the days in which the donors generously covered large parts of the annual budget deficits.

In summary, this means that the annual budget deficit which in 2014 exceeded 10% of GDP and is already one of the highest in Sub-Saharan Africa will put the government under continued fiscal stress, with less options and facilities.

<sup>3</sup> In one year, the value of the MT against the US\$ dropped by 45%.

<sup>4</sup> At the time of writing, the public electricity utility announced an increase of its tariffs by almost 20%. See: Mozambique: Electricity Prices Rise. <http://allafrica.com/stories/201511070339.html>.

Under these circumstances, the government will need to identify domestic fiscal reserves and ways of getting the economy going. Obviously, fighting corruption may help achieve these two objectives, simultaneously ‘killing two birds with one stone’ and the present study aims at providing data and information to do so. From a policy perspective, it is important, for this reason alone, to have a realistic estimate of the cost of corruption and in which sectors of state budget and economy the cost arises. We also need to know what public resources that may be mobilised if effective anti-corruption action is vigorously taken forward.

## Methodology

On the basis of a comprehensive review of literature, the study team designed and employed an approach which distinguishes actors in corrupt transactions, type of corruption and the relevant sectors in which corruption manifests itself. The methodology allows us to generate and verify evidence of corrupt practices, by type and sector. This ‘evidence’ is not evidence in *sensu stricto*, i.e. facts and figures, but rather reasonable, plausible assumptions on monetary values involved in corrupt transactions. Quantitative estimates of the ‘cost’ of each case or practice were fed into a calculation framework. This framework enabled the aggregation of the monetary value “cost” of individual cases to illustrate the total damage caused by corruption to the state budget and to assess, with reasonable plausibility, its impact on macro-economic aggregates such as GDP or Value Added produced by the Mozambican economy.

Based on a Patron/Principal (P)–Agent (A)–Client (C) actor model (Lambsdorff, 2003), the methodology includes the distinction between five types of corruption, from embezzlement, via stealing of public resources, bribing and extortion, to collusion and cases of public private partnerships, in which the distinction of actors becomes blurred and a conflict of interests may occur. The research team also added the dimension of budgetary distortions to maintain a corrupt system producing benefits, notably for P.

The approach also ensured that a relevant composition of sectors in which corruption is known to be happening was selected. A wide range of relevant sectors were identified, ranging from public finance, customs, police via the social sectors (health, education) to economic sectors (construction, fisheries, telecommunications, environment and natural resources). As a result, a case matrix was constructed consisting of the predetermined sectors and the predetermined types of corruption. The time frame to be considered was 2002 to 2015, covering a period of 13 years.

With this matrix as a working tool, the team proceeded to generate evidence and data on corruption aimed at populating the matrix in order to create a **purposive sample**. This type of sampling, sometimes also referred to as judgemental or expert sample (Richie *et al.*, 2003; Battaglia, 2008), is non-probability based, i.e. not a sample based on statistical representativeness but an intended or purposive selection of cases across a wide spectrum that includes both corruption sectors and types. Such a sample is said to be logically, not stochastically representative of all cases of corruption. Mainly using expert knowledge for the selection of evidence (particularly from CIP), purposive sampling allowed the team to produce a matrix with **36 cases**, covering all predetermined corruption types and sectors. Care was taken to assure a good mix of small cases (petty corruption), medium cases (with estimated values of between 10 and 100 million US\$ per corrupt transaction) and big cases (above 100 million US\$).

Taking into consideration the secretive nature of corrupt deals as well as the advantages of the purposive sampling, the researchers defined ‘evidence’ in a pragmatic, broad way. In their understanding, ‘evidence’ includes scientific and research publications and studies, published or unpublished newspaper reports of professional and investigative quality, and information generated through ‘elite interviews’ conducted by the researchers. The latter are interviews, conversations and discussions with individuals who have insider knowledge and thus are able to provide insights and information about an event and/or a process (e.g. a corruption case), understanding its trajectory and outcomes. A total of **47 oral testimonies** were collected covering a wide range of sources (institutions of the state and government, businesses, CSOs, diplomatic missions, etc.).

It should be stressed again that considerable care was taken to ensure that the ‘evidence’ gathered by the methods described above was verified and, where possible, tested against information from other sources. In particular, information on monetary values of corrupt deals was double checked and subjected to plausibility control. Even so, those **monetary values were not considered to be a fact** (which, in the case of corruption, is hard to establish anyway by academic researchers), but considered as more or less plausible **assumptions**. In all cases studied, assumptions on minimum and maximum values were made and fed into a databank which allowed the aggregation and processing of data and the calculation of the direct and indirect impact of corruption.

The data and assumptions gathered were introduced in a **tool for economic analysis**, which makes it possible to gauge the impact of accumulated values of corrupt transactions contained in the sample matrix on the budget and other macro-economic data, notably Value Added (equivalent to the value of goods and services produced within the country over a year). This is done within a **national accounts framework**.

To make a comparison with annual budget and value added figures, the approach has been to express annual cost as a yearly average of the three most recent years for which national accounts and budget data are available, namely 2012–2014. The annual cost of corruption is thus defined as the annual average over these three years. A further assumption is that corruption does not just take place in the year in which it is discovered. It is reasonable to believe that most types of corruption take place year by year at approximately the same level as when discovered, unless there is evidence that a certain type or case of corruption has been stopped. In a few cases, however, corruption cases are stand-alone cases. In this regard, the amount involved was split into equal parts over the three-year period 2012–2014.

## Results

The methodological and analytical framework described above produced the aggregated values of the corruption cases for the 2004–2014 period, which allows a calculation of the overall direct cost of all 36 documented cases. The assumption, and this needs to be emphasized again, is that the data used in the sample merely represents *plausible estimates* of monetary values involved in the registered corrupt deals.

The picture emerging from the analysis is that of a Mozambican economy and, by implication, society at large, severely crippled by corruption.

The **aggregated value of the corruption costs (as represented in the sample) during the period 2002 to 2014**, at current prices, is 4.8 to 4.9 billion US\$, equivalent to around 30% of the 2014 GDP. This percentage is well above the average figure for all African countries cited in section 1. It means that, on average over the period covered by the sample, the annual damage is close to 500 million US\$ per year.

The sectors (cases) in the sample in which corruption is most pronounced and with amounts to considerably above 200 000 million US\$ per case each are:

- Customs;
- EMATUM;
- Overpricing of liquid fuel imports;
- Procurement in the telecom sector;
- Procurement in the construction/public works sector.

In the period under observation, corrupt practices in **Customs** can be identified as the major cause of damage to the economy, involving large sums of illicit transactions. Customs related bribing, underreporting and avoidance of import tax payments have cost the state dearly. The single most important **loss of public resources** recorded in the sample is related to the mounting of a Customs-shadow system aimed at circumventing the official MCNET system. It has cost the country an **estimated 2.5 billion US\$, i.e. in excess of 1 billion US\$ more than the total expenditure budgeted for education and health (1.4 billion US\$) in 2015**.

But oral sources also point to a growing importance of State-owned Enterprises (SOEs) and particularly private companies owned by state institutions as well as Private Public

Partnerships (PPPs) as hubs of corruption. Damage inflicted by specific types of corruption associated with such companies, including collusion and manifest conflict of interest, is second to that caused by illicit and corrupt practices in Customs.

The table below provides the dimension of the total cost due to corruption during the period under observation (10 years) in relation to key macroeconomic aggregates for 2014 and 2015.

**TABLE 1**

Total cost of corruption cases in relation to economic aggregates (in %)

Source: Authors, based on DNO, 2015.

Corruption Cost as percentage of	%
Expenditure 2014 (executed)	71.7
GDP 2014	30.8
Total investment 2015 (budget)	195.2
Education spending 2015 (budget)	362.8
External budget component 2015 (budget)*	287.1

\* ODA + credit.

The monetary value of the corruption cost accumulated over the period covered by the sample **could have doubled the investment budget for 2015 and more than tripled planned expenditure in education**. And that amount would have covered almost three times the amount of aid plus the external credit budgeted for 2015.

It can also be seen from the dataset that corruption is estimated to have caused a **loss of about 11.6% of the tax revenue average for the three years 2012 to 2014**. Together with the loss in expenditure of 4.8 billion US\$ for the same period, the state has lost 5.3 billion US\$ or 86% of the average 2012–2014 budget. This means that the state could deliver public goods and services worth 205 US\$ per capita less than it could have done without corruption.

The impact of corruption on the economy is equally severe. In terms of Value Added, it is responsible for the **loss of 2.5 billion US\$ or more than 17% of the average Value Added between 2012–2014**, meaning that each person would have lost 98 US\$ per year due to corruption or some 18 per cent compared to what their income would have been without corruption. Most affected by corruption were the building/construction sector, as well as fisheries, services and transport, and communication.

Corruption produces far-reaching, indirect effects on the provision of public services, and on poverty and social welfare as a whole. The data provided by the study largely confirms, for Mozambique, conclusions drawn from other, comparative material. Considerable fiscal resources drained by corruption could have been put to good use in the priority sectors, notably education and health.

The impact on the private sector, analysed in a differentiated way in section 5, is also considerable, producing additional costs, lack of competitiveness and crowding out effects on the private sector benefitting the public sector and State-owned Enterprises (SOE) in particular. The evidence produced by the study shows that some foreign direct investment worth about 90 million US\$ has not been realized and that major investors, ruled by national and international anti-corruption codes, have to think twice before investing in and partnering up with national firms, both private and public ones. This implies a risk that ‘clean investors’ may be crowded out in favour of investors with a less favourable reputation, posing a reputational risk for Mozambique as a favourable destination of foreign investment.

## Recommendations

The study provides a series of short and medium term recommendations aimed at curbing the cost of corruption through targeted anti-corruption measures. It suggests three areas of reform which, in a long-term perspective, need to be addressed to lower the exposure of the country to corruption, i.e. a thorough rethinking of the future Mozambique, alluded to by President Nyusi at a conference in June 2015, is part of a long-term solution.

It is hoped that the present study is seen as an input into that rethinking process.

## 1. INTRODUCTION

In this study, the authors attempt to quantify the effect of corruption on the Mozambican economy and the welfare of the Mozambican people, using a macro-economic approach for estimating the costs of corruption. Although this attempt will certainly be questioned by various stakeholders and the government, given the methodological difficulties associated with the undertaking – and the resultant estimates of the costs of corruption in Mozambique, the exercise is considered useful for obtaining a ‘palpable’ understanding of the weight of corruption on the Mozambican economy and in limiting the space for economic and fiscal decision-making of the government and other economic actors. Having said this, the study does neither delve into the analysis of the main causes of corruption in Mozambique, and into the political processes which lead to corrupt practises in general and in the cases documented in this study. Nor does it claim to show the reader a ‘strategic highway’ to combat corruption, considered to be endemic, despite its suggestions (in Section 6.2) to curb certain practises, measures aiming at undermining the confidence between the corruptor and corrupted, as suggested by Lambsdorff (2007).

An analysis of the political and systemic causes of corruption would have required a more profound and broader framework of analysis of the Mozambican political economy. Studies of this type do exist and some of their findings were indeed used in the present study (see the bibliography). However, the political economy analyses in their various forms, many developed and applied by bi-and multilateral donors,<sup>5</sup> have been criticised for being largely donor driven and prone to excluding recipient states of aid in their design, serving, in practice, ‘as a donor-centric diagnostic and risk management tool’ in aid partnerships, particularly those associated with budget support (Fisher & Marquette, 2014: 16).

Instead, the authors have opted for an economic calculation of the cost of corruption. In the absence of an established universal methodology for such an undertaking, they saw themselves challenged with developing a methodology to arrive at figures used as indicators for the economic costs of corruption. In doing so, they may have been breaking new ground in corruption analysis and possibly providing a tool to decision makers for strategic corruption assessment and for defining priorities of anti-corruption measures.

5 For an overview see: Boak (2011).

After a general introduction in this first section, we set the theme of the study, sketching, in section 2, the salient structural and present cyclical features and challenges of the Mozambican economy. This is necessary to understand causes and potential remedies for the present fiscal and economic bottlenecks, caused by many domestic and international factors, corruption included. If intensified anti-corruption measures are considered to be part of the solution to overcome present budgetary and economic constraints, the economic dimension and facets of corruption need to be understood and measured. Based on an innovative methodology which allows a high degree of confidence in measuring and gauging the impact of corruption in its various forms (section 3), we present and discuss, in section 4, the results of our corruption analysis. Section 5 is specifically dedicated to the impact of corruption on business and investment, since both increasingly have an important role to play in Mozambique's socio economic development. Section 6 provides final conclusions and makes recommendations for elements of an anti-corruption strategy.

### 1.1. Corruption Damages Development

Every year, large amounts of resources destined for human welfare and development are wasted through corruption, all over the world. 'Wasted' may not even be the most appropriate term, since corruption is preventing that the resources are applied to producing benefits for all citizens, in the sense of providing public goods and services to groups of people, children and old aged included, and society at large. Instead, public resources, including fiscal resources, illicitly appropriated through corrupt practices, become privatised and shared between individuals and small groups, including families, businesses, political parties, etc. These individuals or groups engage in a corrupt relationship motivated by low qualities of human behaviour such as greed, gaining personal advantages over others and securing positions of power, in short, by individual and collective egotisms. The custom of corruptors and corrupted in their confidential relationship of seeking individual mutual advantages in various forms is not driven by a sense of responsibility for and engagement in collective social welfare, human development and access for all citizens to primary public services. At the same time, in many countries, corruption is an accepted cultural and economic practise and considered as part of doing business and its cost for a company are sometimes even deductible in its tax declaration. The dimension, practises and economic weight of corruption in an economy thus result from a combination of various political, economic, cultural, historical and institutional factors of a given political economy of a country of course including the strengths (or weaknesses) of institutions and policies aimed at curbing corruption and minimising its effects on the economy and the day-to-day life of the population.

For the authors, there is, however, no doubt that the 'net effects' of corruption are damaging for the social fabric of a society and have toxic effects on the economy, even if it is admitted that corrupt practices may contribute to economic growth and be a means of economic necessity and political settlement among elites in development countries (Khan, 2004). The authors agree with a number of studies and analyses (e.g. cited in Lamsdorff, 2007, DFID, 2015) which suggest that the net effect of corruption, especially in its widespread and endemic form, is damaging to the economy and retards and undermines development. This is particularly the case in poor developing countries, where corruption tends to be widespread and endemic.

Another academic argument to explain corruption is that it facilitates economic



exchange, by overcoming and circumventing cumbersome regulation and red tape. However, this argument has commonly been countered by observing that cumbersome regulation and corruption are two sides of the same coin. For example, Kaufmann and Wei (1999) show that high levels of corruption are positively associated with the managers' waste of time on bureaucracy and bureaucrats. This suggests that regulation should commonly not be regarded as exogenous in an analysis of corruption. And Lambsdorff has argued that the net effect of corrupt practice is clearly damaging to any economy (Lambsdorff, 2007). The argument used in the 1970s of corruption 'greasing the wheels' and contributing positively to economic development is thus difficult to uphold. In fact, it has been laid to rest by scholars working on corruption and providing evidence of the corrosive and detrimental effects of corruption on the economy and society, particularly in developing countries (Hope & Chikulo, 2000; Lawal, 2007; Lambsdorff, 2007; DFID, 2015).

It is because of the negative net effects of corruption on economic growth, poverty, income distribution, investment, capital productivity and social sectors such as health and education, among others,<sup>6</sup> that a number of initiatives exist that try to quantify the problem (e.g. Transparency International's *Corruption Perception Index*), and this is the reason why the phenomenon is being studied in various continents and globally. Ten years ago, the World Bank estimated that 20 to 40 billion US\$ are stolen through high-level corruption from public budgets in developing countries and hidden overseas every year. This corresponds to 20% to 40% of the official development assistance (cited in Wickberg, 2013: 2). A recent study by researchers of the U4 Anti-Corruption Resource Centre (U4) and the Christian Michelsen Institute (CMI) in Bergen, Norway, concludes that corruption does not only undermine development and reduce the effectiveness of development aid, but also disproportionately affects poor people, given that illicit financial flows are a consequence of flourishing corrupt practices, often amongst the rich in society. It is estimated that an amount of up to 1 trillion US\$ is drained every year from developing countries (Johnson *et al.*, 2015).

Regarding the African continent, it has been estimated that 'during the 1990s corruption cost African economies about \$148 billion per year, or about 25% of Africa's total output. Other reports show that during one year corrupt African politicians and civil servants diverted amounts in excess of 30 billion US\$ in development aid to foreign bank accounts. The impact of corruption is especially hard on the poor with estimates showing that low-income households in Africa spend as much as 2–3 per cent of their income on bribes' (Kimenyi & Mbaku, 2011). The real illicit flows from Africa grew at an average rate of 12.1% annually over a 39-year period. While illicit flows from Africa increased from around 2% of Gross Domestic Product (GDP) in 1970,

**Box 1:****Public tenders for construction in Mozambique?****Case:**

Office and residential buildings of the state, infrastructure

**Type:**

Bribing, collusion

**Sector:**

Construction, public works, public administration

**Year:**

2013

**Evidence:**

REO, oral, high fidelity

**Description:**

Many sources interviewed for this study allege that there is a large degree of corruption in the tendering for public construction contracts.

**Calculation base:**

All budget items covered by the economic expenditure classifier 211000 (construction, buildings) for recurrent expenditure (*funcionamento*) and investment (internal and external components) at all levels of government (excl. municipalities): 1.028 billion US\$ (2013).

**Assumptions:**

All public construction projects are tendered out  
Percentage of total budget drained by corruption:

Minimum: 10%

Maximum: 30%

Medium: 20%

**Direct costs/damage (US\$):**

Minimum: 102.9 million

Maximum: 308.6 million

Medium: 205.7 million

**Equivalent to:**

11.8% of projected budget deficit for 2013;

9.0% of investment budget (2013)

14.2% of public salary bill (2013)

**Indirect effects:**

Less quality and use life of public buildings

Higher maintenance or replacement cost

6 For an overview, see Wickberg, (2013); DFID (2015), and Lambsdorff (2003).

it peaked at around 11% in 1987, fell sharply to below 4% for much of the 1990s, rose again to 8% of GDP in 2007 before declining to around 7% in 2008 (Astorga *et al.*, 2012). This means that a considerable part of the GDP of African countries is systematically, but to varying degrees, withdrawn from the economy, with implications for (reduced) public and private sector spending and investment.

## 1.2. Mozambique: Perceptions of Corruption

How does corruption manifest itself and affect the Mozambican society and economy?

According to the most recent global *Corruption Perception Index (CPI) 2014*, Mozambique holds position 119 of 175 countries, with a score of 31 points in a range between 0 (most corrupt) and 100 (least corrupt). The lowest score globally in 2014 was 8 (held jointly by North Korea and Somalia) and the highest was 92 (held by Denmark). Compared to previous years, for Mozambique there was not much of a change in terms of corruption perception (2012: 31; 2013: 30), although there has been a slight improvement in the country's overall position from 123<sup>rd</sup> in 2012 to 119<sup>th</sup> in 2014.<sup>7</sup> This is mostly due to a deterioration in the corruption perceptions in other countries. In the African context, Mozambique is perceived to be the 20<sup>th</sup> most corrupt country together with Sierra Leone and Tanzania. The figure on this page gives an overview of the CPI for Mozambique.

**FIGURE 1**  
Mozambique: Corruption perception Index



The lack of progress during the past three years is reflected in the World Bank's *Country Policy and Institutional Assessment (CPIA)* indicator on transparency, accountability and corruption in the public sector. Similarly to the CPI, Mozambique has not progressed past the score of three out of six since 2011 (where 1 = most corrupt and 6 = least corrupt).<sup>8</sup>

In the *Ibrahim Index of African Governance (IIAG)*,<sup>9</sup> Mozambique scores 52.2 out of 100 (where 100 = least corrupt) and again holds a middle position, ranking 22<sup>nd</sup> out of all 52 African countries assessed.

However, the country scores lower than the average in Southern Africa, and the overall score for Mozambique has deteriorated slightly since 2009 (by 2.2 points). The IIAG's (partial) 'Accountability Index' score decreased by 3.3 points between 2009 and 2014. This index includes accountability and transparency aspects such as corruption in the public sector (including office bearers in government and public administration), corruption in rural areas, as well as the abuse of office and diversion/misuse of public funds. A negative change in this index has occurred since 2009, with the exception of the sub component 'Access to Information' which improved in 2015.<sup>10</sup>

From international comparative studies, it is known that, on average, the increase of the CPI by one unit triggers a 0.59 percentage point decrease in the growth rate of per capita income (Ugur & Dasgupta, 2011). Under this assumption, corruption in Mozambique would have had no effects on growth since the corruption perception indices have remained more or less constant over the past three years.

Concerning national sources, a *National Assessment of Corruption Perceptions*, the

<sup>7</sup> <http://www.transparency.org/cpi2014>

<sup>8</sup> <http://data.worldbank.org/indicator/IQ.CPA.TRAN.XQ>

<sup>9</sup> <http://www.moibrahimfoundation.org/iiag>

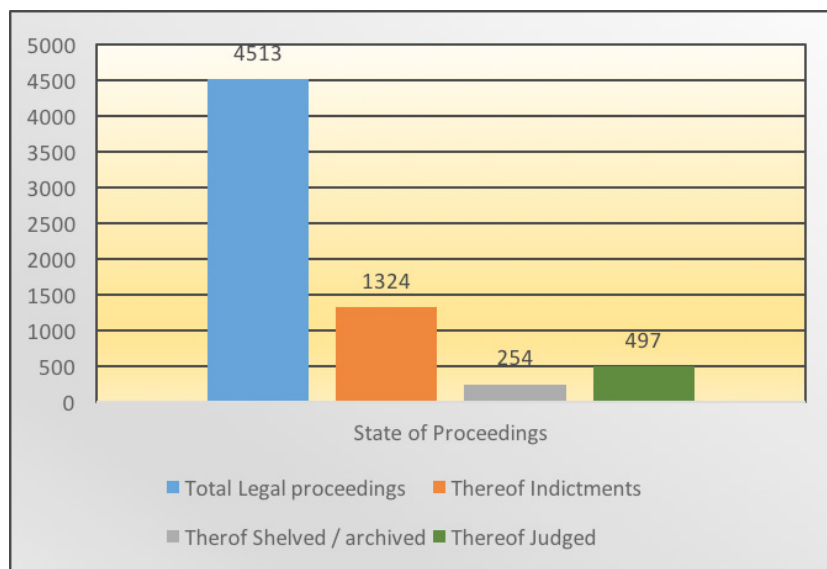
<sup>10</sup> The Right of Access to Information Act was promulgated on the 29<sup>th</sup> of December 2014.

second of its kind,<sup>11</sup> was commissioned in 2010 by the Ministry of Public Service. The survey for the study was conducted by the Higher Institute of International Affairs' Centre of Strategic and International Study (ISRI-CEEI) subordinate to the Ministry of Foreign Affairs. The results demonstrate that, in general, police, licensing departments, procurement units and customs services, and the health and education services, are considered to be the most corrupt institutions by businesses and households. According to the survey, both businesses and households also believe that the courts are endemically corrupt. Corrupt practices are perceived to be most frequent in the capital Maputo, the centre of political, governmental and administrative power, as well as in Maputo Province, and the Niassa and Zambézia Provinces. Government (politicians and government officials), followed by multinational businesses and drug traffickers are perceived to have most influence over corrupt practices.

The findings by ISRI-CEEI generally overlap with other studies. According to a U4 Expert Answer on the status of corruption and anti-corruption in Mozambique (Martini, 2012), the main corruption problems in Mozambique pertain to a) Public Financial Management (budget processes; public procurement; revenue administration), b) the Judiciary, c) Police, and d) Environment, Natural Resources and Extractive Industries. The U4 Expert Answer also identifies political corruption, cronyism and patronage networks as major causes of corruption.

According to the most recent annual (verbal) report by the Attorney General to Parliament, between 2012 and 2013 an accumulated total of 876 corruption related cases, including fraud and embezzlement, were registered with the Institution and its subordinated Central Anti-Corruption Agency (*Gabinete Central de Combate a Corrupção* – GCCC) and its regional delegations. Out of these, 296 indictments were made, with 138 cases leading to prosecutions (PGR, 2014). The total of all registered corruption-related cases represents only 2% of all criminal cases during that period. According to these figures, the total damage to the state's treasury attributable to corruption was estimated to be around 2 million US\$.<sup>12</sup> As illustrated by this report, this figure is far too low in our view and the result of the limited capacity, capability and reach of the Mozambican judicial system. The limited capacity of the aforementioned institutions is illustrated in figure 2, which shows that only a small number of cases actually result in prosecutions, with the vast majority not even leading to indictments.

The limited capacity of the GCCC has also been a hot topic in the discussions of anti-corruption measures by Mozambican civil society. CIP noted that the Attorney General's 2015 report to parliament did not reflect the true picture of corruption prevailing in Mozambique due to the fact that the AG report has too narrow a focus on 'petty corruption' (e.g. in schools, police and health services). Furthermore, according to CIP, some known cases that are in the interest of the public were simply not mentioned in the AG's report – for instance, major corruption cases which involved senior government officials. Finally, CIP highlighted inconsistencies between the findings of the report and the corruption-related results of a joint monitoring report of budget support by the government and the



**FIGURE 2**  
Corruption and fraud related cases, 2007-2013

Source: PGR, 2014

11 *Pesquisa Nacional Sobre a Governação e Corrupção*. The first survey stems from 2004. These Surveys inform the Government's National Anticorruption Strategy.

12 <http://www.jornalnoticias.co.mz/index.php/politica/35985-no-seu-informe-annual-ao-parlamento-pgr-apela-a-contencao-de-discursos-sobre-violencia>

Programme Aid Partners (PAP). The latter stressed that the government's anti-corruption targets in the common Performance Assessment Framework (PAF) were not met.<sup>13</sup>

### 1.3. Anti-Corruption Legislation

Mozambique has signed and ratified most of the international Anti-Corruption instruments, namely:

- the SADC Protocol against Corruption (SPAC),
- the African Union Convention on Preventing and Combating Corruption (AUCPCC), and
- the UN Convention Against Corruption (UNCAC).

The latter two are legally binding. The only convention that Mozambique has not yet ratified is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention), with South Africa being the only SADC Country to have done so to date (Crane-Charef, 2015).

The Mozambican anti-corruption legislation, partially pushed by Mozambican civil society and partially by donors, has improved considerably since 2012, when the Legislative Anti-Corruption package<sup>14</sup>, known in Portuguese as PLAC, was approved by the Parliament (*Assembleia da República* – AR). It consisted of the following laws:

- *Law 14/2012 of 8<sup>th</sup> of February on the Organizational Structure of the Public Prosecutor and the Status of the Prosecutors*. It also defines the crimes of embezzlement, deviation of public funds and assets, trafficking of influence and illicit enrichment;
- *Law 15/2012, of 14<sup>th</sup> of August, on the Protection of Victims, Witnesses, Whistle-blowers and Experts in Criminal Proceedings*. This piece of legislation, in Article 22, also foresees the establishment of a High Authority of Protection of Victims;
- *Law 16/2012, of 14<sup>th</sup> of August, on Public Probity* which stresses the supremacy of public over private interests. It defines conflicts of interests and prohibits the acceptance, by public office bearers, of gifts, facilities, etc., which might endanger the independent execution of public office. It also establishes the duty of office bearers to declare their assets and defines sanctions against those in violation of the stipulations of the Law. It also prescribes the establishment of the Central Commission of Public Ethics.

The new *Penal Code* was approved in December 2014.<sup>15</sup> Complementing the specific anti-corruption legislation of the PALC, the Law defines in Chapter II active and passive corrupt acts, concussion (graft), embezzlement and deviation of public funds and assets as well as illicit enrichment and fraud as punishable criminal acts.

It is noteworthy that the anti-corruption legislation covers corruption both in the public and the private sector since the 'classical' definition of corruption, i.e. 'the taking advantage of a public position for private gains' focusses on the public sector only. Although surpassed by the specific and more detailed legislation enumerated above, the previously existing specific anti-corruption legislation, Law 6/2004 of 17<sup>th</sup> of June, is still in force and needs to be revoked.

At present, the anti-corruption legislation is not strictly enforced, and the two institutions foreseen to monitor cases of violations of the anti-corruption legislation and for protecting

13 [http://www.cip.org.mz/cipdoc/366\\_Servi%C3%A7o%20de%20Partilha%20de%20Informa%C3%A7%C3%A3o%20n%C2%BA07\\_2015.pdf](http://www.cip.org.mz/cipdoc/366_Servi%C3%A7o%20de%20Partilha%20de%20Informa%C3%A7%C3%A3o%20n%C2%BA07_2015.pdf)

14 CIP and the Ministry of Justice's legal reform Unit (*Unidade Técnica de Reforma Legal* – UTREL) were instrumental in facilitating the production of this legislative package, with the former being particularly active in complementary advocacy campaigns.

15 Law 35/2014, of 31<sup>st</sup> of December.

whistle-blowers, i.e. the Central Authority of Protection of Victims and Central Commission of Public Ethics) have not yet been set up or, in the latter case, are not yet fully operational. An 11 Point Action Plan to implement the PLAC scheduled to guide the institutional strengthening of anti-corruption activities from 2013 onwards has not produced the expected results as yet. This may not be a surprise, since the political pressure on implementing anti-corruption legislation has somewhat withered after the 2014 elections and the change of government in January 2015.

#### 1.4. The Need to Measure Corruption

Following from what is set out in the preceding sections, the following questions can be posed: Are the above assumptions on the dimension of corruption and its perception plausible? Is there an observable shift in major forms of corruption? Can a different methodology and way of measuring and estimating the real cost of the corruption to the economy be used? Using a numeric database, is it possible to provide a better understanding of, and gauge the immediate, direct and indirect effects of corruption on the Mozambican economy and society?

An increasing part of academic research and writing on corruption revolves around ways of quantitatively measuring corruption but is encumbered with a number of measurement problems (DFID, 2015). Apart from the varying definitions of the term 'corruption', the very nature of corruption (illicit and hidden) means that statistics on the phenomenon are scarce. Furthermore, a majority of the attempts to quantify the cost of corruption is based on perception data and not actual values of the monetary transactions involved. There are also great difficulties in determining the causal direction between driving factors for corruption and the magnitudes of the resultant 'cost'.

Most attempts at finding quantitative expressions for the costs of corruption use cross-country data but some also include a longitudinal element by using panel data aimed at producing more reliable results due to a solid empirical base. The systematic study by Ugur and Dasgupta (2011) finds that there is a statistically significant negative effect of perceived corruption and GDP per capita. DFID (2015) presents a table displaying changes in corruption perceptions and changes in GDP and growth rates. The results vary: according to Rahman *et al.* (2006) a one standard deviation increase in corruption measured as per CPI reduces economic growth by 0.79 percentage points. Hague & Kneller (2008) find that one standard deviation in the CPI reduces growth by 5 percentage points. Lambsdorff (2003) finds that an increase in corruption by one point on the corruption perception scale from 10 (highly clean) to 0 (highly corrupt) lowers productivity by 4% of GDP and decreases net annual capital inflows by 0.5% of GDP.

Dreher and Herzfeld (2005) attempt to find a total economic cost of corruption not only by looking at GDP as a dependent variable, but also different types of investment, health and schooling, infrastructure, inflation rates, trade (import and export). They find that corruption significantly and negatively affects GDP growth and GDP per capita, investment, inflation rates and trade.

The present study takes up the challenge of measuring corruption using the case of Mozambique. We introduce and apply an approach to measure corruption and its effects on the economy. This is achieved through quantitative figures and estimates for a considerable number of corruption cases that were either already in the public domain or that were gathered through fieldwork. The study thus goes considerably beyond the approach of measuring perceptions by tallying actual costs and well-informed cost estimates. The aim is to make policy makers and the public aware of the deadweight that corruption represents for socioeconomic development, and get an understanding of the economic burden, which public institutions and private households alike have to bear. With a clearer understanding of that burden and the elements of which this is composed government reforms and anti-corruption measures that work (better) can also be identified or the existing ones improved.

Before the economic dimensions of corruption and its direct and indirect effects are presented in section 4, section 2 provides the political economic context in which the study is undertaken. This is followed by section 3 on the approach and methodology employed by the paper to provide a quantitative idea of what corruption costs the country. A specific

section addresses the impact of corruption on business and investment (section 5). The final section draws conclusion and addresses potential short-, medium- and long-term ways of addressing corruption, which is a widespread phenomenon of human behaviour, not only in Mozambique.

## 2. ECONOMIC CONTEXT

This section provides a brief overview of the context of the Mozambican economy which is the location for what appears to be all pervasive corruption. Both structural and cyclical aspects of the economy are addressed, since they provide key parameters for understanding causes and consequences of corruption. This is particularly true for the presently cyclical downturn of the economy analysed below, since it serves as a backdrop for arguments to rigorously fight corruption for the mobilisation of domestic fiscal resources and continuation of economic growth. The present economic situation of fiscal stress in the form of budget deficits, increasing foreign and domestic debt and uncertainty about major natural resource extraction projects, can also be assumed at least as a partial result of not vigorously fighting corruption in earlier years. Evidence presented in sections 4 and 5 in the study shows that the country's foreign exchange reserves and fiscal resources could have been higher at present, had not corrupt practises and deals in infrastructure and other types of procurement eaten away resources which are now lacking, e.g. to pay back non concessional loans such as the one for the EMATUM fleet (see Box 2). Therefore, we argue that a rigorous fight against corruption in the past ten years would most probably have decreased the budgetary vulnerability to shocks from the fiscal effects of a global economic downturn. The Mozambican economy is vulnerable to such external shocks, given the structural features briefly addressed in the following section.

### 2.1. Aspects of the Political Economy of Mozambique

From a political economy perspective, Mozambique's economy may be characterised as one in which a predominant party, Frelimo, established hegemonic power over the state, the economy and the resources the country is endowed with. Mozambique's established social, political and economic order has been characterised as a Limited Access Order (Levy, 2012), i.e. an order in which access to benefits is limited to those belonging to the established hegemonic elites and those who support them in a clientelist relationship. In this type of analysis of the political economy, the ruling elites which occupy key positions in the party, the public administration, military and the economy possess a tendency to maintain power by 'recycling' (Macuane, 2010) between party positions, government and state institutions, parliament and SOEs as well as by fostering political settlement among the various segments of the ruling elites (Weimer *et al.*, 2012). These elites can be considered as self-serving principals or patrons, which consolidate power by organising groups of clients by offering certain (financial, organisational, economic, etc.) benefits and access to resources in exchange for their support. This relationship and distribution of power, resources and influence does not necessarily take into consideration the structure and dynamics of formal productive institutions, i.e. the formal economic and fiscal system. For this reason, opportunistic economic behaviour and all forms of rent seeking and predation as well as corruption are intrinsically part of a clientelist political economy (Khan, 2010) in which the opposition is largely excluded from sharing of power and resources, and in which rents are not used for buying in elites, other than those linked to Frelimo.

The formal economy, as reflected in national and international statistics and documents, is characterised by an export-oriented extractive economy, in which little capital is retained and accumulated for domestic investment, economic diversification or industrialisation. This type of economy is 'porous' (Castel-Branco, 2015), i.e. open and exposed to the volatility of global markets and the self-interests of international financial capital. Capital investment is primarily 'rewarded' overseas and not within the country, e.g. in the sense of revenue, since most of the early megaprojects, especially in the 1990s and early 2000s, have been benefitting from generous tax breaks and other privileges (Castel-Branco, 2011; CIP, 2013a, b). With its high degree of openness, porosity and neglect of the local (manufacturing and processing) industry, small scale agriculture and inward oriented industrialisation, the structure of the economy resembles that of its colonial predecessor. Little structural transformation has taken place, especially in favour of the interests of small scale agricultural producers and the rural population which forms the overwhelming majority of the country's population (Mosca, 2011). Consequently, and despite the high growth rates of GDP in the past 10 years, poverty has not been substantially reduced and national food security has not been achieved. As the President of the country recently warned: the levels of poverty and malnutrition remain 'unacceptably high.'<sup>16</sup>

## 2.2. Present Macro-economic Challenges

The projected growth of the economy of 7% in (constant price) terms for 2015, corresponding roughly to a 4.6% per capita growth rate under the assumption of 2.4% population growth per annum, is expected to remain at high levels for the next few years. Mozambique is maintaining its reputation as a fast growing African economy and the country is also set to become a major global player in the Liquefied Natural Gas (LNG) industry, probably by the early 2020s due to its enormous gas reserves in the Cabo Delgado province (and less so, in the Inhambane province). The recent downward adjustment of the annual growth projections of 8% or more may, however, be an indicator for a less favourable global and domestic environment for the Mozambican economy in the short and medium term, i.e. until 2020. Economic, investment and fiscal risks are increasing (IMF, 2015), and the prospects for the gas industry become less certain than they were in the last few years, due to declining global prices. We further consider the most important factors to be taken into account in the scenario for the future.

In the short to medium term, the following factors will be those with the highest impact on the Mozambican economy and, as a result, will shape government policy to a large extent.

### 2.2.1. GOVERNMENT DEBT

**First**, there is a recent increase in indebtedness in absolute and relative terms as can be seen from Figure 3, based on data of the *Banco de Moçambique* (BM), showing the stock of foreign debt.

The total of debt (foreign and domestic) measured as a percentage of GDP increased between 2012 and 2015, from around 40% on average (between 2008 and 2014) to well above 50% in 2014, and is expected to reach almost 60% in 2016 (IMF, 2015). In nominal terms, public debt increased from 4.8 billion US\$ in 2012 to 7 billion US\$ in 2014. Thereof, 1.5 billion US\$ are debt incurred by three 'projects' financed by Non Concessional Borrowing (NCB), namely EMATUM, the Maputo-KaTembe bridge and the Maputo Ring Road, the latter two financed by China.<sup>17</sup> Foreign debt has contributed more markedly to the increase than domestic debt. Figure 3, showing only the foreign debt stock, indicates that the debt increase is partially attributable to the increased financing of budget expenditure and capital

<sup>16</sup> President Nyusi's Opening Address on the occasion of the Nordic Conference on Inclusive Growth, Maputo, 14 and 15 October, 2015.

<sup>17</sup> Joseph Hanlon, *More austerity & price rises predicted in economic crisis*. MOZAMBIQUE 304. News reports & clippings. 25 November 2015.

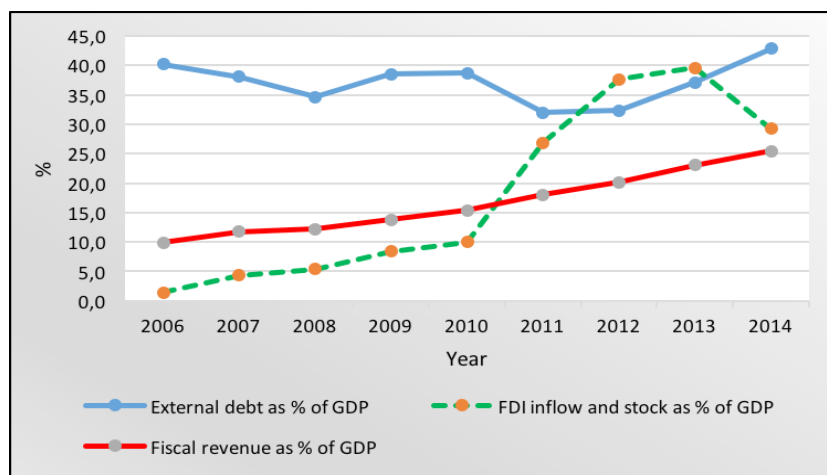


investment by public and private companies through Non Concessional Borrowing (NCB). Such borrowing is not only costlier than Concessional Borrowing (CB) but also riskier, when used for investments which have little prospects of medium-term returns. Their growth impact is more expansive than that of CB. The EMATUM project under which the government-owned company acquired a fleet of military-purpose boats, allegedly for tuna fishing, was financed with a credit of 850 million US\$, of which 350 million US\$ appear not duly accounted for.

These and other non-concessional grants partly exhaust the potential for further such grants and are thus limiting the investment financing capacity via NCB for projects promising more rapid and lucrative returns. They also increase the debt service burden and are likely to affect the country's credit worthiness. It may not be a coincidence that the reduction in Mozambique's classification in Standard and Poor's credit worthiness rating from B to B- follows the disclosure of the financial details of the EMATUM project. In fact, EMATUM has been explicitly mentioned in this respect. A few months later, the Fitch rating agency followed suit and lowered Mozambique's rank from B+ to B. According to statistics published by *Banco de Moçambique* (BM),<sup>18</sup> already in 2011, the first year of massive inflow of Foreign Direct Investment particularly for coal and gas exploration projects, the value of interest payments was equivalent to the value of the debt stock. Furthermore, reliance on NCB may trigger a spiral of more financing needs or more borrowing, and/or a reduction of the primary budget deficit through a raising of revenue and/or a reduction of spending. Both have a negative impact on private sector activity and growth and thus on revenue generation (Staines & Nucífora, 2010).

### 2.2.2 TAX COLLECTION

**Secondly**, and related to the first point, the generation of revenue by the Tax Authority (*Autoridade Tributária de Moçambique – AT*) may slow down, since it appears that the tax collection returns from increased fiscal effort are declining. The collection efforts regarding the indirect taxes on the consumption of goods and services (VAT, etc.) is a good example: despite increasing efforts, the volume collected in relation to GDP has been almost constant during the past five years, standing at around 8% of total tax collection on average. IMF data suggests that it will remain at that level. However, there is some difference between types of tax, with the revenue from the (direct) taxes on income and profit (e.g. individual income tax [ISPS] and corporate income tax [ISPC]) having increased during the past couple of years. Further increases do, however, to a large degree, not only hinge on the increased fiscal effort by the AT (as recommended by the IMF in its August 2015 report) but also on a renewed dynamism in the economy. Investments in the agricultural, manufacturing, construction and tertiary sector will hardly be giving returns in the short term but rather in the medium term. The boost of the state revenue (from corporate income tax) from the expected investments in the LNG sector in Cabo Delgado will only make itself felt at the beginning of the 2030s at the earliest (CIP, 2015). Furthermore, in the case of coal mining in the Tete Province, there is also a fiscal slack period, given the depressed markets and high investment outlays for production and transportation. The recuperation of these outlays will clearly reduce the tax burden of the companies involved and thus revenue for the AT. It has also been observed by Castel-Branco (2010; 2011) and CIP (2013a; b) that the previous policy of granting generous tax holidays to megaprojects such as Sasol Gas, Mozal in Matola and heavy sands projects (e.g. of Kenmare in Moma, Nampula) has severely limited the AT's



**FIGURE 3**  
External debt stock, FDI and Revenues as% of GDP

Source: Authors based on data from BM, AT and UNCTAD.

18 [http://www.bancomoc.mz/fm\\_pgLink.aspx?id=15](http://www.bancomoc.mz/fm_pgLink.aspx?id=15).

capacity to boost the revenue collection.

Increasing the income and profit tax yield from non-extractive industries of the economy and from individuals, will face at least three challenges: *firstly*, the economic cycle is at present not very favourable for Mozambique. *Secondly*, the private sector already complains about a high tax burden. *Thirdly*, tax payers do not see the benefits of paying taxes. Households and businesses complain that increased taxes do not have a positive effect on the delivery of quality and value for money of essential services provided by state-owned or public enterprises. The endemic service delivery problems with the National Water Investment and Asset Fund (*Fundo de Investimento e Património de Água – FIPAG*), The National Electricity Utility (*Electricidade de Moçambique – EDM*), the national Telecom Company (*Telecomunicações de Moçambique – TDM*) and other utilities are a case in point. The lack of service quality, particularly the unreliability of water and electricity in the country's main business centres, (Maputo, Beira and Nampula) has cost the private sector and the consumer dearly in recent years. According to the 2014–2015 World Economic Forum's Global Competitiveness Report for Mozambique, inadequate supply of infrastructure is the third most problematic factor for doing business in the country.<sup>19</sup> Under these conditions, where paying tax does not yield returns or benefits, many entrepreneurs and small business owners opt for tax evasion (and/or bribing to reduce the tax burden) or to shift their enterprise to the informal sector altogether in an effort to slip outside the tax net.

Collecting the Simplified Tax of Small Tax Payers (*Imposto Simplificado para Pequenos Contribuintes – IRPC*)<sup>20</sup> is simply uneconomical with regard to the effort involved. Its tax base may have a certain buoyancy, but the collection is not cost effective. The average value of IRPC collection for 2013 and 2014 represents 0.11% of all fiscal revenue collected. During the past three years, the most dramatic tax increase relative to other revenue sources was observed in the windfall Capital Gains Tax related to the sale of equity in the extractive industry, including coal mining and gas concession blocks. However, it is unlikely that further windfalls will make themselves felt in the tax collection, given the 'wait-and-see' attitude of international investors with regard to major mineral resources projects. Even if a new capital gains tax revenue were to be collected by the government, this is generally 'lumpy' and unpredictable, and is likely to offer stop-gap solutions at best. Capital gains tax receipts will not help address the structural issues and challenges outlined above.

### 2.2.3. IMPORT DEPENDENCE AND CURRENCY EXPOSURE

**Thirdly**, there are very strong signals from various branches of industry all over the country (tourism, manufacturing, agriculture and real estate, etc.) that the economy is slowing down, with the exception of some investments and projects in the extractive industries (e.g. ruby and graphite mining, in Cabo Delgado, and gas/oil in Inhambane). The FDI inflow peaked between 2010 and 2013, with a decrease in 2014 and depending on the world economy (see below), this downward tendency may continue. *Não há dinheiro* [There is no business] is a complaint often heard from business people of small and medium scale enterprises from the south to the north of the country. During the past five years, the economy and associated public policies have focussed, often in a speculative way, on the extractive sector and the associated infrastructure development. Much less attention has been given to the diversification of the economy and a change of the mode of capital accumulation, e.g. related to agriculture based value chains and processing with a commensurate incentive and support structure and with a trade policy. This has had negative effects on employment creation, purchasing power and poverty reduction.

As recent comparative studies have demonstrated, Mozambique is not among the African champions of agriculture-led inclusive growth (Arndt *et al.*, 2015). Thus, the economy in general, and the tax authority in particular, has, structurally speaking, little cushioning to fall back onto in case of megaprojects, the extractive sector and the associated

<sup>19</sup> <http://www3.weforum.org/docs/GCR2014-15/MOZ.pdf>.

<sup>20</sup> This informal sector tax unites a VAT and Income component for small businesses.

investment falling behind the expected schedules and investments, with a profound fiscal impact. The depreciation of the Metical (MT), particularly against the US\$<sup>21</sup> (but also, to a lesser extent, the Euro and the South African Rand) has advantages for exporters, but hits importers by increasing the prices of important fuel, food and other consumer goods on which the country is structurally dependent. In the opinion of the authors, the dramatic depreciation of the Metical reflecting both weak activity and structural issues may not only be caused by a globally strong dollar, but also an increasing domestic demand for 'hard currency'. This may, in turn, mirror a reduced trust in the MT under the present conditions of uncertainty, and there is a rise in the expectations of imminent price.<sup>22</sup> The BM has started pumping US\$ into the financial markets in October 2015 in an attempt to partially offset the depreciating effects of the strong dollar on the national currency, and has already issued a warning that consumer price increases are likely to occur in 2016. As we know from previous experience of price increases in 2008 and 2011, such events may trigger what the Mozambican sociologist Carlos Serra called 'social earthquakes' which take their toll on economic activity.

#### 2.2.4. OPEN ECONOMY AND GLOBAL CONTEXT

**Fourthly**, the global environment for the Mozambican economy – extremely open and thus vulnerable to the volatility of global commodity<sup>23</sup> – appears not to be very favourable at present. The exception may be the low international price for crude oil, presenting the government with windfall gains and budgetary savings on import of liquid fuel. On the export side, global demand and price prospects for the major Mozambican exports (minerals, coal, metal/aluminium) and certain agricultural products are not very encouraging, with the exception of unprocessed tobacco, rubies and graphite. Low commodity prices, in turn, increase the pressure on the balance of trade and services. Mozambican energy exports to the region, a major potential market, have suffered from the lack of commitment of potential buyers, notably South Africa, with a more hesitant inclination by foreign companies to consider the necessary investment in power generation and transport grids.

In addition, the following on-going global changes will affect the Mozambican economy:

- China's economic contraction, indicated by decreasing annual growth rates. This does not only affect the demand for raw materials from Mozambique (e.g. minerals, timber, etc.), but also the foreign investment policies and the availability of concessional and non-concessional funding for infrastructure projects. Concerning the NCB, the political and credit authorities have issued instructions to the Chinese EXIM Bank to thoroughly scrutinise investment and infrastructure projects. This is in recognition of the fact that Chinese capital exports, in particular to Africa, have produced limited returns for the Chinese economy so far. The 'Chinese option' for financing infrastructure projects in Mozambique may therefore diminish in scope. Also, the Chinese market potential for possible Mozambican LNG exports, if ever realistically considered, becomes more and more elusive. The expectation of an increase in the US interest rate will, if turning into reality, entice capital, particularly from emerging economies and BRICS<sup>24</sup> to move to the US markets, with the potential effect of reducing the inclination of investors

21 In one year the value of the MT against the US\$ dropped by 45%.

22 At the time of writing, the public electricity utility announced an increase in its tariffs by almost 20% and FIPAG by a minimum of 10%. See: Mozambique: Electricity Prices Rise. <http://allafrica.com/stories/201511070339.html> and <http://opais.sapo.mz/index.php/sociedade/45-sociedade/38477-depreciacao-do-metical-agrava-preco-de-agua.html>.

23 As measured by the sum of Imports and Exports as per cent of GDP. This ratio has varied around 80% during the last four years.

24 Brazil, India, China, South Africa.

from those countries to do business with African and other countries. Since China, India, Brazil and South Africa<sup>25</sup> are preferential investment partners of the Mozambican government, putting high hopes on increasing investment and business transaction, these hopes might be partially dashed if capital from these countries moves to the US.

- Mozambique's donor landscape is at present in a profound process of change. This is mainly felt regarding the Programme Aid Partners (PAP), which provide budget support to the Mozambican Treasury in various forms. Not only has the total number of PAP been reduced from 19 to 14 (in 2015), but the volumes of aid have also been reduced substantially, contributing to the recent budget (2015) with only less than 30% as compared to around 50% about ten years ago. The mix of aid modalities has increased, with a greater emphasis on sector and pool-funded project support and substantial support to the Mozambican Civil Society Organisations (CSOs). A shift from aid to private investment and trade by the PAP countries partly driven by disillusionment with development aid, the coming into power of elected parliaments less amenable to aid but also stretched budgets at home underpinning that change process.

### 2.3. Implications

The implications for the government and the state budget from the scenario outlined above are numerous.

Perhaps the most important implication is that fiscal stress has increased considerably and will continue to characterise public finances in the short and medium term – at least until such a time when revenue from gas will hit the treasury, from 2021 onwards. The current fiscal balance or the gap between recurrent revenue and recurrent expenditure is an indicator of the government's capability to finance its consumption of goods and services and pay the salaries of the public servants. With an increasing gap, conventional wisdom suggests austerity measures to be undertaken, such as budget cuts for certain services, the cancellation of subsidies and the freezing of salaries. In fact, the Nyusi government has slowly been moving towards such measures.<sup>26</sup> On the revenue side, the conventional 'remedies' include increase of taxes or an increased taxation effort by the National Tax Authority (*Autoridade Tributária de Moçambique – AT*).

The afore-cited IMF report states that the domestic primary balance<sup>27</sup> has been negative over the past six years (exception, 2013). This points to a structural budget deficit, even though the increase in the deficit from 2013 to 2014 is referred to as a 'slippage'. One of the reasons is the sharp increase in expenditure in 2013 and 2014, both recurrent (salaries, goods and services) and capital, the latter to some extent financed by recourse to domestic bank credit, as in previous years.<sup>28</sup> According to the IMF, the 'overall fiscal deficit in 2014 exceeded 10 percent of GDP—one of the highest in Sub-Saharan Africa—and public debt (including guarantees) has been rising fast and could exceed 60 per cent of GDP in 2015' (IMF, 2015:18).

The key question, though, is whether the conventional economic wisdom and fiscal measures referred to above will actually achieve a substantial reduction of the budget deficit and, moreover, alter its structural nature to a more sustainable model. Given a domestic

25 Particularly South Africa as a potential market for LNG.

26 For example, the President does no longer use a fleet of helicopters in his consultative visits to local governments and communities, as his predecessor did. And the subsidies for bread flour, introduced in 2011 as a measure to curb the propensity for social unrest in the wake of price increases, were recently scrapped.

27 Contrary to the current fiscal balance, this excludes interest payments from the recurrent expenditure, since these are predetermined by the size of previous deficits.

28 For example, the construction and rehabilitation of airport buildings and runways were largely financed by bank credits.

context of political instability, this is unlikely. The armed political conflict with Renamo has not been settled, Renamo's demands for peace remain unaddressed,<sup>29</sup> and the threat to political instability prevails as a result. While a convoluted peace negotiation process has been going on formally and informally for more than two years, there has been little transparency or success. The accumulated frustrations of many Mozambicans across the country combined with the announced price increases may trigger social unrest.

Is 'business as usual' or 'muddling through' bound to fail? **What are the alternative options?** Would, for example, a bold and far reaching programme of prioritised and massive support for small scale commercial agriculture, and processing and manufacturing, unleash the productive potential and broaden the base for a more inclusive growth of the Mozambican economy and revenue in a medium-term perspective? Should the uncompromising fight against corruption, particularly against its most toxic and corrosive forms, be one of the top priorities for mobilising budgetary resources?

In the opinion of the authors of the present study, strong anti-corruption measures are necessary. If this study is to have any practical merit, it must be to help the government, and other actors such as the GCCC and the courts, to not only identify the main areas of leakage of public resources, but also the *magnitude* of what is drained and could be gained if effective anti-corruption measures were in place.

29 Among others, the creation of autonomous provinces, the de-politisation of the public administration, the integration of their 'residual forces' in the police and the army and a wider participation of opposition members in the economic activities and enterprises associated with the state.

### 3. PUTTING NUMBERS TO CORRUPTION: A METHODOLOGICAL APPROACH

On the basis of a comprehensive review of literature (see bibliography page 72), the study team designed and employed an approach which distinguishes actors, types of corruption and relevant sectors in which corruption manifests itself. The methodology enabled us to generate and verify evidence of corrupt practices, by type and sector. Quantitative estimates of the 'cost' of each case or practice were fed into a calculation framework. This framework enabled the aggregation of the monetary value "cost" of individual cases to illustrate the total damage caused by corruption to the state budget and to assess, with reasonable plausibility, its impact on macro-economic aggregates such as GDP. The details are explained in the two following subsections.

#### 3.1. Approach to Case Selection

##### 3.1.1. THE PRINCIPAL-AGENT-CLIENT MODEL

The point of departure for the present analysis is a Principal-Agent-Client (PAC) model, a commonly used concept in the literature on the institutional economics of corruption (Groenendijk, 1999; Carr, 2007; Lambsdorff, 2007). By using the PAC model (see Annex 7.1), the paper does not assume that corruption may conclusively be explained by that model and that, in fact, corruption and its structural features may also be framed as a collective action or public choice problem (Marquette & Peiffer, 2015; DFID, 2015, Booth, 2012). Basically for didactical purposes we opted for the PAC model, since it does allow us to distinguish different types of actors and actors in corrupt transactions (see Annex 7.1).

In this model, P represents the Principal or Patron, A, the Agent and C, the Client, who are deemed to establish specific relations among each other, which facilitates specific corrupt practices or types of corruption. P, the Principal, may in the present context be understood as the dominating elite groups, whose control of the state, resources and parts of the economy has the structural features described for Mozambique in section 2.1. In this case we may speak of a self-serving principal, predatory elite, dominant state class alliance or simply an elite network of cronies.<sup>30</sup> It is in their interest that the system which ensures control and benefits remains in place.

In the PAC model, A, the Agent, represents the institutions of public administration, i.e. ministries, central and local governments and governmental institutions as well as associated public utilities and public enterprises or para-statal. They dispose of an annual allocation of funding in the form of budgets and incomes from their own activities which are managed and executed according to established (formal) rules and regulations and

30 *Crony capitalism* may be defined as 'an economy in which success in business depends on close relationships between business people and government officials. It may be exhibited by favouritism in the distribution of legal permits, government grants, special tax breaks, or other forms of state interventionism. Crony capitalism is believed to arise when business cronyism and related-self-serving behaviour by businesses or businesspeople spills over into politics and government, or when self-serving friendships and family ties between businessmen and the government influence the economy and society to the extent that it corrupts public-serving economic and political ideals'. [https://en.wikipedia.org/wiki/Crony\\_capitalism](https://en.wikipedia.org/wiki/Crony_capitalism)

whose use they account for in one way or the other.<sup>31</sup> And they produce and provide public services and goods to various stakeholders, i.e. citizens in the broadest sense, including business people and enterprises. The latter compete for contracts through public tenders.

Citizens (i.e. tax payers, consumers, etc.) and businesses are considered to be Clients (C). They are supposed to pay A taxes as well as user fees for services consumed, and compete among each other for contracts which A tenders out. Since P or subgroups thereof may also have the quality of C, in the sense of citizens' rights and as business people, the relationship between C and P is also of particular importance, given the inclination of establishing private public partnerships, often with an underlying conflict of interest, visible or invisible.

### 3.1.2. TYPES OF CORRUPTION

The PAC model allows us to establish specific types of corrupt relationships, which are schematically illustrated by enumerated stars in the figure in Annex 7.1. Various types of corruption have been defined in the literature (see Annex 7.2). We refrain from adopting a formulaic definition of corruption and instead provide a non-exhaustive list of examples to describe typical instances of the phenomenon, covering cases of embezzlement, payment of bribes, extortion, fraud and collusion. All these types fit into the overarching and most general definition of corruption as 'the misuse of resources or power for private gain' (Lambsdorff, 2007: 12). The following table gives an overview over the most common types of corrupt relationships which may exist between P, A, and C in the model presented in Annex 7.2.

**TABLE 2**  
Types of corrupt relationships

Source: Authors

N°	Type	Relationship between	Examples	Affects Directly
I	Theft, Embezzlement, Fraud	P-A	Ghost civil servants, fuel syphoning	Budget resources
II	Bribes in general, and in tenders in particular, tax evasion, etc.	C-A	Public tenders of all kinds, payment of bribes to enter public service	Private sector, competitiveness, budget resources, public assets
III	Extortion, Petty Corruption	A-C	Traffic Police, Buying school grades	Private sector, income, HR Development, socioeconomic development
IV	Collusion	P-C Partially: A	Chinese financed road and telecom projects, PPP, EMATUM	Private & public sector, macro-economic performance, indebtedness, investment climate, rating
V	Multi-actor and multisectoral corruption	P-A-C	Illegal timber/ivory export	Resource endowment, (sectoral) growth, trade
VI	Maintaining the system/ budget distortions		Political marketing, electoral campaigning with state resources, 'vote buying', security spending	Budget resources, spending patterns, socio economic development, attractiveness, growth

31 This does not exclude informal negotiations or 'reinforcements' of budgets, e.g. between the MEF and sector ministries, provincial or local governments. The annual assessment (*parecer*) of the annual state accounts (*Conta Geral do Estado - CGE*) produced by the Audit Section of the Administrative Tribunal (*Tribunal Administrativo - TA*) produces evidence of such informal arrangements, not covered by or at the margin of budget legislation.

This table also reflects the type of multisectoral, multi-institutional corruption (Type V), which is typical of large scale corruption associated with natural resource exploitation in which bribery, collusion and fraud come together. This is the object and research focus of collective action and public choice theories and analyses (Marquette & Peiffer, 2015). It may typically involve elements in P, various units in A (i.e. government departments/sectors, customs, police, etc.), private enterprises (transport, storage, shipping) and clients overseas, e.g. in China (EIA, 2014; Miombo Consultores, 2015). The table also includes item VI, i.e. what is termed 'budgetary distortions to maintain the system of corruption' (Lambsdorff, 2007). These distortions themselves are not necessarily of a corrupt or illegal nature, but they may be seen as a devious allocation of public funding, which seeks to maintain the system of corruption which produces benefits for the small group of self-serving Principals and its Clients, and, partially, agents. This will displace investments in improved and increased coverage of public services and goods, i.e. in expenditure which contributes to the socioeconomic welfare and human development of all citizens and not only a small group.

### 3.1.3. SECTORS

Care has been taken to include a broad sample of cases in the study, covering various sectors in which corruption is manifest. The reason for this is not only to produce a reasonable number and mix of cases reflective of the economy of Mozambique, but also to relate the assessment to the main macro aggregates used for calculating the impact of corruption, namely the national budget and the national accounts with their respective subdivisions. Hence, the following sectors have been considered in this study.

**TABLE 3**

Sectors considered

Source: Authors

N°	Sector	Subsector
1	Public Finance	Budget, procurement, taxation, customs
2	Public Services	Health, education, police,
3	Public Works	Construction
4	Transport and Communications	Ports, Telecom
5	Commerce and Industry	Manufacturing
6	Services	Banking
7	Trade, balance of payments	Imports, capital exports
8	Investment	Foreign Direct Investment (FDI)
9	Natural Resources	Logging, Ivory, Agriculture, Mining
10	Other	Money laundering

Readers may miss from this table sectors such as justice, social security, land management and drug trafficking, among others. Including these sectors in the present study was not an option, for various reasons including time and budget constraints. This may, in practice, mean that the results presented in this study will underestimate rather than overestimate the practice of corruption in Mozambique and the sums involved.

### 3.1.4. TIME FRAME

The timeframe for the cases analysed stretches from 2002 to 2015, covering a period of 13 years. However, for various reasons, for cases in the period 2006 to 2014, more adequate evidence is available than for other periods. Not only are many cases in this timespan reasonably well documented, with some analysed in publications, but interlocutors also have a vivid memory of details of cases of corruption. The inclusion of cases of corruption from the 1990s was, however, not a viable undertaking, as much of the documentation is forgotten, inaccessible or otherwise not available. Nevertheless, the authors were made



aware of three prominent cases following the Rome General Peace Accords (1992) and the 1994 general elections which should be mentioned here:

- The simultaneous sale to two bidders, in 1994/1995, of the same amount of military scrap by the General Chief of Staff's office, against payment of commissions from both. The bidders jointly brought a case against the Government of Mozambique before a court of law in South Africa. The government ran the risk of having its property in South Africa confiscated and incurred a high legal cost to settle the matter;
- The disappearance, between 1996 and 2001, through fraud and corruption, of at least 400 million US\$ from the Mozambican banking system, which, at the time, was intrinsically linked to and controlled by the political establishment, not only causing economic damage but also the loss of life of three persons, namely Felix de Lima, Carlos Cardoso and António Siba-Siba (Hanlon, 2002);
- Fraudulent land deals around the Sanctuary project in Vilanculos District, Inhambane Province starting in the late nineties in which one former cabinet minister was said to have had considerable gains.<sup>32</sup>

With a differentiation of corruption by type and sector, it is possible to construct a matrix for case studies, which includes cases covering all predefined types of corruption and the above array of sectors where corruption manifests itself. These examples are NOT a statistically representative sample but an intended or purposive selection of cases across a wide spectrum that includes both corruption sectors and types. The reasons for choosing this approach are discussed in the following section.

## 3.2. Methodology: Sampling, Producing Evidence and Estimating Costs

### 3.2.1. NON PURPOSIVE SAMPLING AND ROLE OF THE RESEARCHER

This type of sampling, sometimes also referred to as judgemental or expert sample (Richie *et al.*, 2003; Battaglia, 2008), is non-probability based. Informed by the aforementioned qualitative matrix of cases (by type and sector) and by expert knowledge particularly from CIP, purposive sampling allows us to produce a sample which can be said to be logically, not stochastically, representative of all cases of corruption. The cases are chosen because they represent certain characteristics as defined by the type-sector matrix of corruption and for the selection of evidence.

An added advantage is that purposive sampling can be targeted, applied flexibly and with discretion, thus allowing the researchers to save time and effort. It thus is a suitable, as well as an economical methodological option for corruption research, where alternative methods may be time consuming and expensive. Its main advantage lies, however, in the fact, that in corruption research, the use of conventional social science methods such as interviews, the use of questionnaires, etc., and statistical sampling, has clear limits. This is because of the essentially illegal and confidential nature of the existing relationship between the corruptor and the corrupted which prevents them from sharing the value (amounts) of corrupt transaction and the transacting modalities with the researcher. These must remain secret between the partners of corrupt deals, unless they risk discovery, exposure in the media and disciplinary or juridical action. On the other hand, the researcher is not an officer of the investigation police or the magistrate and is thus only responsible for scientifically researching the forms and consequences of corruption. The results of the researcher's work may eventually contribute to policies, programmes, institutions and practices which will eventually undermine the relationship of confidence which needs to exist for corrupt transactions between the 'partners', i.e. the corruptor and the corrupted. According to the literature, the increase in the transaction cost for both increases the risk of discovery or

32 <http://mg.co.za/article/2006-04-07-trouble-in-paradise>.

leakage of the secret information which will, in turn, contribute to the corrosion of the relation of confidence between them (Lambsdorff, 2007).

In the present study, the sample arrived at through the method described above consists of **36 cases**, covering all types and sectors presented in the previous section (see Annex 7.3). Care was taken to assure a good mix of small cases (petty corruption), medium cases (with estimated values of between 10 and 100 million US\$ per corrupt transaction) and big cases (above 100 million US\$). While some cases are individual transactions (one instance), for example a corrupt infrastructure deal, other cases capture established and on-going practices, e.g. in the case of importing goods. For the purposes of this paper, both of these are considered 'cases' despite the latter consisting of a very high number of instances of corruption.

### 3.2.2. GENERATION, TYPES AND QUALIFICATION OF EVIDENCE

Taking into consideration the secretive nature of corrupt deals as well as the advantages of purposive sampling, the researchers defined 'evidence' in a broad and pragmatic way. In their understanding, 'evidence' includes *scientific and research publications and studies, published or unpublished* (see Bibliography), *newspaper reports of professional and investigative quality*, and information generated through '*elite or key informant interviews*' conducted by the researchers. The latter are interviews, conversations and discussions with persons who have insider knowledge and are thus able to provide insights and information about an event and/or a process (e.g. a corruption case), understanding its trajectory and outcomes.<sup>33</sup> 'Elite' does not necessarily mean that the persons interviewed must be part of the political and economic elites referred to in Section 2.1, although this can also be the case. Rather, 'elites' in the context of this study means selected representatives of institutions, who were chosen because of who they are in relation to the case, the position they occupy and the privileged information they have (key informants). This group of persons usually has, or is close to political power and decision-making, occupy senior management positions and has directly or indirectly participated in processes significant for the present study. A total of 47 persons were interviewed for the purpose of this study. The group included a range of senior managers, technicians and representatives of government institutions, public and private enterprises, the judiciary, academics, members of NGOs and journalists and foreign representations in Mozambique.<sup>34</sup> For reasons of ethics and deontology, the interviews were conducted with consent with the conditions to protect confidentiality and anonymity. Thus, the names and institutional identities remain anonymous.

### 3.2.3. DATA VERIFICATION AND ASSUMPTIONS

Considerable care was taken to ensure that the data or 'evidence' gathered by the methods described above was verified and, where possible, tested against information from other sources. Particularly information on monetary values of corrupt deals was double checked and subjected to plausibility control. Even so, those **monetary values were not considered as facts** (which, in the case of corruption, are hard to establish anyway by academic researchers), but considered as more or less plausible **assumptions**. In all cases studied, assumptions on minimum and maximum values were made and fed into a data bank which allowed the aggregation and processing of data and the calculation of the direct and indirect impact of corruption. In the next section, the methodology for doing this is presented.

## 3.3. Translating Evidence and Assumptions into Costs of Corruption

Whereas the word 'cost' normally means 'an amount of money to be paid or spent in order to buy or obtain something', the term 'costs of corruption' used in this study refers to a

<sup>33</sup> See: Tansey (2007); Hochschild (2009).

<sup>34</sup> Most of the contacts were facilitated by CIP. Parliamentarians were not included.

much wider concept. It also includes opportunity costs and non-pecuniary costs like the deterioration of institutions' capacity to deliver a service or a document. These may well be more important than the costs that can be measured in quantitative terms.

The methodological approach used in the present study is different from most other studies trying to quantify the cost of corruption. Focusing on a single country (Mozambique), it attempts to go into depth on a wide range of corruption 'costs' that have been highlighted in the previous sections. As said, it uses a wide range of national sources, including published and unpublished analyses and national accounts and budget data. It builds on interviews specifically undertaken for the study and analyses several years of registered corruption cases (from 2002 onwards).

A key facet of the chosen approach is its attempt to quantitatively assess and summarise the cost of corruption in simple and comprehensible ways. We exemplify costs in three different ways: a) related to the state budget, compared to overall expenditure and its functional subdivisions and as a percentage of the fiscal revenue. b) In relation to the overall national economy expressed as percentage of the Value Added of the economy and c) by comparison to known and important magnitudes of the national economy (e.g. tax loss compared to the social welfare gain that could be achieved for the same amount of money).

Data for these 'costs of corruption' estimates and comparisons is created from the database of corruption cases (See Annex 7.3). As already mentioned, some cases are individual transactions (one instance), while other cases capture established and on-going practices (many instances). Our assumption is that corruption does not just take place in the year in which it is discovered. It is reasonable to believe that most types of corruption

## Box 2: EMATUM

The case of EMATUM has shed some light on corrupt practices involving a 'private' company which ostensibly represents the public interest. Registered as a private tuna fishing company in 2013, it is nevertheless owned by three parastatals: Management of Investments, Participations and Services (GIPS), the social branch of the State Security Services, Mozambican State Fisheries Company (EMOPESCA) each holding a 33% stake, and the Institute for the Management of State Holdings (IGEPE) owning a 34% stake. While there are some minority interests by private parties in the shareholding of GIPS, the entire ownership is through state-owned enterprises. From this perspective, the claim that EMATUM is a private company is tenuous at best. Rather, it is effectively a state enterprise which means that the public interest is paramount, and stronger than what would otherwise be the case. The purpose of the company is to provide maritime security through a self-funding mechanism – coast guard operations paid for by receipts from tuna sales.

EMATUM had ordered a fleet of small, modern, fast vessels and military coastal patrol boats with a bank credit of 850 million US\$ raised on the Eurobond market with an (extraordinarily high) interest rate of LIBOR +6.305% guaranteed by the government without transparent procurement procedures, without the inclusion of the deal in the annual budget and without parliamentary approval. Not only were around 350 million US\$ unaccounted for, but the government's debt service obligation for the deal puts another major strain on the country's public finances already burdened by decreasing donor contributions and increased repayment of public domestic and international debt. The secretive and expensive deal thus implies considerable fiduciary, economic and reputational

risks, and costs for Mozambique, the economy and social welfare. Moreover, the tuna fishing portion of the company is economically unviable, which means that the economic burden of repayment will increase for the state. According to one source "there is simply not enough tuna in the Mozambique channel for EMATUM to repay the loan by 2020."

As a result of renegotiations by the Minister for Finance and Economy, Adriano Maleiane, with bond holders in March, the EMATUM Bond is set to turn into a bullet bond by 9 April – if accepted by bond holders – which is likely. While this reduces annual re-payments from \$200mn per year to around \$60mn, with the bulk of repayment due in 2023 (instead of 2020), the new deal increases the costs for Mozambique in the long term. Not only will the new interest rate rise from 6.305% to 10.5% and the new bonds be sold at a 20% discount, but Mozambique has been further downgraded by all major ratings agencies as a direct result of the renegotiations. If bond holders accept the new EMATUM bullet bond deal on offer – a selective default is nearly inevitable. The reason for the downgrades and the likely selective default is that ratings agencies see the deal as a result of debt distress.

The deteriorating sovereign rating of Mozambique will result in considerable long-term financial burdens over and on top of the actual EMATUM value. The cost of finance for Mozambique will increase for years to come, and will as a result negatively affect investments and the project finance for ventures that include Mozambican stakeholders such as state-owned enterprises like ENH or CFM, or any venture that includes a sovereign guarantee. As a result, doing business in Mozambique will become more expensive, with a likely increase in current and future projects being delayed, postponed and/or cancelled.

take place year by year at approximately the same level as discovered (or may increase if profitable), unless there is evidence that a certain type or case of corruption has been stopped. In a few cases, however, like the EMATUM case where all signs are that this is a 'one-off' or standalone case (see Box 2), corruption is not assumed to continue for the following years. We believe that this way of looking at it is reasonable and does not exaggerate the (money) cost of corruption.

Discovery of corruption does not happen continuously and regularly but rather tends to be 'lumpy', i.e. of a non-linear or discreet character. Furthermore, costs are usually expressed as a lump-sum over a given number of years. In order to be able to compare these costs with annual budget and value added figures, our approach has been to express annual corruption costs as a yearly average mean of the three most recent years for which national accounts and budget data are available, i.e. 2012–2014. The annual cost of corruption is thus defined as the annual average mean over these three years. For example, the cost of an assumed *on-going* corruption practice (bribes by traffic police) would be the estimated annual amount, while a major 'one-shot' is counted as a one off, i.e. a case that causes major costs during only one or two years (like EMATUM). In this case, the cost used in our calculation is defined as the cost of the overall case averaged over the three years 2012, 2013 and 2014.

### 3.3.1. MEASURING EFFECTS OF CORRUPTION

Two of the main bases for comparison dealt with below are a) the Government budget and b) the Value Added.<sup>35</sup> These concepts cover different realities. Whereas the Government budget expenditure measures what the government sector *spends* over a year, Value Added (VA) gives the value of goods and services *produced* within the country over a year.

Value added (VA) for a sector should not be confused with the total **output** of the sector. The latter contains both the value created by the sector and the goods and services (to be used in production) it has bought from other domestic sectors or imported. One of the sectors in the national accounts is Public Administration. It sometimes causes confusion that the VA given for Public Administration is smaller than the total of the government budget expenditure.

There are several reasons for this:

- a. VA refers to creation of value whereas the budget deals with total cost and revenue.
- b. The VA of the Public Administration sector largely consists of the work performed by the sector, as measured by the government civil service salaries.
- c. Not all government activities are included in the VA sector of 'Public Administration'. Services delivered by the government, e.g. in health and education, are included in the VA sectors of 'Health' and 'Education', respectively.
- d. Also, in the national accounts, government enterprises (parastatals) are usually included in the sectors to which they functionally belong and not in the 'Public Administration' sector. Government expenditure also contains sums *transferred* through the government from one part of the economy/society to another. These transfers are netted out for the calculation of value added.

With these methodological details that are necessary to understand the approach to measuring corruption we proceed by presenting the results of the study and their analysis in the following section.

35 In understanding and computing the cost of corruption as impact on the Value Added (VA), we were inspired by the attempt at revealing macroeconomic consequences of corruption within a national accounts framework piloted by Michael (2009), who used an applied general equilibrium (AGE) model to simulate the effects of an assumed corruption tax.

## 4. RESULTS AND ANALYSIS

### 4.1. Overview on Results

The methodological and analytical framework described above produced the aggregated values of the corruption cases for the 2004–2014 period and allows a calculation of the overall direct cost of all 36 documented cases. The assumption, and this needs to be emphasized again, is that the data used in the sample merely represents *plausible estimates* of monetary values involved in the corrupt deals registered. The below table does not show actual costs as a result of corruption. This is an important point and a central caveat to this study.

The picture emerging from the analysis is that of a Mozambican economy and, by implication, society at large, severely crippled by corruption.

The **aggregated value of the corruption costs (as represented in the sample) during the period 2002 to 2014**, at current prices, is 4.8 to 4.9 billion US\$, equivalent to around 30% of the 2014 GDP. This percentage is well above the average figure for all African countries cited in section 1. It means that, on average, over the period covered by the sample, the annual damage is close to 500 million US\$ per year.

The sectors (cases) in the sample in which corruption is most pronounced and with amounts considerably above 200 000 million US\$ per case each are:

- Customs;
- EMATUM;
- Overpricing of liquid fuel imports;
- Procurement in the telecom sector;
- Procurement in the construction/public works sector.

In the period under observation, corrupt practices in **Customs** can be identified as the major cause of damage to the economy involving large sums of illicit transactions. Customs related bribing, underreporting and avoidance of import tax payments have cost the state dearly. The single most important **loss of public resources** recorded in the sample is related to the mounting of a Customs-shadow system aimed at circumventing the official MCNET system. It has cost the country an **estimated 2.5 billion US\$, i.e. in excess of 1 billion US\$ more than the total expenditure budgeted for education and health (1.4 billion US\$) in 2015**.

But oral sources also point to a growing importance of State-owned Enterprises (SOEs) and particularly private companies owned by state institutions as well as Private Public Partnerships (PPPs) as hubs of corruption. Damage inflicted by specific types of corruption associated with those institutions, including collusion and manifest conflict of interest, is second to that caused by illicit and corrupt practices in Customs.

The below table provides the dimension of the total cost due to corruption during the period under observation (10 years) in relation to key macroeconomic aggregates for 2014 and 2015.

Corruption Cost as percentage of	%
Expenditure 2014 (executed)	71.7
GDP 2014	30.8
Total investment 2015 (budget)	195.2
Education spending 2015 (budget)	362.8
External budget component 2015 (budget)*	287.1

\* ODA + credit.

**TABLE 4**

Total cost of corruption cases in relation to economic aggregates (in%)

Source: Authors, based on DNO, 2015

The monetary value of the corruption cost accumulated over the period covered by the sample **could have doubled the investment budget for 2015 and more than tripled planned expenditure in education.** And that amount would have covered almost three times the amount of aid plus the external credit budgeted for 2015.

It can also be seen from the dataset that corruption is estimated to have caused a **loss of about 11.6% of the tax revenue average for the three years 2012 to 2014.** Together with the loss in expenditure of 4.8 billion US\$ for the same period, the state has lost 5.3 billion US\$ or 86% of the average 2012–2014 budget. From a simple, mathematical perspective, this means that the state could deliver public goods and services worth 205 US\$ per capita less than it could have done without corruption. Naturally, mathematics is not politics and does not take into consideration contextual issues.

In the following section, we present a differentiated analysis, by first looking at the impact of corruption primarily on the Value Added (VA) and the budget. This is to be followed by an analysis of the impact on other economic aggregates.

## 4.2. The Economic Costs of Corruption

The simplest way of illustrating the cost of corruption for the Mozambique economy is to compare the aggregated values of the sample cases in total and by sector to the respective totals and sector magnitudes of value added and budget expenditure or tax revenue.

**TABLE 5**

Value added (VA) and estimated cost of corruption in Million US\$ and per cent (2014)

### 4.2.1. IMPACT ON VALUE ADDED, OVERALL AND BY ECONOMIC SECTOR

Table 5 below shows average value added 2014<sup>36</sup> as well as the maximum, minimum and average estimates of the drop in VA caused by corruption.

Source: Authors.

Sector name	Value added million US\$ average 2012-2014	Average cost of corruption million US\$ 2012-2014	Average cost in% of Val Added	MAX cost of corruption million US\$ avg 2012-2014	MAX cost in% of 2012-2014 avg Value Added	MIN cost of corruption US\$ million avg 2012-2014	MIN cost in% of 2012-2014 avg Value Added
Agriculture, hunting, forestry	3 708	85	2,29	100	2,70	70	1,89
Building construction	377	256	67,82	308	81,74	203	53,89
Education	1 178	6	0,49	7	0,55	5	0,43
Fishing	246	300	121,90	350	142,22	250	101,58
Health	293	18	5,98	20	6,97	15	4,99
Manufacturing	1 572	423	26,92	511	32,49	336	21,35
Mining	592	92	15,54	107	18,12	77	12,95
Public Administration	865	67	7,75	74	8,5	61	7,00
Services	2 421	901	37,23	1005	41,52	798	32,94
Trade and vehicle repair	1 636	108	6,60	113	6,91	102	6,26
Transport, storage and communication	1 032	237	22,92	276	26,77	197	19,08
Utilities, electricity, gas, water	527	40	7,60	50	9,50	30	5,70
<b>Total value added</b>	<b>14 446</b>	<b>2 532</b>	<b>17,53</b>	<b>2 921</b>	<b>20,22</b>	<b>2 143</b>	<b>14,83</b>

36 Based on data from INE and converted to US\$ at exchange rates of 1 US\$ to MT of 28 373 (2012), 30 104 (2013) and 31 353 (2014).

The average cost of corruption of all sample cases in terms of lost national Value Added was a staggering 2.5 billion US\$ or over 17% of the Value Added (VA) for 2012–2014 according to INE statistics. Given the uncertainties and the weakness of available data, the cost could be in a range of 14.8 to about 20.2% of VA. Provided that there was an estimated population of 25.8 million in 2013, this would mean that each person would, on average, have lost 98 US\$ per year due to corruption or some 18% as compared to what their income would be without corruption.

The chart below illustrates cost by sector in percentage of VA. Note that the decision of whether a case should be put under one sector or another is not always straightforward, particularly in cases in which several sectors are affected or in which one sector is chosen under a degree of uncertainty concerning the nature of the corrupt transaction. Therefore, the sectoral distribution of corruption costs is subjective and vulnerable to decisions taken by the researcher. One case in point is the EMATUM case that has been classified as ‘Fisheries’ whereas it would be possible to look at it as a ‘public’ and ‘defence’ matter – in which case it could have been classified under Public Administration.

Most of the sectors like Utilities, Transport, Trade, Services, Mining, Manufacturing and Agriculture exhibit a cost of corruption somewhere between just under 10% to over 20%. One sector standing out negatively is Building and Construction (see Box 1). The high percentage would be suspected, given that the construction sector in general is vulnerable and prone to corruption in all countries. The spectacular case of the fishing sector is related to its relatively small size in terms of VA and, most of all that it is affected by the major EMATUM case where at least 300 million US\$ are

assumed to be lost to corruption. It should be noted that the ‘public’ sectors like Public Administration, Education and Health appear to be minimally affected by the corruption covered in the sample of cases. These are major sectors in terms of VA and even if the on-going corruption is considerable, the ratio becomes small due to their high relative weight in the VA matrix. If we had considered EMATUM as being part of the Public Administration, the picture would have changed dramatically with Fisheries exhibiting less cost of corruption in favour of Public Administration.

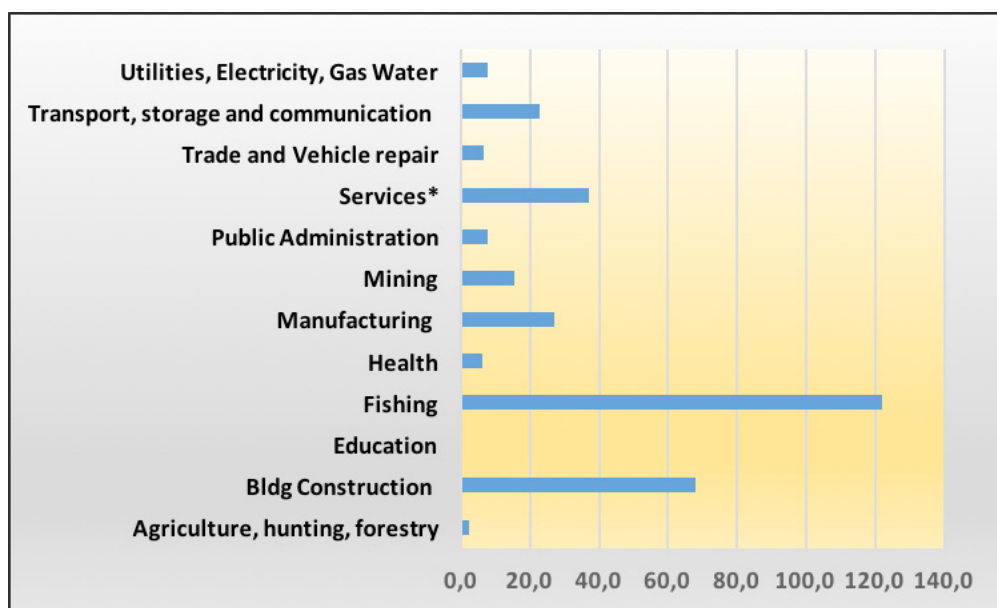
#### 4.2.2. IMPACT ON THE PUBLIC BUDGET

Table 6 shows, in the second column, the average budget expenditure as reflected in the budget publications for the three years 2012–2014 and converted to million US\$. The other columns show the minimum, maximum and average aggregate costs of corruption for the same years, in million US\$ and in percentage of the total budget expenditure 2012–2014 average. Corruption-related tax losses are shown as a separate line with total tax revenue in million US\$ for the 2012–2014 average in the first column with the aggregate minimum, maximum and average tax loss in the following columns.

At the aggregate level, it can be seen that the (average) loss of resources for budgetary expenditure is 4.8 billion US\$ over the 2012–2014 period. In addition, corruption is

**FIGURE 4**  
Cost of corruption by production sector in per cent (average 2012–2014)

Source: Authors.

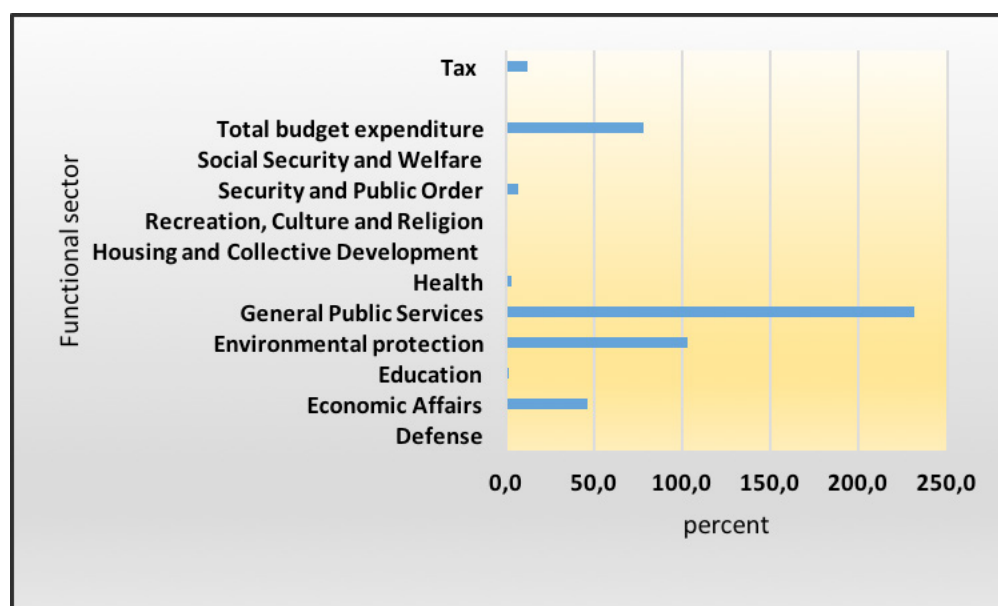


\* Includes hotels, restaurants, information, communication, financial and real estate services, business services, other social and personal services, adjusted by Financial intermediation services indirectly measured (FISIM).

**TABLE 6**  
Budget and costs of  
corruption in million US\$  
and as percentage  
Source: Authors.

estimated to cause a loss of about 11.6% of the tax revenue average for the same years. Seen together, this means that the state has lost 5,3 billion US\$ which is 86% of the average 2012–2014 budget. This means, again from a (limited) mathematical perspective, that the state can deliver an average of 205 US\$ per citizen less than it could if corruption had been eliminated.

Sector name	Budget expenditure/ revenue million US\$ average 2012–2014	Average cost of corruption million US\$ 2012–2014	Average cost in % of budget expenditure	MAX budget cost of corruption million US\$ 2012–2014	MAX cost in % of budget expenditure	MIN budget cost of corruption million US\$ 2012–2014	MIN cost in % of budget expenditure
Defence	358	2.4	0.7	2.8	0.8	2	0.6
Economic Affairs	1 174	540	46	633.3	54	446.7	38.1
Education	1 052	10.8	1	14	1.3	7.6	0.7
Environmental protection	34	35.	102.6	41.7	122.2	28.3	83.1
General public services	1 797	4163	231.6	4 684.2	260.6	3 641.9	202.6
Health	599	17.5	2.9	20.4	34	14.6	2.4
Housing and collective development	262	0	0	0	0	0	0
Recreation, culture and religion	72	0	0	0	0	0	0
Security and public order	449	28.5	6.3	33.7	7.5	23.3	5.2
Social security and welfare	341	0	0	0	0	0	0
<b>Total budget expenditure</b>	<b>6 138</b>	<b>4 797</b>	<b>78.2</b>	<b>5 430</b>	<b>88.5</b>	<b>4 164</b>	<b>67.8</b>
<b>Tax</b>	<b>4 218.2</b>	<b>490.5</b>	<b>11.6</b>	<b>547</b>	<b>13</b>	<b>434</b>	<b>10.3</b>



**FIGURE 5**  
Cost of corruption by budget  
functional sector in per cent  
(average 2012–2014)  
Source: Authors.



Figure 5 above illustrates the cost of corruption by functional budget sectors. It should be noted, as in the case of VA analysis, that the classification of ‘cases’ by sector is not always unequivocal and may vary depending on the researcher’s decisions about the sector to which a given ‘case’ belongs.

It may be seen that the major loss emanates from the corruption related to expenditure but that loss in terms of taxes is also an important element. In terms of functional sectors, the major loss takes place under General Public Services with up to some 230% loss compared to actual expenditure as compared to the 2012–2014 average. Environmental protection is highly affected by the poaching of elephants and corruption in illicit logging, while Economic Affairs is strongly impacted by the EMATUM case. In comparison, the other sectors are only marginally affected.

### 4.3. Discussion of Value Added Loss in a National Accounts (Input-Output) Framework

Above we have compared the cost of corruption of the aggregated ‘cases’ to the Value Added as calculated by INE for 2014. This means that we have assumed that each cost element reduces VA by 100% of its value. This would be the case if all ‘corruption money’ left the country. This can be illustrated by looking at the Input-Output table in Annex 7.4.

Our ‘simple’ approach used above can be interpreted as introducing a new sector in the I/O table. We may call this the *corruption sector*. The other sectors will have to pay this sector for the delivery of ‘corruption services’. For any sector or producer that is exposed to corruption, its costs *increase* and it will have to deal with the cost in one way or another. When compared to table A, table B shows three different ways of dealing with the corruption cost.

- The ‘simple’ approach we have used (marked in yellow) is tantamount to saying that the cost is deducted from one of the VA elements that then reduces the overall VA by 100% of the corruption payment. The 50 million US\$ in extra cost are deducted from one of the elements of VA which then reduces the VA of the sector and the total VA by the same amount. This solution might be selected by the producer because he cannot increase the price for his product, e.g. in a very competitive market where the price is basically given for each individual producer. **We assume that the corruption sector produces no value** (technically e.g. postulating negative exports, which is an indication that the money is taken abroad).
- The cells marked in red show a case where the producer/sector defrays the cost of corruption by increasing the price of his products to recoup the extra 50 US\$ he has to pay to the ‘corruption sector’, keeping e.g. his operating surplus at the same level. This may happen if the competitive situation allows it. The value of **total output will then increase by 50 million US\$** (not because of increased quantity of output but because of increased price) and the table must be balanced by consumers paying more (increasing consumer inflation), increasing export prices or making investors pay more for their investment goods bought from the sector. In this way, the producer will not have to take the blow of corruption by reducing his operating surplus. **Instead, consumers, exporters or investors**

#### Box 3:

##### Brief explanation of input-output table

Please refer to Annex 7.3

Whereas each line and each column reflect the economic activities of a **sector**, it is perhaps easier to understand the setup of an input-output table (I/O) if we refer to **producers** instead of **sectors**. One sector is composed by the aggregate of a number of producers.

A column in an I/O table then reflects what *outlays* the producer has in terms of inputs that he purchases from other producers (agricultural inputs like fertilizers and seed for an agricultural producer.) In addition to these *intermediate* outlays, he will have to pay his workers and to use his tools (that depreciate through wear and tear). The difference between these elements and the total of his turnover (also called ‘Sales Value’ or ‘Total Output’) is his *operating surplus*. Value Added then consists of ‘remuneration of employees’, ‘depreciation’ and ‘operating surplus’. In addition, the country *imports* goods e.g. agricultural goods. Imports, added to Total Output gives Total Supply.

The lines (rows) of an I/O table reflect the disposal (use) of total supply. The producer sells some of his produce (e.g. seeds) to other producers and then the rest of the total supply becomes *end deliveries*. These consist of ‘private consumption’, ‘public consumption’, exports, investment’ or may be used for building up or running down of stocks. The total use (added horizontally) will be equal to the ‘Total supply’ as produced by the producer (his total output) plus imports. E.g. total supply (sum of column 2 annex 7.3) for Agriculture is 5 010 million US\$ which is the same as the sum of line 2 reflecting the use of total supply.

**will pay more for the same amount of goods/services.** In table B in Annex 7.4, this is done by increasing private consumption for the service sector. This is likely to have a negative effect on the sector's activity and push inflationary tendencies.

- The situation illustrated by the green cells may be referred to as '**corruption creating value**'. It is assumed that the corruption activities create values that are used in the country and not transferred abroad as in case A). As an example, one may assume that corruption money is used for building luxurious mansions, hotels, etc. This then creates value in a strict national accounts sense and may be used to argue that corruption is not so costly because it greases the wheels of the economy. However, this kind of corruption has the effect of transferring values from the victims of corruption to the corruptors. In a moral sense this is, of course, wrong.

With the limited time at the team's disposal and the limitations of the available data, it was not possible to fully use the method sketched out above but the approach is included in the study as we believe it could and should be used to good effect to measure the cost of corruption in a National Accounts context. To develop it further, a number of difficult problems e.g. regarding the inclusion of corruption payments in the National Accounts must be handled.

#### 4.4. Indirect Costs and Impact

##### 4.4.1. ON POVERTY

The data produced in this study only allows for general conclusions concerning the exact nature of the impact of corruption on poverty. An examination of the specific relationship between poverty and corruption is not possible, since the framework was not specifically designed to fit such an analysis. For instance, to gauge the impact of corruption increasing the cost of living (merchandise and fuel), an analytical framework similar to that used by Arndt *et al.* (2015) would have been required. This would have made it possible to identify and analyse the impact of those factors which drive poverty and inequality, as assessed by different approaches and databases.

In general, one may, however, argue that corruption related reduced revenue and spending capacity will negatively affect, in one way or another, the implementation of government poverty reduction policies. There is certainly some truth to this argument. However, the premise that there are clear and effective spending priorities, policies and practices in place, e.g. favouring investment in small scale agriculture, rural development, water supplies, etc., together with a commensurate allocation and (horizontal and vertical) distribution of the budget is likely to be flawed. The recent World Bank (WB) expenditure assessment shows that the allocation criteria for public resources do not necessarily give priority to those sectors and geographical areas where poverty reduction related investments are needed most urgently (WB, 2015). Instead, there has been a major bias of spending in favour of urban, not rural, infrastructure development, e.g. in the Greater Maputo area (ring road, telecom infrastructure, Maputo-KaTembe bridge, etc.). This means that these areas and sectors may have been neglected anyway, with or without corruption. Given these priorities, the corruption related reduced budget capability has most likely not affected relatively rich urban dwellers, but rather those of the (rural) poor with less or no voice and negotiation power.

There is a wide consensus in academic literature that corruption causes more economic inequality and deters the fight against poverty (Gupta *et al.*, 2002; Blackburn & Forgues-Puccio, 2011), thus retarding economic growth or, in the case of growth, distributing its effects unequally. From that angle, corruption acts as a regressive tax against the poorest in society, creating thresholds that the poor cannot overcome. This acts as a self-reinforcing negative cycle (Razafindrakoto & Roubaud, 2007). However, we may assume that in case of a large informal economic sector or non-observed economy in a country, as in the case of Mozambique, anti-corruption policies may increase inequality. The poor are often the

most dependent on the informal sectors. Major control of the informal sector, and increased efforts towards taxation of the informal sector with its regressive effects may hit the poor the hardest. This conclusion is based on a study of Latin-American countries (Dobson & Ramlogan-Dobson, 2010) and on wider evidence (DFID, 2015). In the case of Mozambique, however, a recent study demonstrates that the poor are hardest hit by corruption, whether in schools, licensing, hospital treatment, etc. It produces that 'extra tax' burden which, in combination with the regressive effects of a poll tax and the often coercive collection of fees for many livelihood activities (use of a bicycle, firewood production, selling at the market, etc.) increases the fiscal burden of the poor to such an extent that they hardly have a chance to get out of the poverty trap. Again, a collective action focus would help us better understand the challenges of poverty alleviation: it is not only about curbing corruption, e.g. in the health sector, but of re-appraising the choices which determine public policies and the way institutions are designed and relate to both agents and clients. Thus, the tackling of corruption and economic informality may not always be as straightforward as it appears in principle.

Specific sectors are more important than others in this respect. There is, for example, clear evidence that fuel price increases produce more 'consumption poverty and inequality to the detriment of the poor than other factors' (Arndt *et al.*, 2015: 20ff). These authors demonstrate that higher fuel prices coupled with an inelasticity of fuel demand and a lack of energy substitution options set into motion a vicious circle. Higher fuel prices such as those triggered by the overpricing of fuel imports in 2013 & 2013 (see position 14, Annex 7.3) will have triggered lower farm gate prices, increased consumer prices, as well as the price for distribution of imported products (food and farm inputs) and the direct transport costs (for buses or minibuses), clearly to the detriment of the poor.

#### 4.4.2. On Public Sector and Social Welfare (Health and Education)

A number of comparative studies show how corruption affects, directly and indirectly, the provision of public services and technical (roads) and social infrastructure, e.g. in education and health. A World Bank study estimates that worldwide, as much as 18 billion US\$ might be lost yearly due to corruption in road construction and production of electricity (Kenny, 2006). In another study, the World Bank finds that up to 20% of public spending might be lost yearly due to inefficiency caused by corruption, and even more devastating long-term effects to human capital from losses in education (through absenteeism amongst teachers) and health, through leakage of medicine and through poor service (World Bank, 2010). All the small corruption 'taxes' in the service sector (education, health) create the threshold, or a regressive tax effect. Developing countries become stuck in their development, because the poor are not able to work their way out of poverty, due to disproportionate 'taxes' being placed on them from corrupt individuals in the service system (Davis, 2004).

Mozambique is no exception. The public resources lost due to corruption alone in the customs service from 2007 to 2013 averaging 1.7 billion US\$ per year are more than enough

#### Box 4:

##### Corruption Traffic Police

#### Type:

II. Extortion.

#### Sectors:

public transport, security.

#### Years:

2013 onwards.

#### Evidence:

interviews of good quality/high fidelity.

#### Case:

A traffic police officer earns monthly approximately 5000 MT (2015). He is said to 'earn' on average an additional (minimum) of 5000 MT per week from the extortion of money, notably from taxi and bus drivers. In this way, the ostentatious vehicles and residences owned by members of the traffic police may be explained. The traffic police turns into an economically attractive business. Annually, an estimated 150 to 200 new recruits are registered. Many of them are said to pay a bribe to the HR department at the Ministry of Interior or to the General Police Command of between 15 000 and 25 000 MT per candidate to get a traffic cop job.

#### Assumptions:

- additional monthly (annual) illicit salary: 500 (6 000) US\$.
- N° of traffic police personnel: 6 800.
- % of personnel regularly involved in extortion (50% min/90% max/70% avg).

#### Direct corruption cost (annual average):

28.6 million US\$.

#### Equivalent to:

1 347 deputy attorney generals per year (e.g. in GCCC) at an annual salary of 21 208 US\$.

**Box 5:****Corruption in road construction**

**Type:** III, IV.

**Sector:** Roads, Construction/Public Works.

**Years:** 2013–2014.

**Evidence:** Interview, high quality/high fidelity.

**Case:**

Construction of Ring Road, Maputo.

The 20 km+ highway around the capital is constructed by a Chinese company without tender, financed by China with a non-concessional credit (together with the Maputo-KaTembe Bridge. According to the source, the cost of 5 million US\$/km is way above the (realistically estimated) market cost of a minimum 2.5 million US\$ and maximum 3 million US\$ per km. The quality is said to be poor and vulnerable to erosion in at least 2/3 of the highway's length.

**Assumption:**

Overpricing of construction cost in the absence of a tender;  
Min/max of 2 million US\$/km (min) to 2.5 million US\$/km (max) due to corruption

**Calculation base:** 20 km \* 2 million US\$ (min) or 20 \* 2.5 million US\$ (max)

**Direct (total) corruption cost:** 40 million US\$ (min)/50 million US\$ (max).

**Equivalent to:** min 13.3/max 16 km of additional highway.

**Indirect effects on**

- Increased indebtedness (NCB).
- Increased cost for repair/maintenance.
- Credit rating, reputational risk for sector.

to cover the total expenditure for education and health for which 1.4 billion US\$ have been budgeted in 2015. Other cases documented in this study include the siphoning off of parts of the education budget through a ghost teacher scheme, a scheme which is not restricted to the education sector alone<sup>37</sup> and the leakage of medicines and medical and lab products (DFID/WB, 2013), showing that the management of medical imports, stocking and distribution is a high risk operation from the point of view of Mozambique's international aid partners. Conversely, it is a thriving business for those involved, yet with potentially deadly consequences for patients and poor people, who depend upon the public health service. Even for the petty corruption payment of an 'entry fee' into the public service as a teacher, the 'modest' corruption sums annually involved could have annually financed the equivalent of **19 ambulances costing 65 000 US\$ each**. The extortion by the traffic police yields considerably more (see Box 4). And the impact of corruption in construction and public works is illustrated in Box 1.

#### 4.4.3. ON NATURAL RESOURCES, ENVIRONMENT AND TOURISM

Most of the literature on natural resources points to the risk of a 'resource curse' for the countries that are rich in natural resources. This seems to particularly be the case for the extractive types of natural resources (Van der Ploeg, 2011). Some authors argue that the 'resource curse' is dependent on a weak institutional framework manifest along the trajectory from exploration, investment, production, and marketing and close up (Barma *et al.*, 2011). Corruption, which is often a proxy for poor institutions and competitive clientelism, and which might further often weaken institutions over time, can distort the benefits of natural resources. Instead of high economic growth and societal development, the country in question might end up with highly unequal development with a small political elite that benefits most, and a large portion of the population, including local elites who are excluded or marginalised from development (Bhattacharyya & Hodler, 2010; Van der Ploeg, 2011). It is not just in mining, oil and gas that corruption can entail massive costs for a country if we perceive this phenomenon as not disassociated from the way rents are sought, managed and distributed, and public action is negotiated (Booth, 2012).

The analysis in the previous sections shows that environmental protection and natural resources in Mozambique is not an exception. They are considerably affected by corruption, especially due to illicit logging and poaching of elephants for ivory and rhinoceros for their horns, destined mainly to East Asian countries through illicit trade routes. Corruption in the mining sector itself appears, at present, less accentuated due to Mozambique's adherence to the Extractive Industry Transparency Index (EITI), the observance of the established rules of the game (EITI, 2013), as well as strong civil society (domestic and international) attention to the sector. Due to the work of Mozambican NGOs and independent research institutes such as IESE and CIP, Mozambique's compliance with EITI rules was an important step towards greater transparency and access to information on fiscal terms, revenue data, etc., for the public. However, as a report on the gas and oil industry argues, 'EITI should be seen as the low watermark, not the high watermark' (ILPI, 2013: 29). It should not be overlooked that EITI does neither cover all mining and resource extraction operations in Mozambique, nor does it promote the vertical oversight over the extractive sector and

37 In the late 1980s the army was notorious for a ghost personnel scheme; and recently a scheme in the National Social Security Service involving a minimum of 2 000 ghost beneficiaries has been discovered.

the associated infrastructure development. To give one example, transparency concerning the adjudication of the Pemba Logistical Base for the gas industry concession in favour of *Portos de Cabo Delgado* (PCD) was minimal, with a strong suspicion of corrupt practices involving international partners with a low reputation.

For years it has been known how badly illegal timber logging and export have affected the country's endowment of precious timber species, mainly due to poor forest governance, a lack of accountability and oversight as well as endemic corruption. Following a case study on timber logging and export to China in Zambézia (Mackenzie, 2006), two more recent and comprehensive analyses – one of them commissioned by the World Wildlife Fund (WWF), show the scope and economic damage that are caused by corrupt networks in the logging industry and illegal timber export to China (EIA, 2014; Miombo Consultants, 2015). The EIA study demonstrates that since 2006, an average of 81% of all logging in Mozambique were illegal. The business is driven by booming hardwood exports, with China being the main export market. Mozambican timber represents 46% of the total Chinese imports, making Mozambique China's largest supplier. Trade data discrepancies indicate that in 2012, Chinese companies imported between 189 615 and 215 654 cubic meters of timber, illegally exported from Mozambique – constituting nearly half of China's total imports from the country. The EIA research also shows that China's 2012 imports from Mozambique do not only dwarf licensed exports, but also exceed the licensed harvest by 154 030 cubic meters.

The economic effect of the illegal timber business with China, which benefits senior politicians, individuals in government departments responsible for forestry management and few Chinese traders and business people is considerable: it does not only raise serious doubts about the sustainability and management practices of Mozambique's forestry resources, with fears of depletion of commercial hardwood stocks in 15 years from now, it also has immediate costs. According to the EIA, the tangible economic damage to the state (lost tax revenue) and the local communities which are entitled by law to 20% of the value of the forest concessions is estimated to amount to 147 million US\$ between 2007 and 2014 – equivalent to 30 years of the annual budget of the Mozambican Forestry Programme law enforcement system at current prices (EIA, 2014). This appears to be a modest estimate. The more recent study commissioned by the WWF, with empirical evidence arising from excellent collaboration between researchers and provincial government institutions, estimates that annually 52 million US\$ in tax revenue were lost, or 520 million over 10 years.

The case of elephant poaching for ivory and its consequences for revenue loss and damage to resource endowment and industry (tourism) has also been well documented (see Box 6). Yet, these assumptions need to be questioned, particularly the one on CITES exceptionally allowing elephant culling and trade in ivory by a member

#### Box 6:

##### Elephant poaching

(see discussion on this and following page)

##### Case:

elephant poaching, criminal by definition, aims at extracting tusks for illicit trading of ivory to markets with a high demand, particularly in Asia.

##### Type: V.

Sectors: multi-sectoral.

Years: 2009–2014.

##### Evidence:

Studies: high quality/high fidelity

<http://allafrica.com/stories/201505280255.html>

<http://www.danstiles.org/publications/ivory/29.Ivory%20prices.pdf>

<http://www.oaklandzoo.org/blog/tag/elephant-ivory>.

##### Assumptions

- Average killing/poaching rate: 9 700 elephants between 2009–2014, or 1 940 animals/year.
- Average commercial price for 1 kg of ivory: 1 800 US\$; average ivory yield/animal (10 kg); average ivory commercial value/elephant: 18 000 US\$.
- The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) allows culling of elephant and trade in ivory in exceptional cases.

**Direct cost/damage:** Total commercial value of ivory of poached elephants:  $9\,700 * 18\,000\text{ US\$} = 174.6\text{ million US\$}$  or 34.92 million US\$/year.

##### Indirect cost/damage:

- Cost to tourism industry (reduction of visits and turnover of industry): eco- and wildlife tourism generating capacity/elephant/year = 23 000 US\$. Total annual loss of tourism industry potential :  $1\,940 * 23\,000\text{ US\$} = \text{approx. } 44\text{ million US\$}$ .
- Cost to revenue generation assumption: corporate income tax 30% on commercial value (= 100%) minus production and transport costs (= 50% of total commercial value): = 30% of 9 000 US\$/year equivalent to 2 700 US\$/elephant; or 5 238 million US\$/year in lost income tax: the same exercise can be made for VAT: 17% of (lost) annual wildlife tourism potential i.e. 17% of 44 million US\$ = 7.48 million US\$/year.

state. It is obvious that this is not the case in Mozambique. There is no legal trade in ivory or rhino horn, and no legal company or state agency that exports these commodities. Hence, no VAT is generated and no export levies are collected. The targeted killing of elephants and rhinos and trade in ivory and rhino horns exclusively represent an illicit economy, with these commodities being akin to illicit drugs. All rhino horn and ivory that have been found have been destroyed.

But poaching and logging do not only negatively affect the country's stock of natural resources, i.e. the impressive diversity of forestry resources and its endowment with wildlife. Their depletion has a medium and long-term impact on various branches of industry, namely forestry, manufacturing and tourism. The study results have already demonstrated how manufacturing is weakened by corruption in tenders and for tax avoidance. In the tourism sector, the indirect cost of poaching for the industry may be enormous as shown by Box 6. The benefit of one elephant for tourism is in the region of 23 000 US\$ per year, or a total of more than 1.6 million US\$ over an elephant's lifetime.<sup>38</sup> And, in the case of the Kruger National Park in South Africa, linked to Mozambique via the trans-frontier Limpopo Park, the viewing value of its rhinos, in relation to South Africa's total revenue from tourism (of annually 180 million US\$), constitutes about 10.3 million US\$ per year, with the Big Five (lion, elephant, leopard, rhino, buffalo) annually yielding around 45.8 million US\$ or 25% of the tourism revenue.<sup>39</sup>

In Mozambique, the tourism industry itself is prone to corruption, especially in Inhambane province, one of the major destinations in Mozambique. An assessment by the provincial government in 2004 concluded that on average, almost 64% of the tourism businesses spent about 9.5% of their gross turnover on paying bribes to the authorities. The worst case in the province was, at the time, Vilanculos, where over 80% of the operators are said to engage in corrupt practices (Rylance, 2008). The high percentage of bribing in the industry is positively correlated with the practice of fining and inspections by the authorities, as well as tax evasion. Based on data on the aforementioned assessment, another study concludes that the overall amount of underreported gross revenue of the province's tourism companies is 64% (Lanwehr, 2005).

The present government, under the leadership of the newly formed Ministry of Land, Environment and Rural Development (*Ministério de Terra, Ambiente e Desenvolvimento Rural* – MITADER) has recognized corruption as part of the threat that poor resource governance poses to the depletion of natural resources and its negative downstream consequences for rural development, manufacturing and tourism. Not only has the fight against poaching of both elephants and rhinos been intensified, in the latter case in collaboration with the authorities of South Africa, it has also visibly and publicly demonstrated its newly found commitment to this fight by publicly incinerating a large stockpile of confiscated tusks and rhino horns seized from poaching gangs and traffickers in various parts of the country.<sup>40</sup>

In a surprise move, the Minister has announced that the government will issue a moratorium on logging, until such a time that the licenses are verified and reconfirmed in an attempt to 'separate the wheat from the chaff' amongst the operators.<sup>41</sup> These signals may produce anti-corruption effects, in the sense alluded to above, namely complicating if not undermining the 'confidence' relationship between the corruptor and the corrupted, necessary for illicit transactions to be realized. In other country contexts, however, logging moratoriums introduced to counter corruption in the forest sector have themselves become foci of corruption where special task forces mandated to monitor the moratorium have become engaged in corrupt practices (since they effectively have monopoly control). A

38 <http://blogs.scientificamerican.com/extinction-countdown/elephants-are-worth-76-times-more-alive-than-dead-report>

39 <http://africanrhino.org/2014/05/06/rhinos-now-a-bigger-tourist-draw>

40 <http://allafrica.com/stories/201510191355.html>

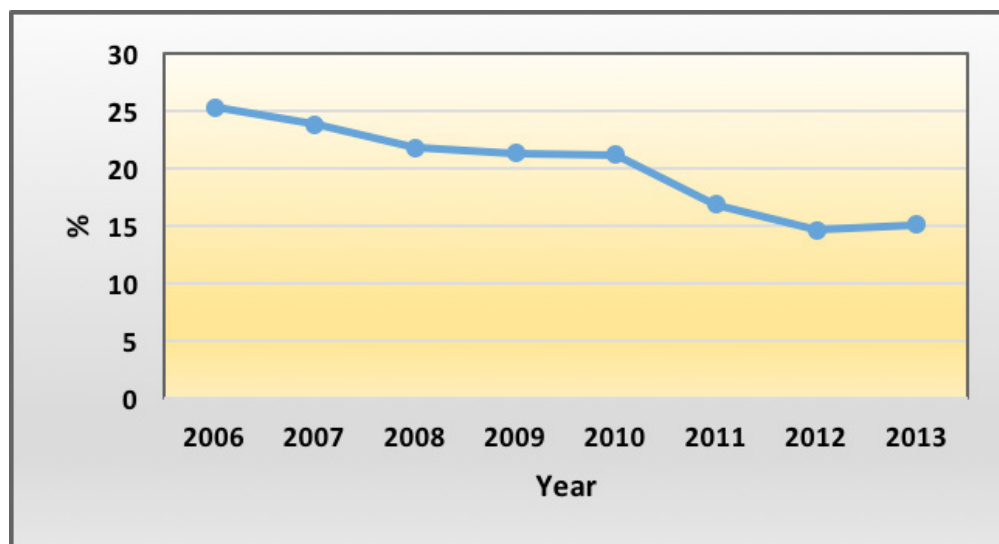
41 Mozambique: Government Planning to Suspend Logging Licences. <http://allafrica.com/stories/201511170099.html>

recent example is the Illegal Logging Task Force in the Philippines (May-Anda & Torres, 2014). This may provide lessons and insights for the Mozambican authorities including that special task forces may not necessarily be immune to corrupt practises.

#### 4.4.4. ON FOREIGN AID

From a glance at the literature on development assistance, it is difficult to establish a positive correlation between corruption and the (reduction of) foreign aid. But it is also clear that for foreign aid to contribute to economic growth, a country needs to have sound governance institutions. This is especially the case when aid is delivered in the modalities of General or Sectoral Budget Support (GBS, SBS). Svensson (2010) shows that under certain circumstances, an increase in government revenue through ODA lowers the provision of public goods and that the mere expectation of aid may suffice to increase rent dissipation and reduce productive public spending. This result may be reversed, however, if the donor community can enter into a binding policy commitment. Similarly, foreign aid can undermine the institutional quality in a country, thus sparking a negative cycle of worsening institutions and less economic growth (Young & Sheehan, 2012). Further, it is argued, e.g. by Werlin (2005), that increasing foreign aid will not necessarily help in the fight against poverty. This author finds that massive parts of foreign aid are lost to corruption, and then transported out of the beneficiary countries as illicit capital flows. Thus, the country becomes more indebted, but fails to achieve economic development.

In the case of Mozambique, it is difficult to ascertain a direct link between (perceived) corruption, e.g. Mozambique's ranking in various surveys measuring good governance and corruption on the one hand, and the impact this may have on ODA on the other. Hence, it cannot be demonstrated that (perceived) corruption in Mozambique should be a principal reason for aid reductions by donors in general and budget support in particular. The Official Development Assistance (ODA) flows as a percentage of the Mozambican Gross National Income (GNI) are given in the figure below.



**FIGURE 6**

ODA as percentage of Gross National Income, 2007-2013

Source: OECD.

There are many circumstantial and structural factors which would need to be taken into consideration in a substantial analysis of the reduction of aid to Mozambique. As set out in section 2.1 above, the causes are diverse and may vary from country to country. They reflect domestic economic, social and political changes such as the coming to power of elected parliaments or governments in donor countries that are less amenable to aid. Rather than corruption alone, other factors for reduced aid commitments to Mozambique include stretched budgets in donor countries, a shift from an 'aid for development' paradigm to a 'support for private investment',<sup>42</sup> as well as a questioning of direct budget support as the

42 As for instance observed by Vollmer (2013).

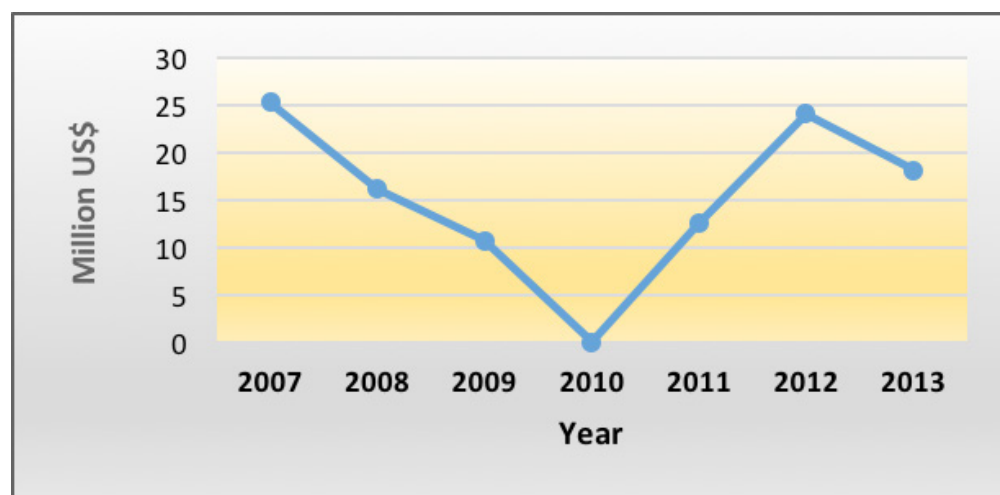
most effective way of contributing to poverty reduction (ADE/ITAD/COWI, 2014).

But undoubtedly perceptions and facts about corruption and, in a wider angle, poor governance, played a part in some donors' decisions making processes related to ODA for Mozambique. The country still remembers what was called the 'donor strike' in 2010, in which the majority of the 19 Programme Aid Partners (PAP) giving budget support to Mozambique temporarily halted their support, forcing the government to review its 2010 budget. The consequence was a substantial drop in ODA commitments for that year as can be seen from the figure below. In terms of disbursements, in 2011, external finance of the state budget had dropped to 44.6% against 51.4% in 2010 and with foreign aid contributing 39.6% of public expenditure in 2012 and 32.8% in 2013 (Bruschi, 2012).

**FIGURE 7**

ODA donor commitments,  
2007-2013

Source: OECD  
<http://www.aidflows.org/>.



In the donors' views, the reasons given were clearly related to the lenient attitude and insufficient measures adopted by the government to fight the corruption and also to other concerns.<sup>43</sup> The G-19 chairperson's statement was clear: corruption among other factors<sup>44</sup> led to the position that the donors took and the ensuing review of aid commitments.<sup>45</sup> At the time, Switzerland and Sweden reduced their aid substantially and, explicitly, with poor governance as a key argument. And Sweden took the step with reference to the stealing of money in the Education budget through a 'ghost teachers' scheme, in which, between 2006 and 2010, a total of 4.8 million US\$ was siphoned from the education budget. In retrospect, the period between 2010 and 2011 might, in fact, have been that historical turning point in ODA support to Mozambique alluded to in the afore-cited analysis (Bruschi, 2012). And corruption has certainly contributed to the drop in donor support.

The direct consequences of reduced aid may be increased fiscal stress and the government's recourse to credit financing of the budget deficit, but also an increased taxation effort by the national tax authority, as surely was the case in Mozambique. The 'invisible', indirect consequences could have been an erosion of trust with donors and, as a consequence, a reputational risk for the country. However, this does not seem to have been the case, since the downscaling of bilateral and multilateral ODA has not led to a cut of net disbursements of ODA, as shown by the below figure. Rather, the modalities

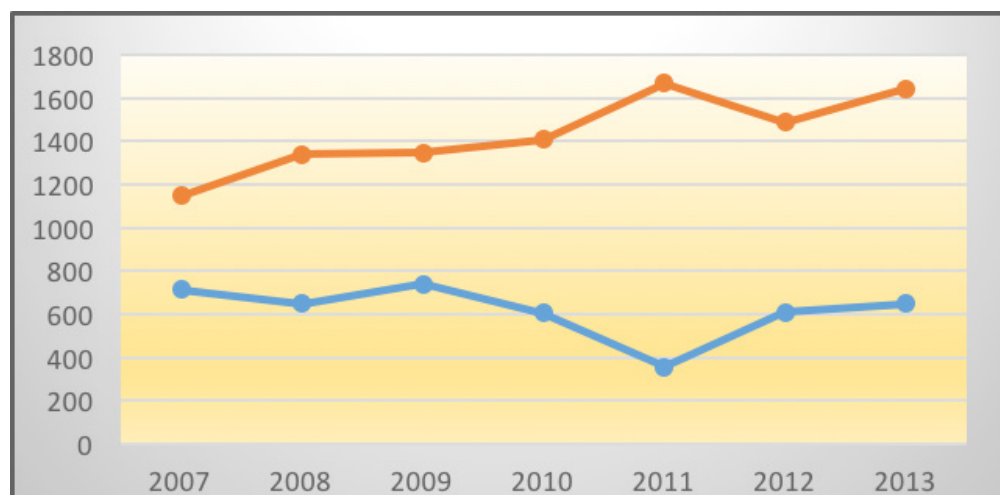
43 Unclear separation between the political party and the state, lack of accountability and discrimination of political parties in the 2009 elections.

44 e.g. unclear separation between the ruling party and the public administration, use of public funds and assets for electoral campaigns of the ruling party.

45 '... the fact that in some areas of governance performance is considered unsatisfactory has caused some [donors] to reduce their pledges in relation to what had been in their long-term plans.' Finnish ambassador Kari Alanko, cited in: <http://mg.co.za/article/2010-07-01-donors-put-brakes-on-mozambique-aid>



have shifted away from GBS and SBS. The drastic deterioration of the exchange rate of the Metical against the US\$ needs to be taken into account when interpreting the relative constant levels of ODA after 2011.



**FIGURE 8**

Mozambique:  
net disbursements of ODA  
by type, 2007–2013 (million  
US\$)

Source: OECD  
<http://www.aidflows.org>

#### 4.5. Budget Distortions of Maintaining Political Economy Prone to Corruption

As already stated, budget distortions that maintain the political economy of corruption are not always illegal. But they help maintain a political economy, in which opportunistic economic behaviour and all forms of rent seeking, predation, and corruption are intrinsically part of a clientelist system potentially benefitting a self-serving elite group (see section 1.1.), distorting the budget allocation to maintain it. The cost of such distortions may be considerable, as demonstrated by the case of the use of fuel and travel allowances by civil servants for non-official travel (see Box 7).

The use of state resources (human resources paid through the public budgets, vehicles, fuel, etc.) in electoral campaigns during the past three general elections (2004, 2009, 2014) has been well documented, e.g. CIP. This illegal practise has not only incurred a high cost to the budget, but has also discredited various elections in the past 15 years as not being entirely regular and fair. The cost of such distortions is borne by the taxpayer, who pays for it directly (via taxes) and indirectly, through reduced state budgets for essential services. The case of the Kudumba-operated scanners in ports and airports is slightly different (Mosse & Munguambe, 2007; Hanlon & Smart, 2008: 116). This private company, in which a holding company linked to individuals in the ruling party is a shareholder, performs a public service (non-intrusive scanning) and security, but privatises parts of the proceeds. It is estimated that this creates an annual income of around 40 million US\$. It is not known whether the private holding company pays taxes on the income generated by the scanners' operator. But it is known that the high fees (up to 100 US\$ per container) charged to importers is a cause of concern for the business community both in Mozambique and for exporters in South Africa. In the latter case, it has been observed that Durban is preferred by exporters from the Pretoria/Johannesburg area despite the longer distances involved (Sequeira & Djankov, 2013). This is principally due to the extra cost to go through Maputo as a result of the container scanning fees and also the lower cost levels of corruption. The monopolistic scanning fees simply make Maputo less competitive.

Under conditions of fiscal stress and budget deficits, the curbing of such budget distortions appears to be a reasonable proposition from the point of view of the tax payer. It would not only save scarce resources and enhance the government's space of manoeuvre for financing basic services, it would also eventually contribute to an increased awareness of

the population that those who govern do not necessarily represent the self-serving interests of a small, privileged elite. The recent decision by President Nyusi to abandon the use of helicopters for his presidential visits to local governments, even in remote areas, has not only saved the public purse an estimated annual amount of 2.4 million US\$, but is likely to have increased the president's popularity.

**Box 7:****Non-official use of fuel and travel allowance by civil servants****Case:**

Use of budget resources allocated for the official use of state vehicles and travel allowances for the personal benefit of civil servants.

**Type:**

Budget distortion to maintain system.

**Sectors:** All.

**Years:** 2013.

**Evidence:** DNO statistics; interviews of good quality/high fidelity

**Calculation base:** all cost items for travel (domestic/foreign and fuel (classifiers: 112010; 112012; 121001) for recurrent expenditure (funcionamento) and investment (internal and external components) at all levels of government (excl. municipalities): 225.8 million US\$.

**Assumptions:**

33% (average) of total goes to non-official use.

**Direct corruption cost (annual average):** 83.1 million US\$.

**Equivalent to:** 5.4% of total public investment budget for 2012; or 73.2% of total interest payment in 2013 budget.

**Indirect effects:** Faster depreciation of asset (vehicles) and earlier substitution investment.

## 5. CORRUPTION, BUSINESS AND INVESTMENT

Given the structural and cyclical economic constraints highlighted in section 1 of this report on the one hand, and the paradigm shift, on the part of Mozambique's aid partners from 'aid for development' to 'investment in business opportunities' alluded to in section 4.4.4. above, on the other hand, the private sector is bound to play an increasing role in Mozambican social economic development. For this reason, in this section, we analyse in some depth the findings of the study regarding the implications of corruption for business and investment. The study and its results clearly show the major areas of concern for business. These are discussed in some detail in this section, followed by an assessment of the implications for investment, etc., in the following section 5.2.

### 5.1. Direct Costs and Major Corruption Concerns: Customs and Trade

A major portion of the cost of corruption is related to customs. This is not surprising given that this is one of the main intersections where the state apparatus meets the private sector. Moreover, this juncture explicitly deals with the levying of tariffs and duties based on the value of merchandise. This mixture of an economic transaction between allegedly underpaid and predatory gatekeepers (customs agents) and the advantage seeking private sector, is a fertile ground for the peddling of influence and payments to circumvent the process.

There are a number of aspects to corruption in customs including straightforward bribery and trade mis-invoicing. However, there are also reforms underway – initiated by the government and in line with the SADC protocol on regional tariff reductions to try and address these issues. To date, there has been some success with the roll out of the single electronic window (JUE); however this system is not yet fully functional. Instead, the previous (manual) system remains in place and continues to be used for around 30% of imports. This is not only a massive loss of revenue for the state, it is a gateway for the illicit trafficking of goods which has the potential indirect consequence to entrench Mozambique's already poor reputation as a hub for trafficking and money laundering (BIG, 2015). The direct consequences of corruption in the customs sector are covered in this section, while the indirect impacts are analysed below.

#### 5.1.1. CUSTOMS AND BRIBERY

The most straightforward aspect related to customs and the private sector is the extraction and payment of bribes in return for some advantage in the customs clearance process. This can be in the form of lowered tariffs and duties, bypassing official inspection altogether, or accelerated processes. According to sources interviewed, the typical demands for bribe payments are somewhere below five per cent of the value of the merchandise that is being imported. This confirms the conclusions of a study which compared corruption in the ports services of Maputo and Durban (Sequeira & Djankov, 2013).

That study provides well researched evidence on corrupt practices and, in the case of Maputo port, their negative impact on shipping costs. Not only is the percentage share of bribes in relation to total shipping cost at Maputo port considerably higher than that in Durban (53% vs. 36% of the total shipping cost), the amount of bribes per transaction paid in Maputo is also almost three times higher than in Durban. In Maputo port 'the average bribe' represents a 129% increase in total port costs for a standard 20 ft. container, and is equivalent to a 14% increase in total shipping costs – including overland transport, port clearance costs and sea shipping to destinations in Eastern Africa or in the Far East

(Sequeira & Djankov, 2013). One of the negative consequences for the Mozambican economy in general and the economic profitability of Maputo Port is that South African exporters try to avoid the port of Maputo, giving preference to Durban and/or Port Elizabeth in South Africa.

The corrupt practices in Maputo port particularly benefit the customs officials. Under the assumption that ‘any given customs official in Maputo extracts a bribe from about half of the approximately 50 shipments (s)he clears a month, ‘his monthly salary can grow by more than 600% just due to corruption’ (Sequeira & Djankov, 2013) This illicit additional income accrues to a public servant who is already on one of the highest salary levels in the Mozambican public administration. According to sources interviewed, the ‘entrance fee’ for such lucrative jobs in customs are typically sold for around 10 000 US\$ to 15 000 US\$ per person.

Assuming an overall average bribe payment of 3.5% of imports in the customs sector, the cost to the Mozambican state amounts to around 108 million US\$ per year. To put this figure into context, the loss for the state is nearly as large as the 2015 budget for the Judicial System and Local Development put together.<sup>46</sup>

The figure of 108 million US\$ per year is considerable and could be put to good use. However, the problem was likely much higher in the past. If one analyses the impact of the JUE system in its first year of operations, this becomes clear: In the first phase of JUE (2012), government receipts increased by 15% as compared to the previous year. Moreover, JUE has been able to increase the government take in successive years until 2015 (despite lower cross border trade in 2014/15). While this may have been the result of a failure of border guards to accurately capture trade which is now covered by the new system (see below), due to lack of capacity, the difference could also be the result of reduced opportunities for corruption. Whatever the reason, there is little doubt that efficiency as well as revenue pertaining to the state have increased after the introduction of the JUE system.

### 5.1.2. TRADE MIS-INVOICING

An important cost of corruption is the loss to the Mozambican state as a result of trade mis-invoicing or double invoicing. The practice of double invoicing is used to avoid tariffs and taxes in Mozambique whilst still recouping VAT in the exporting country – for example South Africa (SA). This made it possible to use one invoice to export goods from SA which has the correct or possibly even inflated value, while another invoice with a reduced value is being used to import the same goods into Mozambique (van Dunem & Arndt, 2010). The purpose of the correct invoice is for the trader to recoup the VAT in SA, while the purpose of the second invoice below the actual value is designed to pay reduced import tariffs in Mozambique. There is a number of variants of this practice with goods for instance also being deliberately categorised into lower value tariff brackets. Mis-invoicing may occur with or without the collusion of customs officials.

The loss to the state is considerable. According to a study by Global Financial Integrity (GFI, 2014), the total loss to Mozambique from 2002 to 2010 as a result of this practice is, on average, around 585 million US\$ per year, extrapolated for the period 2012 to 2014. Based on evidence from interviews conducted for this study, this is a conservative estimate. Another study that has investigated the same issue from a different angle comes to the conclusion that the average level of economic loss to the Mozambican state as a result of under-invoicing and fraudulent misclassification of merchandise is nearly 36% of total recorded imports. This is equivalent to over 3 billion US\$ in 2013. On average, Mozambique has lost 1.7 billion US\$ per year as a result of this practice from 2007 to 2013. This is a considerable loss to the Mozambican economy. The average annual figure of 1.7 billion US\$ is more than enough to cover the total expenditure for education and health for which a total of 1.4 billion US\$ have been budgeted in 2015. In a climate of potential budget cuts in the education and health sectors due to a weak fiscal position, these losses are even more painful.

46 The 2015 budget values are 28 million US\$ for the judicial system and 83.5 million US\$ for local development (see: [http://www.dno.gov.mz/docs/OE2015/Orcam\\_Cidadao%202015\\_Versao\\_Final.pdf](http://www.dno.gov.mz/docs/OE2015/Orcam_Cidadao%202015_Versao_Final.pdf))

While the losses as a result of invoice mispricing are major, in our view the frequency of this practice will decrease. This is principally due to the fact that as of 2015, the SADC Free Trade Area was extended to cover imports from SA into Mozambique. This means that goods produced in SA do not pay any duties when being imported into Mozambique. For the purposes of this rule, goods for which the value addition in South Africa is at least 35% of the ex-factory price can be considered ‘made in South Africa’ and are therefore exempt from tariffs and duties. While this rule has the potential to shift illegal practices from double invoicing to obtaining fake SADC certificates of origin, trade liberalisation is likely to reduce the prevalence of corruption overall. The other reason why we expect mis-invoicing to be reduced in the future is due to the fact that Mozambique is in the process of rolling out its electronic one-stop-shop for border transactions (JUE). This reduces the discretion by individual customs agents. Furthermore, if and when the Mozambican system is linked up with the SA system across the border and information is shared in real-time, the opportunities for double invoicing could in theory even be completely eliminated.

### 5.1.3. THE SINGLE ELECTRONIC WINDOW (JUE)

The Mozambique Community Network, SA (MCNET), is a joint venture that won the ‘Concession Contract of Public Services for the Conception, Design, Implementation and Operation of an Electronic Single Window System’ for Mozambique. The duration of the concession is 15 years. MCNET shareholders are the Mozambican State (20%), the Mozambican Trade Association CTA (20%), and the Consortium Escopil Lda/SGS SA (60%).

With the start-up of MCNET Operations in September 2011, customs operations began to be conducted through the single electronic window (JUE). Government and line ministries are contractually bound to use the MCNET/JUE system, as are all operators in the country – including SOEs. This also explicitly includes export and import regimes pertaining to industrial free zones, special economic zones and duty free shops.

The impact of the MCNET on government revenue has been tremendous. After the MCNET system was rolled out in the first phase (2012), government receipts increased by 15% as compared to the previous year. This means that an equivalent or greater amount was lost prior to 2012. This is an amount equivalent to at least 27.8 million US\$. Furthermore, MCNET has been able to increase the government take in successive years until 2015 (despite a lower cross border trade in 2014/15). This system is thus a cornerstone in a customs system that is less prone to corruption and one where the losses to the state are reduced.

The MCNET system does still face obstacles and is no panacea against corruption. According to a study by the USAID Speed Program, ‘importers and exporters believe that poorly trained and corrupt customs officers are the weak link in the system’ (SPEED, 2013: 7). This is especially relevant given that after a conditional release has been provided, cargo may still be subjected to a physical inspection before the final release. According to the report, it is at this stage of physical contact between customs and importers that corruption may still occur. Nevertheless, the report also states that support for the JUE is high among both primary and secondary users, with 95% of the study’s participants believing that the JUE is a positive and necessary initiative (SPEED, 2013).

More worryingly than the possibility for corruption to occur within the MCNET/JUE architecture is the fact that a shadow customs system is in place in the country. The MCNET system is meant to replace the previous (manual) Trade Information Management System (TIMS). However, TIMS remains in operation and is used for a variety of purposes. According to the sources interviewed, this includes smuggling, and off the books imports, as well as imports for major government projects such as the Maputo ring road amongst others. For instance, all medicines and refined fuels are reportedly imported through TIMS. Total estimated imports through TIMS stand at around 30% of total imports. The TIMS shadow customs system avoids all duties, tariffs and taxes and is unaccountable. As such, it represents a major loss to the state and a major conduit for corruption and illegal trafficking.

It has to be acknowledged that this case is far from straightforward. Firstly, it is enshrined

in law that TIMS should be operational until a point when the JUE has been rolled out and is operational. Furthermore, the fact that the government is using the system for its special projects may signify that the use of the system is legitimate. However, given the fact that the use of MCNET is obligatory for all importers, and the fact that the system is operational, the continued existence and use of the shadow TIMS system by the government and others has to be explained by the authorities. There may be legitimate arguments for certain projects to be tax exempt, but this should be rationalised through the MCNET system. The maintenance of a shadow customs system which is unaccountable, possibly illegal, and furthermore is allegedly being used for many other goods (illicit or not) aside from government projects is highly problematic with potential costs for the state that far outweigh the foregone tariffs and import duties.

While major costs have already been incurred as a result of the TIMS shadow system still being operational, there are also positive developments. In June 2015, preparations were made to include the Office for the Accelerated Development of Economic Zones (GAZEDA) into the JUE system. The GAZEDA will have the role to assess whether special tax breaks or other fiscal benefits are due and, if so, on which goods and projects. This is then relayed in real-time to the customs agents. A pilot study has begun on the 3<sup>rd</sup> of August 2015. While these are positive developments, the TIMS system should be shut down as a matter of urgency.

## 5.2. Indirect Costs and Impact

While the direct costs of corruption are crippling for Mozambique, the indirect impacts are also considerable and as this section will show, can potentially be even greater and more far-reaching than the direct impacts. This section assesses the indirect impacts of corruption on the structure of the private sector, on the value for money of services and products in the country, private sector partnerships, international reputation and domestic politics.

### 5.2.1. IMPACT ON THE STRUCTURE OF THE PRIVATE SECTOR

One of the main indirect consequences of widespread corruption on the private sector is that it alters the structural make-up of the sector, with wide-reaching negative consequences. The reason for this is that different enterprises have varying means, abilities and strategies to respond to corruption. This section outlines the impact of corruption on small and medium-sized enterprises (SMEs) and larger domestic (including SOEs) as well as international and multinational companies (MNCs). In terms of the numbers of enterprises in each bracket, SMEs are the most numerous in Mozambique, while MNCs are the fewest. The section also assesses the impact of corruption in the financial sector on the structure of the private sector.

#### 5.2.1.1. *International and Multinational Enterprises*

Despite their prevalence in public discourse and attention, international or multinational corporations (MNCs) are the exception in the Mozambican context rather than the rule. These companies tend to have numerous operations worldwide and tend to be listed on international stock exchanges such as Paris, New York, Frankfurt, London and others. As a result of their international exposure, they are subject to a number of factors that strongly influence them to be highly risk-averse when it comes to corruption.

The most important of these factors are international legal regimes that aim at preventing MNCs from acting in a corrupt way. This includes regimes such as the US Foreign Corrupt Practices Act (FCPA), the UK Anti-Bribery Act (UKBA), the Canadian Corruption of Foreign Public Officials Act (CFPOA), or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Convention), amongst others. Recent legislation has added further strength to the international anti-corruption effort. These include the Dodd-Frank Wall Street Reform and the Consumer Protection Act (Dodd-Frank Act), which empowers and incentivises individual whistle-blowers (rather than government agencies) who assist the Securities and Exchange Commission (SEC)

in uncovering securities violations, including Foreign Corrupt Practices Act (FCPA) violations.<sup>47</sup> The scrutiny of MNCs has also increased with the amendment of the EU Accounting Directive which requires all EU-listed and large, privately owned firms in the extractive sector to disclose the payments they make to governments on a project-by-project basis.<sup>48</sup>

Aside from the legal demands and expectations on MNCs who face considerable penalties for non-compliance, there are very high potential reputational risks for MNCs. This is due to their high-profile positions in the media and under the strong scrutiny of MNCs by global and national civil society organisations (CSOs). Wrong-doing such as breaches of anti-corruption law can quickly snowball into a major public relations disaster which can substantially affect share prices and investor confidence, as well as government relations and the longer term sustainability of operations.

As a result of these two factors, MNCs tend to be extremely risk averse when it comes to corruption, and, according to the sources interviewed for this study, go to great lengths to try and avoid it. This is in the form of due diligence of partners, internal governance adjustments such as anchoring anti-corruption at the board level, codes of conduct, as well as other anti-corruption measures. Due to the size of MNCs and the fact that they do not only depend on one market or project for their commercial success, these types of companies are also able to simply walk away from deals that would jeopardise their integrity, legal compliance, reputation or sustainability to an unacceptable degree. Indeed, this has happened in Mozambique with around 100 million US\$ worth of projects cancelled in the space of 12 months since early 2014, according to business sources interviewed. This specifically includes non-investment due to corruption concerns, and does not include cancellations due to the increased political risk emanating from the on-going political violence associated with Renamo at the time.

When it comes to the impact of corruption on the make-up of the private sector, one impact is thus that corruption risk-averse MNCs are deterred from entering the market. While in some cases there is genuine competition for market share, and risk-averse MNCs may be replaced by other enterprises with a greater risk appetite, this is only the case in some projects – especially in those which are less technologically demanding (e.g. construction and road works). As a result, non-investment by MNCs can in many cases actually mean that the projects will simply not happen. This is problematic for Mozambique not only due to the lack of output and productivity, but also due to the transformative nature of many investments by MNCs. These kinds of investments tend to be associated with long and lucrative value chains which provide considerable opportunities to a number of other businesses – especially Mozambican enterprises. As a result, non-investment by MNCs has the effect of smaller local players like local larger companies and SMEs losing out.

#### 5.2.1.2. Large Domestic Enterprises

In the case of larger domestic companies as well as non-listed international companies that seek to diversify outside of their home countries, the prevalence of corruption in an economy is two-fold. Firstly, it acts as a tax on business which is always passed on. This is in inflated costs, reduced quality and/or exploitation of labour by paying low wages (see section 4.3, A above). The other aspect is that there is intense pressure on these types of companies to engage in corruption. This is in the form of the structural pressure to win business in an environment where corruption is rife, as well as the risk of co-option and demands for free-carried interest to Politically Exposed Persons (PEPs) in return for ‘political protection’ and ‘access to business opportunities’. These PEPs are mostly linked to the public administration and government authorities in some way, and the business that they can provide is typically originating from undue access to opportunities within the

47 See: Section 922, Dodd-Frank Act.

48 See: Accounting Directive 2013/34/EU, and Directive 2013/50/EU which amends Article 6 of the Transparency Directive 2004/109/EC.

government/state apparatus. When it comes to free-carried interest, this typically results in an increase in the operating cost of the majority stakeholder equivalent to the loss incurred by the free-carry interest being accommodated.

Large domestic and non-listed international enterprises in Mozambique do not fall under the same legal and reputational obligations and demands as those faced by MNCs. As a result, they more readily play by the rules of the corrupt game, either voluntarily or involuntarily. While there is also somewhat of a divide between more risk averse companies exiting the market there are fewer enterprises passing up business opportunities for corruption reasons. Rather in this segment of companies, corruption is more readily accepted as part of the game and for some even as a necessity to win contracts. Any PEPs that are associated with a company thus become 'business mules' that bring opportunities to their partners at a fee (payment of free-carry equity).

The fact that in Mozambique there is a widespread proliferation of 'investment promotion' companies speaks to this dynamic. Upon closer examination, many of these enterprises serve as conduits for members of the political elite who do not only offer their services as 'business mules', but who also charge handsome fees to even be seen by prospective investors. Aside from the fact that they can afford to be less risk-averse than MNCs, large domestic enterprises and un-listed international players are a prime target for corrupt officials due to their perceived wealth and profitability. For corrupt officials seeking rents, they thus fall in the sweet spot between MNCs who are seen as too hard to extract corrupt payments from, and SMEs who are seen as yielding too few benefits to make it worth the effort.

The impact on the private sector make-up is that the next-in-line truly private sector engines of growth (after the MNCs) are being eroded and hollowed out due to corruption – or maybe even enticed to also engage in corrupt practise. Like with MNCs, large domestic players can act as important economic multipliers, akin to locomotives pulling whole value chains of the economy along. Due to the costs imposed by corruption, however, local larger players are stunted in their growth and potential, and are undermined in providing adequate and competitive products and services. The fact that the World Economic Forum lists Mozambique as 133<sup>rd</sup> out of 144 economies on its Global Competitiveness Index for 2015–16 is in no small part due to the undermining of company competitiveness due to corruption.<sup>49</sup> Rather than emerging as locomotives of economic growth, corruption risks turning large domestic companies into remote controlled zombie corporations that in the last instance may only be able to survive due to their privileged position as winners of corrupt, suspended or otherwise vitiated tenders with the aid of the PEP business mules.<sup>50</sup> While this is a point of consternation for many legitimate companies, for the majority of players there is little they can do about unfair tenders as they have little leverage to change the rules of the game. The most common response is to simply abandon the market and find opportunities in other countries, with more competitive and fairer tender processes.

#### 5.2.1.2.1. State-owned Enterprises (SOEs)

A major part of the large domestic enterprises are fully or partially state-owned public enterprises (SOE) and private companies owned by the state. These are cases such as TDM, ADM, EDM, CFM, but also private companies with public entities as shareholders/owners which perform tasks in the public interest. Examples are *Estradas de Zambeze* (toll roads and bridges), *Kudumba* (non-intrusive scanners), IMOPETRO (import of fuel) and EMATUM, the latter covered by the sample of this study.

Such SOEs are uniquely exposed to the risk of corruption. On the one hand, they are close to the government and are, in principle, obliged to apply government rules to public finance management, procurement, etc. In practice, however, they operate in a way that

49 See: [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

50 More often than not tender processes get suspended midway only for the contract to be awarded to a particular company. Justifications often include the need for 'rapid decisions and investment'.



is detached from regulatory bodies (where they exist) and state supervision (e.g. by UFSA and the auditors of *Tribunal Administrativo* (TA)). As a result, they have a high degree of autonomy, a little accountability and a high amount of impunity, which makes them almost a 'state within the state'.

A considerable number of sources have pointed out that SOEs as well as public private partnerships (PPPs) in major infrastructure and construction projects are increasingly a source for corrupt practices. For corrupt interests, PPPs provide an added advantage for financing and operating infrastructure projects, in that the private partner provides the initial funding outlays usually based on the principle of *Build, Operate and Transfer* (BOT). However, in the case of Mozambique, some of the private partners have no major capital sources for public investment of their own. Given that senior managers are often linked to the hubs and networks of political and economic power, and thus the state, sovereign guarantees are increasingly used to enable the PPP on the commercial capital markets. Without the sovereign guarantee, financing would be prohibitively expensive and the project would effectively never happen. Cases in point are EMATUM and *Aeroportos de Moçambique* (ADM), the latter financing a large part of airport rehabilitation through commercial credit. As a consequence, not only does the distinction between 'private' and 'public' becomes blurred, creating an environment in which conflict of interest and collusion between sitting politicians and private interests can thrive, but it also increases the efforts to forcibly 'privatise' state assets for private gain, as the example of Telecom demonstrates (see Box 8).

SOEs are particularly exposed to risks of corruption of various types (fraud, embezzlement, bribing, intransparent tendering, etc.). According to a recently undertaken stock taking survey in Southern Africa, including Mozambique, 'corruption negatively impacts SOEs in a number of concrete ways. For example, because of bribery and corruption, projects carried out by or with SOEs are late, incomplete, or substandard. In some cases, corruption has led SOEs to be chronically reliant on government subsidies. Corruption in the SOE sector also leads to market distortions and a loss of public confidence in the use of public assets by SOEs (Crane-Sharif, 2015: 28). Yet, rare are cases where accounts are subject to public scrutiny by the Auditor General (TA/3<sup>o</sup>), tenders supervised by UFSA, or managers legally held accountable for mismanagement or corruption.

Even more than larger private domestic companies, SOEs are under intense pressure of co-optation and cessation of free carried interest to Politically Exposed Persons (PEPs) in return for 'political protection' and 'access to business opportunities' – mostly originating from the government/state apparatus. The difference between purely private large domestic enterprises and SOEs is that the inclusion of PEPs and elite interests within the sphere of SOE business influence is typically much easier and occurs behind closed doors. Similarly, given the major role of the state in the economy, business opportunities from the government and the state, as well as those offered by SOEs, can more readily be controlled and sold by well-placed individuals.

### 5.2.1.3. *Small and Medium-sized Enterprises (SMEs)*

While SMEs are not exposed to the corruption threat as much as larger companies due to their being seen as less lucrative, they nevertheless do face the risk as well. The difference is that for SMEs being faced with demands for corruption, this can easily mean that profitability is undermined which, in turn, may mean closure and possibly bankruptcy. While larger companies can 'afford' to pay corrupt payments without jeopardising liquidity and profitability too much, with SMEs the risk of corrupt demands 'killing the goose that laid the golden egg' is much greater.

One of the main mitigating strategies for SMEs is to act in the informal sector. While this may mean that corrupt payments may also have to be made – for instance to tax inspectors or the agents of the ministry of labour, this is considered the lesser of two evils by some of the sources interviewed. This 'coping strategy' by SMEs is endemic and is a main reason why the informal economy of Mozambique is estimated to be extensive.

**Box 8:**  
**Attempts to privatize TDM**

Type: I.

Case: Telecom (with subsidiary: MCell).

Evidence/source: Oral; Quality: high fidelity.

**Description:** In recent years there has been an attempt by part of the national elite to take over the public telecommunication enterprise Telecom and MCell, a 'daughter' of Telecom with 74% of its shares. It involved, amongst others the government (Ministry of Transport and Telecom), the regulatory body, *Instituto Nacional de Comunicações de Moçambique* (INCM) and other high placed individuals linked to the ruling party and to the private telecom industry (*Vodacom*, *Movitel*). The objective was apparently to economically weaken TDM, force a privatisation and take over the country-wide infrastructure ('infrastructure backbone') in partnership with other investors/users who would pay rent for the use of infrastructure. TDM's international partners are the Portuguese company *Visabeira*, which holds 50% of both *TVCabo* and *Televisa* (with TDM holding the other 50% in both companies). *Visabeira* (also owner of the hotel chain *Girassol*) is managed out of Portugal and, according to sources, has not provided accounts or paid any dividend to TDM during the past few years. In 2014, MCell, which uses the TDM technical infrastructure has, up to 2014, accumulated arrears of 50 million US\$ with TDM, in addition to 10 million US\$ arrears by government, including TDM's ministry of tutelage. A major TDM investment into the Maputo Metropolitan Fibre Optic Ring (*anel fibraóptica*), basis for a link to the households/consumers (Fibre to the Home – FTTH) was not authorized, and a 200 million US\$ competitive tender for the Fibre Optic Metropolitan Ring, already adjudicated to ZTE in 2014 was cancelled. As a consequence of the aforementioned accumulated arrears and the curtailing of innovation investment, TDM, profitable until 2012, made a loss in 2014. The accumulated debt of a total of 60 million US\$ can be seen as a consequence of collusion and corrupt practice aimed at taking over strategic TDM assets.

According to Schneider (2007)<sup>51</sup>, the informal sector represents around 42.4% of the total economy, while the sources interviewed suggest that it is over 50%. A study from 2009 citing government statistics suggests that 75% of the economically active population are employed informally in Mozambique.<sup>52</sup>

If one takes the Schneider estimate of 42.4% of the economy being informal as a basis for analysis, this would mean that total tax revenue from the private sector is a figure that corresponds to only 57.5% of the economic activity (Schneider, 2007). If one takes that further, and calculates the potential loss to the state, the average (minimum) cost of informality to the state (only from lost tax revenue) is 452 million US\$ per year. Due to the complexities of the factors that lead firms to informality as well as those that prevent them from formalising, this figure was, however, not included in the cost of corruption calculation of this report.

The impact of corruption on SMEs is that it jeopardises their profitability which is part of the set of factors that pushes them into informality. This, in turn, is an inhibitor of business expansion since the higher the profile of an SME, the greater the appetite of predatory officials demanding a share of profits and or bribes. Lack of expansion in turn means that SMEs employ fewer workers. SMEs already employ the bulk of the workers as shown by the statistic above, but the number could be even higher. This is due to the fact that remaining in informality constitutes a natural limit to SME expansion and growth. For instance, an informal family business trying to remain under the radar and out of reach of predatory tax officials is unlikely to reach out to new business opportunities beyond their established set of customers. Consequently, the informal family SME is also unlikely to have a need to hire new staff – especially if they are outsiders (non-family members). Removing this barrier to SME growth – i.e. removing the need for SMEs to remain in informality is

51 Available at <http://ftp.iza.org/dp1431.pdf>

52 <http://www.speed-program.com/wp-content/uploads/2012/09/Informal-Sector-Study.pdf>

likely to result in business expansion which, in turn, can contribute to job creation. Creating incentives for informal SMEs to formalise is thus a key strategy to create employment in Mozambique, a country with the highest population growth in Africa. Crucially, this must include reducing the corruption to which SMEs are exposed and which is a key reason why they are not formally operating in the first place.

#### 5.2.1.4. Access to Finance

A major cost for the domestic private sector arises from the increased cost of borrowing as a result of corruption in the financial sector. In our research, we have identified cases of collusion between bank managers from the same or different banks, which have been reported to be a recurring problem in the financial sector. Principally, this includes the taking of unofficial commissions of the credit value offered to clients. Typical rates are reported to be around 5% of the credit value, with around 20% of all credit transactions affected. Taking data for domestic credit to the private sector and credit to the government and SOEs as a baseline, this amounts to an annual sum of around 42 million US\$. This practice increases the cost of credit for the private sector which exacerbates one of the main obstacles to the competitiveness of the Mozambican economy even further. Access to finance is the top obstacle for doing business in Mozambique according to the World Economic Forum Global Competitiveness Report, even ahead of corruption.<sup>53</sup>

Together with the porous nature of the Mozambican economy, this hampers the capacity for domestic investment in productive activity. Yet, domestic investment is an important factor in economic growth and development. The literature on corruption and its effect on investment (domestic investment) has mostly unanimous during the last 15 years. Already in 2001, Mo argued that private investment would be crowded out by public investment in increasingly corrupt countries. He argued that this was because as corruption becomes rampant, investments do not reflect an optimal distribution of resources. Contracts and deals are made with friends, or corrupt individuals, making public investments less efficient and larger than necessary. There would be a threshold for innovators and new actors from gaining access to the contract market, thus retarding economic diversification and growth. Haque and Keller (2008) reinforce Mo's initial arguments, finding that as corruption increases, so does public investment. However, the output gained per 1 US\$ invested does not yield the same as it would without corruption. Thus, public investment might increase by millions of dollars, but it does not produce more or better services, instead it retards economic growth. This can also lead to a crowding out effect as argued by Mo (2001).

Thus, crowding out of private business by SOEs, coupled with the lack of access to economically reasonable credit, undermines the overall competitiveness of the economy by making it harder for all businesses to operate. This hits Mozambican companies the hardest as they have the fewest alternatives to access alternative international sources of finance as compared to international enterprises. Of the Mozambican companies affected, SMEs are worst off as they typically do not have any collateral to offer in return for their loans. The problem is worsened when considering informal sector enterprises. For those enterprises, the only avenue for accessing finance is through the informal sector which, given its unregulated nature, is extremely risky and expensive.

#### 5.2.2. VALUE FOR MONEY, DOING BUSINESS AND INVESTMENT

The costs of corruption in Mozambique are high. While the private sector is directly exposed to this fact, such costs are typically passed on by businesses. This means that ultimately, someone pays the price. This is either the public sector or private consumers or both. This is either in the form of reduced value for money and inflated costs for products and services, or reduced quality of products and services. The indirect consequences further down the line depend on the sector and project, but can potentially be severe. In some cases, it will result in investments not being made at all, thus resulting in the non-creation of jobs and

53 See: p.296 in [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

continued fragility of livelihoods, while for other sectors, for instance construction and the structural stability of infrastructure, the undermining of quality as a result of corruption may mean the difference between life and death.

The reduction of quality as a result of corruption is a major concern and in some cases substantially increases the cost for the government. In a number of cases where tenders were awarded through corrupt payments, the quality of the end result was so poor that a 'losing bidder' had to be contracted afterwards to fix the work of the 'winning bidder'. Here the state pays three times: a) to the company that actually cannot perform the services required, b) to the corrupt officials that benefit from the rigged tender, and c) to the company that actually can do the required work. Typically, the fixing up of bad work only occurs when demanded by international enterprises – especially in the infrastructure sector such as rail, ports, etc. In the worst case, shoddy work is simply accepted as a fact of life (e.g. in road works) with the prospect for new opportunities for corruption after poor quality work needs to be replaced (e.g. after the shoddily built road is washed away in the next rains).

This influences Mozambique's scores in the World Bank's Doing Business Index.<sup>54</sup> Mozambique has dropped 5 places from 128<sup>th</sup> in 2015 (the best ranking since 2008) to 133<sup>rd</sup> in 2016. While this still positions Mozambique at the top third of Sub-Saharan African (SSA) economies, there is clearly room for improvement. Zambia, South Africa, Botswana, Mauritius and Cape Verde, amongst others, all outrank Mozambique, and important lessons and reform initiatives can and should be identified and learned from these countries. This is particularly the case on the metric for enforcing contracts. On this measure, Mozambique is the second worst SSA economy, behind Angola. This is symptomatic of the weak rule of law and courts, as well as the individual discretion of public servants.

54 <http://www.doingbusiness.org/data/exploreeconomies/mozambique>

## 6. CONCLUSION AND RECOMMENDATIONS

### 6.1. Conclusions

#### 6.1.1. EFFECTS ON THE ECONOMY AND PUBLIC SERVICES

The picture emerging from the analysis is that of a Mozambican economy and, by implication, society at large, severely crippled by corruption.

The matrix of aggregated values in the purposive sample of corruption cases (see annex 7.3) allows us to calculate the estimated overall direct cost of all cases documented. The accumulated annual value of the corruption cost, at current prices, is between 4.8 and 4.9 billion US\$, equivalent to around 30% of the 2014 GDP. This percentage is well above the average figure for all African countries cited in section 1.

The 'heaviest' corruption cases in the sample which amount to considerably above 200 million US\$ each are linked to five areas, namely:

- Customs;
- EMATUM;
- Overpricing of liquid fuel imports;
- Procurement in the telecom sector;
- Procurement in the construction/public works sector.

In the period under observation (2002–2014), corrupt practices in customs can be identified as the major cause of damage to the economy (see annex 7.2) involving large sums of illicit transactions. Customs related bribing, underreporting and avoidance of import tax payments have cost the state dearly. The single most important loss of public resources recorded in the sample is related to the mounting of a customs shadow system aimed at circumventing the official MCNET system. It has cost the country an estimated 2.5 billion US\$ per year, i.e. more than 1 billion US\$ more than the total expenditure budgeted for education and health (1.4 billion US\$) in 2015.

Oral sources also point to a growing importance of SOEs and particularly private companies owned by state institutions as well as PPPs as hubs of corruption. Damage inflicted by specific types of corruption associated with those, including collusion and manifest conflict of interest, is a close second to the damage caused by corruption in customs.

Table 7 below provides the dimension of the total (annual average) loss due to corruption during the period under observation (10 years) in relation to key macroeconomic aggregates for 2014 and 2015.

Corruption Cost as percentage of	%
Expenditure 2014 (executed)	71.7
GDP 2014	30.8
Total investment 2015 (budget)	195.2
Education spending 2015 (budget)	362.8
External budget component 2015 (budget)*	287.1

**TABLE 7**

Total cost of corruption cases in relation to economic aggregates (in%)

Source: authors, based on DNO, 2015.

\* ODA + credit.

The monetary value of the corruption cost accumulated over the period covered by the sample could have theoretically doubled the investment budget for 2015 and more than tripled planned expenditure in education. And that amount would have covered almost three times the amount of aid plus the external credit budgeted for 2015.

Based on the analysis in section 4.2, we see that corruption is estimated to have caused a loss of about 11.6% of the tax revenue average for the years 2012 to 2015. Together with the loss in expenditure of 4.8 billion US\$ for the same period, the state has lost 5.3 billion US\$ or 86% of the average 2012–2014 budget. From a statistical point of view, this means that the state delivered 205 US\$ per person less than it could have done without corruption.

The impact of corruption on the economy is equally severe. In terms of Value Added, it is responsible for the loss of 2.5 billion US\$ or over 17% of the average Value Added between 2012 and 2014, meaning that each person would have lost 98 US\$ per year due to corruption or some 18% compared to what their income would be without corruption. The sectors that were most affected by corruption were building and construction, fisheries, services and transport and communication.

As discussed in section 5, corruption produces far-reaching indirect effects on the provision of public services, on poverty and social welfare as a whole. The data provided in this study largely confirms for Mozambique conclusions drawn from other countries. Considerable fiscal resources drained by corruption could have been put to good use in the priority sectors, notably education and health.

Finally, it should be emphasized that from the point of view of the authors, the results discussed above represent a plausible, reasonable scenario. However, the actual overall cost could be much *higher* if one assumed that our sample represented only the visible ‘tip of the iceberg’ of corruption. This could be called a ‘worst case’ scenario. On the other hand, the cost may be *lower* than the estimated total value of the corruption cost. That could be the case if we assumed that there may be double-counting in some cases, e.g. in the case of tax evasion and corruption in customs or with regard to illicit outflows of money and tax evasions. This could be considered a ‘better case scenario’. However, from a methodological point of view, it is almost impossible to generate and verify the data necessary to make such distinctions. We therefore postulate that the numbers presented and discussed above represent a realistic, plausible scenario.

### 6.1.2. EFFECTS ON BUSINESS AND PRIVATE SECTOR

From a private sector perspective, one of the main areas of concern is customs where corruption produces a direct, stifling impact on business. There are a number of aspects and mechanisms which include straightforward bribery as well as trade mis-invoicing. However, there have been positive reforms such as the JUE, which increased government revenue by 15% in its first year of operation. But this system is not yet fully operational and a large percentage (30%) of imports is still channelled through the older and manual TIMS system. This is a major loss to the state in terms of revenue as well as a potential entry point for contraband and other illicit goods.

Corruption also impacts the structure of the private sector with wide reaching consequences for the Mozambican economy by

- preventing the entry of some MNCs;
- inhibiting planned investment;
- undermining the competitiveness of large domestic companies, including SOEs which, in turn, may become conduits for corrupt business.

All of these also undermine and threaten the establishment of value chains that can act as engines of economic growth and could potentially open up whole new sectors of activity for Mozambican companies. In turn, SMEs are being pushed into informality which inhibits their growth and expansion, and undermines job creation. The uphill struggle of Mozambican enterprises is worsened by the fact that corruption within the financial sector increases the cost of finance, thus acting as a break on business expansion and investment. SMEs are typically reluctant to grow too much for fear of being targeted by predatory officials and individuals and, as a result, prefer to pay a corrupt tax to remain in informality. Even if they wanted to expand and formalise, they would face an uphill struggle due to a reduced access to finance. It is not by chance that the Mozambican private sector – especially the SMEs – is weak at best, and without the skills and standards required by global value

chains. Value for money is eroded which is also reflected in the loss of competitiveness of Mozambican enterprises.

One indirect impact of corruption on the private sector is that certain kinds of companies are attracted to Mozambique, while others are scared off. In the worst case, this results in a self-selecting group of ‘rogue’ companies providing services in Mozambique which do not offer value for money and which are deficient in quality. Corruption thus directly influences which kind of partners Mozambique attracts and works with. This, in turn, has the potential to affect the country’s international reputation. In this respect, Mozambique has to take great care not to primarily be defined as a (global) liability. Given the global concern regarding trafficking of illicit goods, persons and weapons amongst others, failure to control rampant corruption has the potential to affect Mozambique’s standing in the world even more than it already has.

### 6.1.3. EFFECTS ON REPUTATION

The cost of corruption for Mozambique is not only monetary, economic or societal. Rather, it has the potential to determine the country’s fate and place on the world stage. It may affect foreign policy and international relations as well as national security and the safety of citizens. The more Mozambique conforms to the image of a corrupt state, and an enabler of trafficking and illicit financial flows, the greater the challenges will become for Mozambican political leaders to convince the world otherwise.

When assessing the business environment and the international reputation of Mozambique, it is impossible to ignore the fact that Mozambique already has a poor reputation. In addition to the already mentioned CPI and other rankings (see section 1), the country shows worrying signs. According to the 2015 Basel Anti-Money Laundering (AML) Index (an annual ranking assessing 152 countries regarding money laundering/terrorism financing risks), Mozambique (in position 7) is amongst the top ten highest risk brackets globally alongside Iran, Afghanistan, Tajikistan, Guinea-Bissau, Mali, Cambodia, Uganda, Swaziland and Myanmar.<sup>55</sup> Africa is the highest risk region worldwide and Mozambique is the third top highest risk country in Africa after Mali and Guinea-Bissau, both of which can be considered failed and/or failing states. The AML Index specifically mentions high rates of perceived corruption, lack of judicial strength and lack of public and financial transparency as enabling factors for money laundering and terrorism financing.

Corruption thus indirectly determines what kind of country Mozambique is and wants to be, and it determines in what kind of partnerships it will engage (with companies and in foreign affairs). Ultimately, these partnerships will determine whether the country will see free, broad-based and inclusive development, the objective of the liberation movement Frelimo at the time of its anti-colonial struggle, or whether, 40 years after Independence, the country will simply be seen as another case of a ruling kleptocracy (at best) or an international trafficking hub for illicit goods (at worst).

### 6.1.4. CORRUPTION AND DOMESTIC POLITICS

In addition to the political costs on the international stage, the impact and cost of corruption in Mozambique also shape domestic politics and regional partnerships that potentially have great impacts on the continued exercise of power by Frelimo. The study has specifically addressed the issue of budgetary distortions which helps maintain a system of governance on which corruption is able to thrive.

Failure to control corruption will increase the political cost of the ruling party to remain in power and, in turn, boost opposition parties – especially those that criticise rampant elite corruption and the exclusion of normal citizens. In the view of some sources interviewed for this study, the renewed rise of Renamo in 2014 and the increase in MDM’s seats in

55 [https://www.baselgovernance.org/sites/collective.localhost/files/documents/basel\\_aml\\_index\\_2015\\_media\\_release\\_final.pdf](https://www.baselgovernance.org/sites/collective.localhost/files/documents/basel_aml_index_2015_media_release_final.pdf)

parliament cannot be dissociated from the fact that the ruling party is seen by many as a self-serving patron, and interested in extending patronage and benefits only to its members, rather than governing in the interest of all Mozambicans.

This dynamic should not be underestimated as Mozambique is the country with the youngest and fastest growing population in Africa, which is increasingly well-informed regarding issues of government, mismanagement and corruption. Experience from elsewhere in Africa shows that the combination of a young, mostly unemployed population, coupled with elite enrichment and corruption can result in dynamics that are game-changers for any regime – even those that try to hold on to power through repression and growing authoritarianism. An indirect effect of corruption is thus that the ruling party, already benefitting from a tilted playing field in its favour and access to state resources, will find it increasingly difficult to win elections in a fair contest, as a result of which democracy is eroded and a greater focus on hegemonic power, authoritarianism and repression becomes the order of the day.

In the case of Mozambique there is cause for guarded optimism though. On the occasion of a meeting in Southern Africa of the former liberation movements turned dominant parties, President Nyusi who is also the president of Frelimo, stressed the link between political survival of the ruling parties on the one hand, and economic prosperity and cooperation on the other. He particularly stressed the need to open ‘the gates to our business people and other stakeholders in our economies, so that they can work together in order to find a way out that avoids the suffocation that the present conjecture seems bent on imposing’.<sup>56</sup> The president thus appears to have recognised the strategic role a viable and well managed private sector business partnership can play in providing better services in a longer term business outlook.

## 6.2. Recommendations

The recommendations listed below are not only informed by the conclusions in the previous section, but by considerations also discussed in all other parts of this report.

Short to medium term interventions by the government, the anti-corruption institutions, the justice system parliament and Non State Actors (NSA) would need to focus on the following five priority areas:

### 6.2.1.1. Customs

The JUE has been able to increase the government take in successive years until 2015 (despite lower cross border trade in 2014/15). As such, it is a key instrument to reduce the discretion of border officials to extract bribes and to reduce their exposure to traders. There is little doubt that efficiency as well as revenue pertaining to the state have increased after the introduction of the JUE system. This electronic single window is also a promising avenue to reduce the prevalence of mis-invoicing. This practice can be further limited if the Mozambican border agency JUE system is linked up with the SA system across the border and information is shared in real-time.

One of the gaping holes in the customs system is, however, the continued existence of the manual TIMS system which preceded JUE and which JUE is meant to replace. TIMS remains in operation and is used for a variety of purposes. Reportedly, this includes smuggling, and off the books imports, as well as major government projects. Total estimated imports through TIMS stand at around 30% of total imports. The TIMS shadow customs system avoids all duties, tariffs and taxes and is unaccountable. As such, it represents a major loss to the state.

<sup>56</sup> Mozambique: Nyusi Calls for Unity among Former Liberation Movements.

<http://allafrica.com/stories/201511210007.html>.



**Recommendations** are therefore:

- Roll out the JUE system and make it compulsory for all economic agents and entities, including all government bodies and state participated entities;
- Ensure that any tax breaks and import duty suspensions are allocated from within the JUE system;
- Close the TIMS loophole as a matter of urgency.

#### *6.2.1.2. State-owned Enterprises and Public Private Partnerships*

As demonstrated in the previous section, SOEs are typically prone to corrupt practice in various forms. The same is true for private companies whose shareholders are public entities and for private public partnerships (PPPs). The products and services they offer, especially in the field of utilities (water, electricity, airports, telecommunication, etc.) are important private sector enablers and key basic services for the public in general. Improving their scrutiny and transparency is therefore critical. A number of suggested measures such as specific legislation, improved internal and external control and audits as well as the adoption of specific anticorruption and accountability rules and their enforcement should be contemplated also in the case of Mozambican SOEs. While the recent Right to Information legislation<sup>57</sup> should help make SOEs and private companies more transparent and accountable in terms of their management and procurement practices, more targeted efforts are required.

**Recommendations** are:

- Drafting and public debate of specific legislations for SOEs, in line with recommendations of the OECD Southern African task force mentioned in section 5.2.1.2.1;
- Publication of SOEs business reports and accounts;
- Promotion of special (forensic) audits of selected SOEs and PPPs.

#### *6.2.1.3. Public Sector and Civil Service*

The study has produced evidence of a Mozambican public sector prone to various forms of corruption. Public tenders are particularly vulnerable to corruption as are budgetary resources to stealing, embezzlement or abuse in various ways. Even the extortion of extra payments by traffic police and in schools or hospitals are forms which epitomize corruption for the common citizen, and particularly among the lower income brackets.

**Recommendations:**

- Roll out of the recently introduced 'Proof of Life' campaign in the public service and extend it to all state intuitions and SOEs, with regular updates;
- Rethink and restructure the tender supervisory department *Unidade de Formação e Supervisão de Aquisições* (UFSA) in the Ministry of Economic Affairs and Finance in the sense of making it more independent, competent and intrusive;
- Taking exemplary disciplinary and judicial action against selected politicians and civil servants involved in corrupt practice.

<sup>57</sup> Law 34/2014 of 31th of December 2014.

#### 6.2.1.4. *Anti-Corruption Legislation and Institutions*

The anti-corruption legislation is incomplete and the institutions fighting corruption are weak, under resourced and slow in dealing with judging culprits (see Section 1).

##### **Recommendations:**

- Strengthening the GCCC's resource endowment and technical capacity, instruments and tools, including a basic understanding of the basic features of Mozambican political economy and its workings;
- Promoting GCCC's cooperation with international centres of excellence, e.g. the International Anti-Corruption Academy (IACA), U4 Anti-Corruption Resource Centre, etc., as well as collaboration between GCCC and CIP;
- Designing and administering specific technical training courses in anti-corruption economics and analysis, documentation and evaluation for Deputy Attorney Generals attached to GCCC;
- Advocacy and government action aimed at approving and implementing the 11-Point Action Plan for the implementation of the PLAC.<sup>58</sup>

#### 6.2.1.5. *Business and investors*

One of the most important enabling factors for a vibrant private sector is **access to finance**. Not only does corruption in the financial sector entrench the phenomenon further, but it undermines the overall competitiveness of enterprises and the economy. This hits Mozambican SMEs the hardest as they have the fewest alternatives to access finance elsewhere. Access to finance is the top obstacle for doing business in Mozambique, even ahead of corruption, and a contributing factor for firms operating in informality. This inhibits firm growth as well as employment, undermining the government's job creation agenda.

##### **Recommendations:**

- Take measures to lower the cost of finance overall by fostering greater competition in the financial sector;
- Foster business incubators that promote the creation of new firms as well as guiding informal firms into formality;
- Include anti-corruption training in the curriculum of management training.

Concerning **foreign partners and investors**, a key recommendation is to find rule of law synergies with investors and the private sector more generally. This essentially means to try and attract 'good partners'. That is, partners who are subject to robust laws and legal regimes which aim at reducing and preventing corrupt behaviour. With such partners, rather than having to rely on the weak and slow enforcement mechanisms of the Mozambican judiciary, there is an additional factor to promote compliance and probity. These kinds of companies have the potential to attract further 'good companies' such as those with robust internal corporate governance, and in combination they can infuse whole 'virtuous value chains'. There is an added benefit for Mozambican companies who are included in such virtuous value chains. Namely, that they are seen as 'good partners' as well, which ensures them preferential partnerships in Mozambique as well as internationally.

<sup>58</sup> This includes, among others, drafting and adoption of by laws and regulations, recruitment of staff and the setting up of the Central Authority to Protect Victims (*Gabinete Central de Protecção a Vítima* – GCPV).

### Key recommendations

- Seek to attract partners that are subject to international anti-corruption legal regimes;
- Seek to attract partners with strong internal corporate governance and anti-corruption mechanisms;
- Foster the establishment of virtuous value chains in which 'good partners' partner with other 'good partners' to create an alliance against corruption;
- Foster the proliferation of good corporate governance amongst Mozambican companies and SOEs through integration in virtuous value chains.

### 6.2.2. RECOMMENDATIONS: MEDIUM TO LONG TERM

One necessary, if not sufficient condition to effectively address corruption on that scale which this study suggests to be the case in Mozambique and its hampering effects on economic development is, in the long-term perspective, reforming the state and its institutions. Daude & Cavallo (2011) find that countries with solid institutions do suffer much less from the consequences of corruption. We have seen that corruption does negatively affect investment, but strong institutions can negate the effect.

In the opinion of the authors, from an anti-corruption perspective, reforms, in the sense of a qualitative change of inter-institutional relations, would need to consider three interrelated priority areas:

- A stronger role and institutional independence for parliament and the Auditor (TA) in fiscal matters;
- An emphasis on rule of law, accountability and transparency in all public institutions and the civil service, with corresponding incentives and disincentives;
- A change of the economy, its structure and mode of capital accumulation, an economy so far dominated by rent seeking and SOEs, towards a more diversified, agriculture- and manufacturing-based economy in which SMEs increasingly play their role in the sustainable production of wealth, jobs and income in a way where corruption is not a criterion for success.

This requires exactly what one might label an exercise of **reinventing the state and the economy**. This challenge was launched by Mozambique's President Nyusi himself when, on the occasion of a reception in June 2015, he invited all Mozambican citizens to reflect on the next 50 years of independence, in a debate where there is 'no room for ideological divides that could lead it to a split, but a place where everyone envisages what is important and selfish interests give way to collective ones'.<sup>59</sup>

With this study, CIP, in collaboration with its partners, has accepted this invitation.

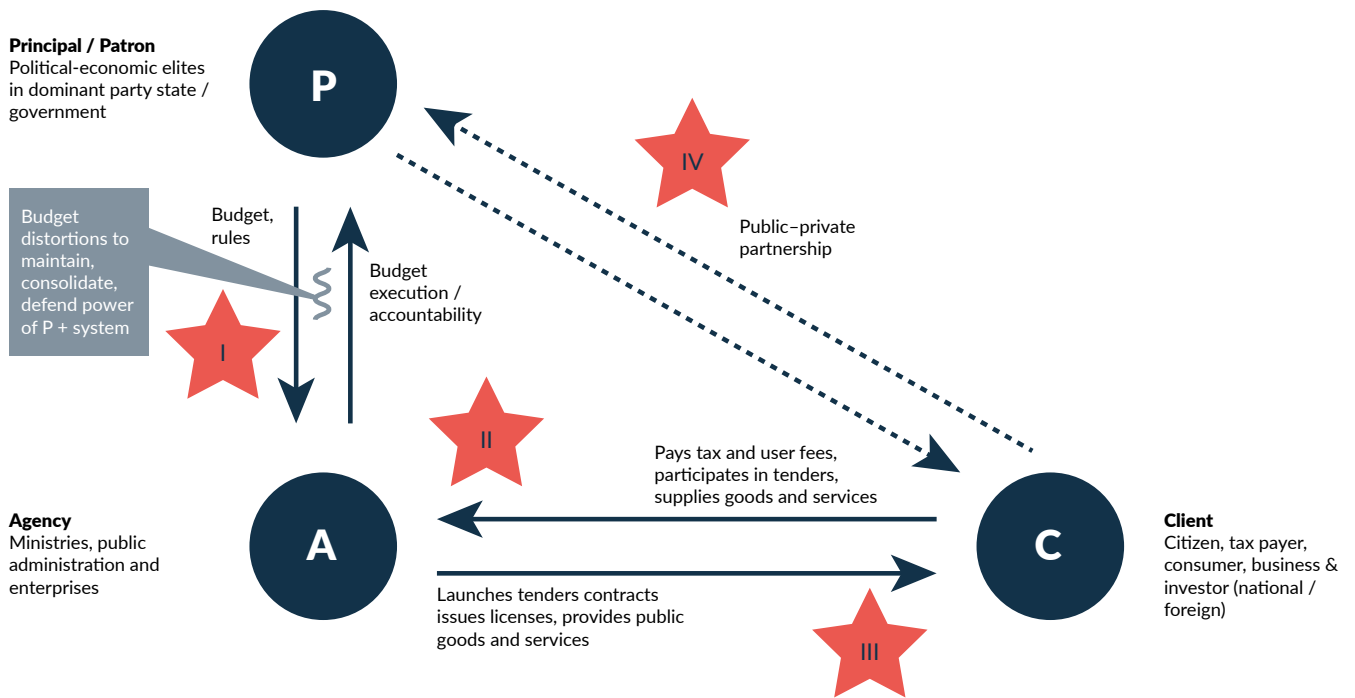
59 Cited after: 'Mozambique: Mozambican President Wants Reflection on Next 50 Years' 26 June, 2015. <http://allafrica.com/stories/201506290315.html>.

# 7. ANNEXES

## 7.1. Corruption: Principal-Agent-Client (PAC) Model

**FIGURE 9**  
Principal-Agent-Client  
Corruption actor model:

Source: Adapted from  
Lambsdorff (2007).



## 7.2. Categories of Corruption

Categories of corruption	Description
Bribery	The act of dishonestly persuading someone to act in one's favour by a payment or other inducement. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, etc.). The use of bribes can lead to collusion (e.g. inspectors' under-reporting offences in exchange for bribes) and/or extortion (e.g. bribes extracted against the threat of over-reporting).
Embezzlement	To steal, misdirect or misappropriate funds or assets placed in one's trust or under one's control. From a legal point of view, embezzlement need not necessarily be or involve corruption.
Facilitation payment	A small payment, also called a 'speed' or 'grease' payment, made to secure or expedite the performance of a routine or necessary action to which the payer has legal or other entitlement. Linked to bribe.
Fraud	The act of intentionally and dishonestly deceiving someone in order to gain an unfair or illegal advantage (financial, political or otherwise).
Collusion	An arrangement between two or more parties designed to achieve an improper purpose, including improperly influencing the actions of another party
Extortion	The act of impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party.
Patronage, clientelism and nepotism	Patronage at its core means the support given by a patron. In government, it refers to the practice of directly appointing people.
Kickback	Overvalued commercial transaction, purchase of assets etc. with part of the transaction value (price) reverting to the buyer.

Source: DFID, 2015, adapted by authors.

## 7.3. Sample of Cases

## ACRONYMS

O	Oral source
W	Written source
BDM	Budget distortion to maintain the system
Multi	Multi sectoral / –institutional

#	Brief case description	Year(s)	Sector	Type	Estimated annual average amount (current prices, US\$)	Estimated total amount over period (current prices US\$)	Evidence
1	Ghost teachers	2006-12	Education	I	800,000	4,800,000	W
2	MCEL technol upgrade tender	2014	Telecom	III, IV	200,000,000	200,000,000	O
3	Tax evasion manufacturing	2006-2009	Industry	II	47,800,000	191,200,000	W
4	Extortion Traffic police	2012-2014	Public Admin	III	28,560,000	85,680,000	O
5	Maputo Ring road overpricing	2013	Public Works / Construction	IV	45,000,000	45,000,000	O
6	Ermatum	2014	Maritime / Fisheries	IV, Multi	300,000,000	300,000,000	W,O
7	Elephant poaching	2008-2014	Environment / Tourism	Multi	34,920,000	244,440,000	W
8	Leakage Medicines and lab mat	2011-2013	Health	I, II	17,457,375	52,372,125	W,O
9	Manufacturing bribes (procurement, licensing)	2006-2009	Industry	II	5,470,118	21,880,470	W,O
10	Corporate Income tax evasion private sector (except manuf)	2009-2013	Industry	II	90,918,000	363,672,000	W,O
11	Import tax evasion by underreporting	2003-09	Trade	I, II	66,718,259	533,746,074	W
12	Nationalization of HCB	2007	Energy	IV	40,000,000	40,000,000	W,O
13	Embezzlement of market fees Municipal Council NPL	2011-2013	Local Government	I	345,000	1,035,000	O
14	Overpricing of liquid fuel imports (before 2014)	2012, 2013	Energy	IV, III	90,000,000	180,000,000	O
15	Bribe payment to get job as teacher	2013, 2014	Education	II	5,000,000	10,000,000	O
16	Tax loss for illegal timber export	2004-2014	Environment / Industry	Multi	52,000,000	520,000,000	W
17	Scanners monopoly rent, incl for political party holding company	2008-2014		BDM, IV	25,650,546	153,903,274	W
18	FDD-PERPU unrepaid loans to clients	2010-2014	Public sector	BDM	34,177,959	136,711,836	W,O
19	Campaigning of senior government figures for ruling party	2014	Public sector	BDM	706,442	706,442	W,O
20	Political marketing: use of helicopters for Open Presidency	2009-2014	Public sector	BDM	2,400,000	12,000,000	W,O
21	Corruption in construction / procurement of public works (all govt levels)	2013, 2014	Public Sector, public works	Multi, I	205,715,132	411,430,264	W,O
22	Corruption in procurement of vehicles & machinery, air tickets, consultants & Techn Assistance, Workshops / seminars	2013, 2014	Public sector, all levels	Multi, I	80,049,031	160,098,061	W,O
23	Use of fuel and travel allowance for non official use	2013, 2014	Public sector, all levels	BDM	83,152,633	166,305,266	W,O
24	Sale of access to PEP to private sector / investor	2013, 2014	Public sector, private sector	IV	1,000,000	2,000,000	O
25	VAT evasion (all private sector)	2011-2014	Public sector, private sector	II	94,242,920	376,971,680	O,W
26	Foregone investment due to corruption concerns	2014/15	Private sector		92,000,000	92,000,000	O
27	Customs bribes, all ports	2008-2011	Customs, Public sector, Trade	II, IV	107,740,074	430,960,297	O,W
28	Customs - shadow system to circumvent MCNET	2012-2015	Customs, Public sector	II, IV	2,457,387,627	7,372,162,882	W,O
29	Customs - foregone revenue prior to JUE	2012	Customs, Public sector	I	27,799,275	27,799,275	O
30	Customs underreporting	2009-2011	Customs, Public sector	I	66,718,259	200,154,778	W,O
31	Cost of Beira Port monopoly and pricing policies	2014, 2015	Transport, Trade	III	6,250,000	12,500,000	O
32	Money Laundering through Moz Banking system	2011-2015	Private sector, Financial Sector		45,000,000	225,000,000	O,W
33	Capital flight	2002-2010	Private Sector, Financial Sector		585,110,000	4,680,880,000	W
34	Collusion within financial sector oligopoly	2008-2014	Private sector, Financial Sector		41,659,535	249,957,211	O
35	Maputo Port traffic corruption	2005-2007	Port, Trade, Transport		1,857,213	5,571,638	W,O
36	Overpricing import of liquid fuel (2014)	2014	Energy	IV, III	300,000,000	300,000,000	O
<b>TOTAL</b>					<b>4,983,605,398</b>	<b>17,510,938,575</b>	

7.4. Input-Output Table A and B

**TABLE A**

	Agriculture, hunting, forestry	Fishing	Mining and quarrying	Manufacturing (SIC D)	Utilities, Electricity, Gas Water	Construction (SIC F)	Trade and Vehicle repair	Transport, storage and communication (SIC I)	Services: Incl SIFIM	Public Admin	Education	Health	SUB TOTAL	PRIVATE CONSUMPTION	PUBLIC CONSUMPTION	EXPORTS	INVESTMENT	STOCKS	TOTAL SUPPLY
Agriculture, hunting, forestry	1,085												1,085	3,115		492	5	312	5,010
Fishing		212											212	150		51		48	461
Mining and quarrying			229										229			670		144	1,043
Manufacturing (SIC D)				5,053									5,053	4,377		1,480	2,889	1,287	15,085
Utilities, Electricity, Gas Water					33								33	349		483			865
Construction (SIC F)						64							64				562	14	640
Trade and Vehicle repair							335						335	1,636		241			2,212
Transport, storage and communication (SIC I)								1,131					1,131	1,857		629			3,617
Services: Incl SIFIM									3,994				3,994	3,169	1,049	736			8,948
Public Administration										78			78	9	917				1,004
Education											5		5	507	781				1,292
Health												5	5	46	273				324
Sum	1,085	212	229	5,053	33	64	335	1,131	3,994	78	5	5	12,222	15,214	3,021	4,782	3,456	1,806	40,501
Val Added	3,646	248	795	1,520	600	349	1,877	1,478	2,413	926	1,288	319	15,460						
Total output	4,731	460	1,024	6,573	633	413	2,212	2,608	6,407	1,004	1,292	324	27,682						
Imports	278	1	19	8,512	232	227	0	1,008	2,541	0	0	0	12,819						
Total supply	5,010	460	1,043	15,085	865	640	2,212	3,617	8,948	1,004	1,292	324	40,501						

**TABLE B**

	Agriculture, hunting, forestry	Fishing	Mining and quarrying	Manufacturing (SIC D)	Utilities, Electricity, Gas Water	Construction (SIC F)	Trade and Vehicle repair	Transport, storage and communication (SIC I)	Services: Incl SIFIM	Public Admin	Education	Health	COR	SUB TOTAL	PRIVATE CONSUMPTION	PUBLIC CONSUMPTION	EXPORTS	INVESTMENT	STOCKS	Tot supply
Agriculture, hunting, forestry	1085													1085	3115		492	5	312	5010
Fishing		212												212	150		51		48	461
Mining and quarrying			229											229			670		144	1043
Manufacturing (SIC D)				5053										5053	4377		1480	2889	1287	15086
Utilities, Electricity, Gas Water					33									33	349		483			865
Construction (SIC F)						64								64				562	14	640
Trade and Vehicle repair							335							335	1636		241			2212
Transport, storage and communication (SIC I)								1131						1131	1857		629			3617
Services: Incl SIFIM									3994					3994	3219	1049	736			8998
Public Administration										78				78	9	917				1004
Education											5			5	507	781				1292
Health												5		5	46	273				324
CORRUPTION														100						50
Sum	1085	212	229	5103	33	64	335	1131	4044	78	5	5	0	12322	15264	3021	4733	3456	1806	40600
Val Added	3646	248	795	1470	600	349	1877	1478	2413	926	1288	319	50	15460						
Total output	4731	460	1024	6573	633	413	2212	2608	6457	1004	1292	324	50	27781						
Imports	278	1	19	8512	232	227	0	1008	2541	0	0	0	0	12819						
Total supply	5010	460	1043	15085	865	640	2212	3617	8998	1004	1292	324	50	40600						

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What is the price that Mozambique has to pay for the widespread corruption in the country? What is the cost of corruption for the Mozambican economy, the state and its people? The present study aims at providing succinct answers to those questions.

In a nutshell: the estimated average annual cost of corruption, as observed during the ten years from 2004 to 2014, is up to 4.9 billion US \$, equivalent to around 30% of the 2014 GDP and 60% of the 2015 budget. This burden caused by corruption is certainly crippling for the budget, the economy, business and socio-economic development and welfare.

The present study is the result of five months' worth of intensive work of a study team composed of researchers and staff of both Centro de Integridade Pública (CIP) Maputo/Mozambique, and the Chr. Michelsen Institute (CMI), Bergen/Norway, the latter operating the U4 Anti-Corruption Resource Centre.

It is hoped that this study, launched on the 9th of December 2015, the International Anti-Corruption Day – an occasion which also marks the 10th anniversary of CIP – provokes the necessary and wide debate on the causes and implications of corruption in Mozambique and ways to curbing it and thus easing its burden on state, economy and society.

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