



CENTRO DE INTEGRIDADE PÚBLICA

Anticorrupção - Transparência - Integridade

Illicit political financing in Mozambique: from the manipulation of public procurement to the sale of customs exemptions

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Introduction

The present report presents the results of a study on illicit political financing in Mozambique, with a particular focus on tax evasion through the illegal transfer of customs exemptions granted to political parties.

The study covered the period of a decade (2012-2022), which covers two electoral cycles (2013/14 and 2018/19). These are the periods in which there is the greatest resort to the illicit economy, particularly for the election campaigns. The study is national, but the field work took place in Maputo, Beira and Nacala, where there are maritime terminals through which the merchandise imported by the political parties enters the country.

The context in which the study was held is that of the growth of the global illicit economy, transnational organised crime and political financing from the proceeds of these activities, representing a threat to global development, peace and democracy¹. In Mozambique, the context is one of exponential increase in the activities of the illicit economy, corruption and bribery, moving billions of dollars² and part of this money finances political activities³.

The objective of the study is to understand and analyse illicit political financing, and its consequences in Mozambique, and to extract recommendations for state institutions, political parties, development partners and other stakeholders.

1 Kupferschmidt, D (2009). Illicit Political Finance and State Capture. International Institute for Democracy and Electoral Assistance. Available on <https://www.idea.int/sites/default/files/publications/illicit-political-finance-and-state-capture.pdf> [consulted on 28 March 2022]

2 According to a joint study by the Centre for Public Integrity (CIP) of Mozambique, the Chr. Michelsen Institute (CMI) and U4 - Anti-Corruption Resource Centre, both of Norway, in about a decade, the price of corruption in Mozambique has reached USD 4.9 billion. CIP, CMI & U4 (2016). Os Custos da Corrupção para a Economia Moçambicana: Por quê é que é importante combater a corrupção num clima de fragilidade fiscal, CIP. Available on https://cipmoz.org/wp-content/uploads/2018/08/CIP-Custos_da_Corruptao.pdf [consulted on 28 March 2022]

3 A study of the Economic Development Department of the London School of Economics and Political Science (LSE) concluded that Mozambique is a transit centre for heroin and the trade amounts to about 40 tonnes a year, generating around USD 100 million a year for the local economy and the ruling party. Hanlon, J. (2018). The Uberization of Mozambique's heroin trade, Working Paper Series, No. 18-190, London School of Economics and Political Science (LSE), Department of International Development, London. Available on <http://hdl.handle.net/10419/224816> [consulted on 28 March 2022]

The methodology used consisted of field research, and bibliographical and documentary research about the theme under study. The technique used was that of individual interviews with strategically selected people in order to obtain specific evidence for the study. Given the sensitivity of the matters dealt with, the interviewees were kept anonymous.

In the study the approach brought by Kupferschmidt, D (2009), was used. Its main assumptions are that (i) illicit political financing takes the form of acts which include bribery, coercion and violence and seeks to deactivate or capture government functions to facilitate control of markets, territories and public policies; (ii) illicit political financing can be seen as a strategy to obtain competitive advantages over other political and economic actors; (iii) the organisations which resort to illicit political financing may be legal or illegal, private or governmental; (iv) illicit political financing influences governance, by avoiding or circumventing the regulations.

The report is structured into two parts, as well as the introduction, The first part presents and discusses illicit political financing and its main sources in general. The second part deals with illicit political financing in Mozambique and analyses its sources. The main focus is laid on illicit political financing through the illicit economy, using the case of tax evasion, through the sale of the customs exemptions of political parties as a case study. This part ends by presenting the possible implications for Mozambique of illicit political financing. Finally, come the report's conclusion and recommendations.

In the period under analysis, from the sample collected, it was ascertained that the Frelimo Party spent 7.6 million dollars on importing a variety of merchandise. On this merchandise Frelimo should have paid about 3 million dollars (approximately 163 million meticaís at the average annual exchange rate of the period under analysis). The data presented in the study represent only about 10% of the total imports of the Frelimo Party during the period under analysis.

Illicit political financing and its sources

Illicit political financing may be understood as a system in which funds generated legitimately and illicitly are directed towards perverting the functions of the government, to facilitate corruption and to facilitate other means of the effective privatization of vital State functions.⁴

Although related to, and often confused with corruption in general, illicit political financing occurs through bribing public officials, politicians, candidates and political parties in key decision-making positions, with the aim of seeking favours and influence from the Government, privatizing the functions of State institutions.

Illicit political financing creates a network with two types of actors, namely those who practice illicit activities, and those who provide the former with protection. The former pay fees for protection and the latter ensure protection by using the system (institutions) which ought to protect the democratic system, but which has been subverted⁵.

⁴ Kupferschmidt, D (2009:5-6) *op cit*.

⁵ GI-TOC (2015). Money in Politics: how to stop illicit money to parties and candidates. Available on <https://globalinitiative.net/analysis/money-in-politics-how-to-stop-illicit-money-to-parties-and-candidates/> [consulted on 30 March 2022]

In illicit political financing, the main active agents are businesspeople with legitimate or illicit businesses, and the passive agents are servants and agents of the State, with the power to make or influence decisions, including public functionaries, members of parliament, political parties, and key actors in the government.

Kupferschmidt (2009:21) presents three main categories of illicit political financing, the criterion for which is the source of financing. These are financing from i) the government itself, ii) legitimate businesses, and iii) the illicit economy/trade in illicit goods and services.

Typical cases of illicit political financing from the government itself are manipulated processes of public hiring in which there is collusion between public officials and bidders willing to pay bribes to win contracts with the government. This type of illicit financing tends to be concentrated on specific contracts and staff who deal with public hiring processes. Part of the money from manipulated public contracting finances political activities.

The second category, that of financing from legitimate businesses concerns companies who offer bribes to public officials, politicians, candidates and political parties with the goal of obtaining favours and influence, for example, in the distribution of infrastructure projects financed by the government. Here the bribes are not paid to win a specific contract, but to be in a privileged position to do business with the State.

The third category, that of illicit trade, concerns the illegal trafficking in goods and services, notably drugs, natural resources, money laundering, using illicit money to corrupt and capture state officials and institutions, to protect illegitimate businesses.

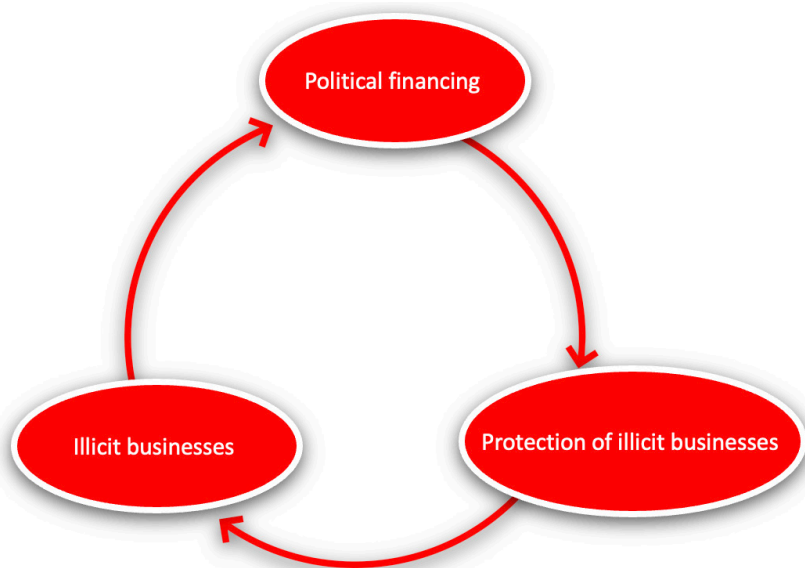
As Kupferschmidt (2009)⁶ explains, economic power is easily expressed in political power, and economic power accumulated by illicit means will need some form of protection or partnership with the government, since these businesses could not attain their great scale without the active complicity of governments, or without a solid business infrastructure.

Illicit political financing through the illicit economy thus generates a vicious circle, which feeds upon itself to prosper. It starts with illicit businesses which, in order to ensure political protection, finance political entities to subvert the vital functions of the State. This generates an interdependence which, when it becomes deeply rooted, is difficult to break and, in extreme cases leads to the capture of the State and its institutions.

After analysing the reality found on the ground, we concluded that this report should focus on the third category presented by Kupferschmidt (2009).

⁶ Kupferschmidt, D (2009:21) op cit

Figure 1. The vicious circle of political financing by illicit businesses



Illicit political financing in Mozambique: a problem ignored?

Mozambique displays high levels of corruption⁷, money laundering, bribery by international companies, tax evasion, and over-invoicing which logically suggests that the money from the illicit economy is, to some extent, financing political activities.

It is estimated that, in about 10 years (2005-2014), the illicit economy took from Mozambique an average of between USD 138 million and USD 289 million⁸, or that in about a decade, the price of corruption in Mozambique reached USD 4.9 billion⁹. But very little is said about whether the money from the illicit economy also finances political activities.

In the official Government documents that address the illicit economy, there is nothing about illicit political financing. By way of example, a recent Government report on the assessment of the risks of money laundering and of financing of terrorism lists the activities which present the greatest risk of money laundering to finance terrorism. It puts at the top drug trafficking, people trafficking and contraband as the main outside threats for money laundering in Mozambique. Domestically, it stresses the vehicle sales sector as presenting a very high level of vulnerability¹⁰. Nothing about illicit political financing.

7 Transparência Internacional and Centro de Integridade Pública (2021). *Moçambique Regista Queda no Índice de Percepção da Corrupção da Transparência Internacional – TI (Corruption Perception Index – 2020)*. Available on https://www.cipmoz.org/old_new/2021/01/28/mocambique-regista-queda-no-indice-de-percepcao-da-corrupcao-da-transparencia-internacional-ti-corruption-perception-index-2020/ [consulted on 28 March 2022]

8 Kukutschka, R. (2018). *Illicit financial flows in Mozambique*. U4 & TI, Available on <https://www.u4.no/publications/illicit-financial-flows-in-mozambique.pdf> [consulted on 30 April 2022]

9 CIP, CMI & U4 (2016). *Os Custos da Corrupção para a Economia Moçambicana: Por quê é que é importante combater a corrupção num clima de fragilidade fiscal*. CIP. Available on https://cipmoz.org/wp-content/uploads/2018/08/CIP-Custos_da_Corrupcao.pdf [consulted on 28 March 2022]

10 Republic of Moambique (2022). *RELATÓRIO DA AVALIAÇÃO NACIONAL DOS RISCOS DE BRANQUEAMENTO DE CAPITAIS E DE FINANCIAMENTO DO TERRORISMO*: Maputo

Table 1. Classification of sectors where there is the highest risk of money laundering and the financing of terrorism

Sector	Risk Assessment
Sale of vehicles	Very High
Real estate, immigration, flora and fauna, mineral resources, customs, Non-Governmental Organisations; and designated non-financial activities and professions	High
Other financial institutions	Medium to high
Financial products and services, mobile financial services, and the market in transferable securities	Medium
Insurance sector products and services and financial inclusions	Medium to Low

Source: Report of the National Assessment of the Risks of Money Laundering and of financing of Terrorism

In her annual reports to the Assembly of the Republic, the Attorney-General deals with various illicit activities that occur in Mozambique, where corruption occupies a central chapter on its own, separated from other “common” crimes. The stress laid on corruption is explained by its effects which “compromise the functioning of institutions and hold back the development of the country”¹¹. Illicit political financing has effects similar to, or worse than, corruption. But it is not dealt with in the reports of the PGR.

It could be justified that, since this is not a legal type of crime envisaged in the Mozambican criminal law, the PGR has no way of dealing with it. This justification does not hold water, in that whenever the Attorney-General believes there is some gap in the criminal law, she uses her presence in the Assembly of the Republic to ask the parliamentarians to adopt or revise laws in order to fill the gaps identified.

The law that sets the legal framework for the formation and activity of political parties outlaws the financing of political parties by State bodies, by collective persons in public law, and by collective persons in private law that are of public utility¹², but there is no record that this legal provision has ever been applied, although there is plenty of evidence that it has been violated¹³. In other words, the political entities and figures who receive illicit political financing, are never penalised in Mozambique.

In Portugal, the country whose legal system inspired the Mozambican legal system, illicit political financing is legislated as a legal type of crime and there are politicians who have been sentenced for receiving illicit financing¹⁴. So, there is no lack of knowledge about the existence of illicit political financing in Mozambique and no lack of inspiration about how it can be penalised. What may be missing is the interest of State institutions to deal with the phenomenon.

11 Republic of Mozambique (2022). INFORMAÇÃO ANUAL DO PROCURADOR-GERAL DA REPÚBLICA À ASSEMBLEIA DA REPÚBLICA. PGR: Maputo

12 Cf. Art. 19, paragraph 4, of Law no. 9/71, of 23 January

13 One of the most obvious cases of illicit political financing that went unpunished concerns the money diverted from the Mozambique Airports company. It was proved in court that this money financed the Frelimo Party. Sengo, A. (2009). Dinheiro desviado nos aeroportos foi doado ao partido Frelimo, in *Diário Independente* of 04.02.2009. Available on https://macua.blogs.com/moambique_para_todos/2009/02/dinheiro-desviado-nos-aeroportos-foi-doado-ao-partido-frelimo.html [Consulted on 1 May 2022]

14 Bruno, C. (2018). Ministério Público investiga partidos por financiamento ilícito, in *Observador*, Available on <https://observador.pt/2018/01/06/ministerio-publico-investiga-partidos-por-financiamento-ilicito/> [consulted on 30 April 2022]

Sources of illicit political financing in Mozambique: from public procurement to tax evasion

The three categories systematised by Kupferschmidt (2009) were used to analyse the sources of illicit political financing in Mozambique. The main focus is laid on illicit political financing through the illicit economy, which covers the illicit trade in goods and services and the later use of the resulting money to finance political figures and entities, receiving in exchange the protection of illicit businesses and in this way subverting the vital functions of the State.

The sale of customs exemptions was taken as a case study. The Law grants these exemptions to political parties to import goods and equipment needed for their operations¹⁵.

The customs exemptions are indirect public financing of the political parties. They do not imply direct transfers of public money to the parties, but the government renounces the taxes that the political parties should pay on their imports. This type of financing occurs both during electoral periods (exemptions on the import of campaign materials) and in the period between elections (exemptions on the import of goods for political activities).

During the import of campaign material, some political parties illegally transmit their right to customs exemptions to commercial agents, who import various merchandise in the name of the party, but with the purpose of selling it to the public. The money which should be paid in taxes (customs duties, specific consumption tax, value added tax) to the State is shared between the commercial agents and the parties to whom the customs exemptions were granted. This type of practice forms part of illicit political financing through the illicit economy, since the money channelled to the political parties by the commercial agents is generated by illicit activity (the sale of exemptions).

However, before discussing the results of the case study in more detail, we shall approach the other two sources of illicit political financing in Mozambique, in the categories defined by Kupferschmidt. These are illicit political financing through funds from the government itself, and illicit political financing through legitimate businesses.

Illicit political financing from the Government itself

The first category of illicit political financing is probably the most common, but also the most difficult to detect. This is illicit political financing from the Government itself. It consists of initiatives to manipulate the Government's legal procedures to obtain financial benefits, which are then used to finance political activities. This type of manipulation of procedures generally occurs in cases of public contracting, where the process is distorted to favour particular bidders. For their part, the bidders who win the contracts finance political activities with part of the funds received from the contracts.

In Mozambique, public contracting is the area in which the most important cases of corruption in the public

¹⁵ Cf. Art. 15 of Law no. 7/91, of 23 January

sector occur, bearing in mind the cases reported during the mandates of the last three governments (2005-2020)¹⁶. Corruption in public contracting takes various forms, such as over-invoicing – in the contracting of services and acquisition of goods by the State, for the later payment of commissions to the public officials involved in the contracting -, the choice of the bidder based on his political influence, or by nepotism: the choice of a relative, friend or other person connected with whoever takes the contracting decision.

In addition to subverting the rules of the market, corruption in public procurement has very negative effects on the quality of goods and public services provided to the State, on the one hand, and on the other, by making more expensive the goods and services contracted, diverting public funds that would be applied in other sectors.

The money obtained from corruption in public contracting is used for illicit political financing. In Mozambique there are various references to the use of funds diverted by State leaders in public contracting in order to finance political activities.

The Public Prosecutor's Office accused Maria Helena Taipo, when she was Minister of Labour, of receiving bribes to facilitate contracts between private companies and the National Social Security Institute INSS) – a body under her supervision. In her defence, Taipo said that, in her capacity as head of the Central Brigade of the Frelimo Party Central Committee sent to assist Nampula province, she had the obligation to mobilise funds to support the election campaign of the Frelimo Party and its presidential candidate, Filipe Nyusi. Thus, Taipo explained that she manipulated the INSS public contracting in order to obtain funds to finance her party.

During the investigation, Taipo even presented the list of purchases that she made with the funds diverted from the INSS and who received them: “luxury vehicle zero kilometres acquired and offered to Mety Gondola” – then provincial secretary of the OJM in Nampula (currently Secretary of State in the same province). “Vehicle for Adelino Zacarias Ivala”, Frelimo First Secretary in Nampula province. “Even chiefs, neighbourhood secretaries, religious leaders, animators of cultural groups, members of the Association of Veterans of the National Liberation Struggle (ACLLN) and some staff of the State Information and Security Services (SISE) who were actively involved in the Frelimo campaign that year received vehicles”¹⁷.

The case of Taipo and the INSS funds is not isolated. It is systemic. In the trial in the Mozambique Airports (ADM) case, in which about 54 million dollars from this public company were diverted by the then Chairperson of the Board of Directors, Diodino Cambaza, it was alleged in court that part of the money was used to finance activities of the Frelimo Party. Arlindo Chilundo, at the time Director of the Frelimo Party School, accepted that he had received money from Diodino Cambaza, but absolved his party from criminal responsibility, on the grounds that he had received a grant of equipment valued at 7 million meticaís (more than 200,000 dollars at the exchange rate of the time), from a party member who, coincidentally, was chairperson of a public company¹⁸.

In the case of the “hidden debts”, the Abu Dhabi-based company Privinvest, which won fraudulent contracts for more than two billion dollars to provide equipment and services to the State for coastal protection, distributed

16 Nhamirre, B & Cortez, E. (2020). PROCUREMENT PÚBLICO EM MOÇAMBIQUE: REFORMAS LEGISLATIVAS SEM EFEITOS NO COMBATE À CORRUPÇÃO, in, Governação e Integridade em Moçambique. CIP, Available on <https://cipmoz.org/wp-content/uploads/2020/11/Governação.pdf> [Consulted on 2 May 2022].

17 Tchambule, R. (2019). Mais uma batata quente para o partido no poder: Helena Taipo e outros 10 réus vão a julgamento por desvio de 113 milhões de meticaís, in Jornal Evidências, edição de 15 de Março de 2022, p. 04. Available on <https://macua.blogs.com/files/evidencias-ed-53-15.03.2022.pdf> [Consulted on 3 April 2022]

18 Cambaza voluntariou-se a reabilitar eacola da Frelimo, in Jornal A Verdade. Available on <https://verdade.co.mz/cambaza-voluntariou-se-a-reabilitar-escola-da-frelimo/> [Consulted on 3 April 2022]

around 10% of the total value of the contract (approximately 200 million dollars) in bribes and kickbacks. In addition to the Credit Suisse bankers who facilitated granting of the loans and Mozambican state leaders who negotiated and approved the loan and supply contracts, Privinvest paid bribes of ten million dollars to the Frelimo Party – about 0.5 % of the total value of the supply contracts.

“These payments came to a total of USD 10 million and were made in response to a request from President Guebuza to Mr. Boustani for Privinvest to make grants to cover the costs of the election campaign of President Nyusi and of the associated campaign of FRELIMO for the elections to the National Assembly. Ex-President Guebuza, in the same discussions, told Privinvest that this was legitimate, and he encouraged us to make such campaign contributions”, according to a document that Privinvest founder Iskandar Safa submitted to the High Court in London where the Mozambican state has begun a legal case to try to annul payment of the hidden debts¹⁹.

As can be noted, illicit political financing by the Government itself is abundant, but the few cases known publicly are those that were taken to courts. In how many more cases of public contracting have state officials manipulated the contracting procedures in order to receive funds and finance political activities? As long as the Public Prosecutor’s Office does not consider illicit political financing as an illegality that should be prevented and fought against, it will be very difficult to know the real scale of the problem.

Illicit political financing with legitimate funds – or when there is no free lunch

In the case of illicit political financing from the Government itself, it was noted that the money used generally comes from bribes paid by businesspeople who want to win public works contracts. In the final analysis, this is public money taken from the coffers of the State in connivance with suppliers willing to collaborate in the manipulation of the legal procedures of public contracting to win contracts with the government. In these cases, despite the difficulty in detecting the manipulation, they can be discovered, for example, when there are whistle blowers or independent audits.

Illicit political financing with legitimate funds is more complex. This generally happens in public and publicized events, preferably in front of the television cameras. In fund-raising banquets to support election candidates and/or campaigns, businesspeople compete to see who can sign the cheque with most digits. In principle, there is no problem in a businessman taking part of his money, which he earned honestly, and offering it to a candidate for a relevant political office. On the contrary, it is a praiseworthy act of a militant committed to the success of his party – and of the country. For the candidate of today is the future leader of the country.

In the recent history of Mozambican politics, there have been famous fund-raising dinners to support the presidential candidates Joaquim Chissano, Armando Guebuza and Filipe Nyusi. They all organised well attended banquets where they auctioned, for millions of meticaís, simple items such as pens, pipes and photographs. The

¹⁹ Nhamirre, B (2021). Corrupção das altas hierarquias do Estado: Privinvest informa ao tribunal inglês que pagou milhões de dólares a Filipe Nyusi, Manuel Chang e ao partido Frelimo. CIP. Available on https://www.cipmoz.org/old_new/2021/02/01/privinvest-informa-ao-tribunal-ingles-que-pagou-milhoes-de-dolares-a-filipe-nyusi-manuel-chang-e-ao-partido-frelimo/ [Consulted on 21 April 2022]

businesspeople who bid for these articles changed from candidate to candidate. Chissano had his, Guebuza had his, and Nyusi also has his donors²⁰.

In the 1930s, some bar owners in the American Old West served free lunches to anyone who consumed alcohol. Later, Milton Friedman wrote *There's No Such Thing as a Free Lunch*. Similarly, the offers by businesspeople to election candidates are not free. The businesspeople who finance the presidential candidates become stars in the supply of goods and services to the State. In some cases, they are accused of swindles²¹ and tax evasion²².

In the current governance, the case of a businessman who stood out in his financial support for the campaign of the Frelimo Party and of Filipe Nyusi for the Presidency is paradigmatic²³: when Filipe Nyusi won the elections and formed his government, this same businessman became one of the greatest suppliers of medicines and of hospital equipment to the Ministry of Health, benefitting from a public contracting process full of errors²⁴.

Political financing by businesspeople is common across the world. It is envisaged in the law but requires transparency and accountability so that it does not exceed the limits of integrity. This means that the political parties and candidates must publicly declare the origin of the funds they receive, and how they are spent. This does not happen in Mozambique, although the law requires it²⁵.

Political Financing from the illicit economy, from drug trafficking to tax evasion

In Mozambique there is a great deal of evidence of illicit political financing with funds from the illicit economy. Although not well studied, the phenomenon occurs in various sectors of the illicit economy, from drug trafficking to smuggling of natural resources and tax evasion.

One of the few studies that refers to illicit political financing from the illicit economy was published by the London School of Economics and Political Science in 2018. The study concluded that Mozambique is an important transit centre for heroin, with amounts of the drug that reach about 40 tonnes a year. According to the study, the export of heroin contributes up to 100 million dollars a year to the Mozambican economy, and “Frelimo receives a substantial amount of money for operational costs and election expenses, and it is supposed that some members of the Frelimo leadership receive a part personally ²⁶”.

In 2014, research undertaken by the Centre for Public Integrity in Zambezia province, found, with material

20 As novas estrelas do financiamento à Frelimo (2018). In Carta de Moçambique. Available on <https://cartamz.com/index.php/politica/item/157-as-novas-estrelas-do-financiamento-a-frelimo> [consulted on 10 May 2022]

21 Principal patrocinador e parceiro do Partido Frelimo no norte a contas com a Justiça por burla. In Canalmoz, Available on <https://canal.co.mz/2021/07/principal-patrocinador-e-parceiro-do-partido-frelimo-no-norte-a-contas-com-a-justica-por-burla/> [consulted on 10 May 2022]

22 PGR e PIC ilibam Momade Bachir Sulemane do Narcotráfico (2011). In Jornal A Verdade. Available on <https://verdade.co.mz/pgre-pic-ilibam-momade-bachir-sulemane-do-narcotrafico/> [consulted on 10 May 2022]

23 SILVESTRE BILA NEGA SER O BIG BOSS DE NYUSI, in Revista Ídolo. Available on <https://ambicanos.blogspot.com/2015/01/silvestre-bila-nega-ser-o-big-boss-de-htm/> [consulted on 10 May 2022]

24 Bande, A (2020). Quem se beneficia dos erros/falhas do Procurement Público do Ministério da Saúde? CIP. Available on <https://www.cipmoz.org/old-new/2020/05/03/quem-se-beneficia-dos-erros-falhas-do-procurement-publico-do-ministerio-da-saude/> [consulted on 10 May 2022]

25 Cf. Art. 19 of Law no. 7/91, of 23 February.

26 Hanlon, J. (2018). The Uberization of Mozambique's heroin trade, Working Paper Series, No. 18-190, London School of Economics and Political Science (LSE), Department of International Development, London, P. 4. Available on <http://hdl.handle.net/10419/224816> [Consulted on 28 March 2022]

evidence, that the Frelimo Party received 10 million meticaís to finance its election campaign. The money came from contraband in timber in Zambezia, which was deliberately permitted by the Provincial Directorate of Agriculture as part of the scheme to raise funds to finance the election campaign²⁷.

Table 2. Summary of types of illicit political financing in Mozambique

Types of financing	Forms of occurrence	Examples	Observations
Financing from the government itself	Generally, occurs in public contracting, involving Government officials willing to manipulate the contracting process and competing companies prepared to pay bribes to win contracts with the Government	- INSS/Helena Taipo - Mozambique Airports case - Hidden debts case	The bribe seeks the contract for a specific job. Generally, the initiative to manipulate the procedures comes from the Government official. Part of the bribe money finances political activities.
Financing from legitimate businesses	Generally, occurs when companies offer bribes to public officials, politicians, candidates and political parties with the purpose of obtaining favours, influence and privilege to undertake businesses with the State	Case of sponsoring the election campaign of the Frelimo Party and its presidential candidate Filipe Nyusi, by a businessman who later became a captive supplier of medicines and hospital equipment	This is not a bribe to win a specific contract, but financing to win influence and privileges in government businesses
Financing from the illicit economy	This occurs when funds are used that derive from the illicit economy, from trafficking in banned goods and services, to corrupt and capture State officials and institutions so as to gain protection for illicit businesses	-Financing the Frelimo Party from the proceeds of drug trafficking - Financing the Frelimo Party from money from contraband timber in Zambezia; - Financing the Frelimo Party with money from the sale of customs exemptions	The Public Prosecutor's Office has never investigated any of the documented cases of financing the Frelimo Party from the illicit economy, which suggests the capture of the institution by organized crime, which is common in this type of business

Source: compiled by the author

Sale of customs exemptions for the Frelimo Party to commercial agents

Customs exemptions are granted to political parties to import the goods and equipment necessary for their operations. But it so happens that some of the customs exemptions granted to the Frelimo Party are transmitted to commercial agents. This is one of the forms of illicit political financing using the illegal economy. This type of practice has been going on for decades.

According to sources interviewed²⁸, the sale of exemptions began in the port city of Nacala, in Nampula province, where there is one of the largest industrial parks in the country, controlled by a business community of Indian/

27 Mabunda, L. (2014). Partido Frelimo financia-se com dinheiro de contrabando de madeira na Zambézia. CIP, Available on <https://www.cipmoz.org/pt/2014/10/18/partido-frelimo-financia-se-com-dinheiro-de-contrabando-de-madeira-na-zambezia/> [Consulted on 28 March 2022]

28 Interview with an official of the Mozambican customs service, working at the port of Nacala, in May 2022, during the field work.

Pakistani origin. The port of Nacala receives imports coming, above all from Asia (United Arab Emirates, China, India), which supply the north of the country, and neighbouring countries of the hinterland.

At the start of the 21st century, the port of Nacala (and the Northern railway) were leased to private management by the Northern Development Corridor (CDN), a group which had, in its shareholding structure companies controlled by influential figures in Frelimo. The group of Frelimo figures in CDN, known as national investors, had the responsibility of managing Nacala port, while the foreign shareholders managed the Northern rail line.

Among the CDN shareholders are historic figures of Frelimo, such as Alberto Chipande, Armando Emílio Guebuza, Mário da Graça Machungo (now deceased), Feliciano Gundana, Eduardo Nihia, and Mariano Matsinhe. The group has Alberto Chipande as the leader of the “national investors”, and he came to hold the post of Chairperson of the Board of Directors of CDN, until Insitec entered the consortium. He was then replaced by the current Minister of Agriculture, Celso Correia²⁹.

According to sources interviewed³⁰, as PCA of CDN, Chipande was regarded as the owner of Nacala Port, and he popularised the sale of exemptions to local businesspeople (from Nacala and Nampula). The scheme consisted of local commercial agents importing various merchandise in the name of the Frelimo Party, which in terms of the Law had the right to exemptions to import merchandise and equipment for its own use. The leaders of Frelimo found they could import any merchandise – with the blessing of the General Customs Directorate which should grant the authorisations – using funds from local businesspeople who afterwards sold the exemptions and shared the profits.

At the start, according to the sources interviewed, this criminal practice occurred mainly during the election campaign, when the party needed to mobilise funds to support electoral expenses. But with the scheme functioning fully, without opposition from the customs authorities or from the Public Prosecutor’s Office, the imports came to occur on a regular basis.

The practice, which arose in Nacala, was popularised to the rest of the country, mainly to cities with maritime frontiers (Beira and Maputo). Whenever a businessman wanted to import merchandise, the Frelimo Party requested and obtained exemptions from customs duties and imported the goods without paying taxes. There are no limits to the quantity or type of merchandise which can be imported by Frelimo, without paying customs duties.

Used clothes, school exercise books, cloth, batteries, motorcycles, television sets, freezers – everything that the Frelimo Party wanted to import, it was just a matter of requesting it to the General Director of Customs, and he would authorize it.

As part of this study, the first part of which was published in 2014, CIP consulted copies of the import processes for various goods imported in the name of the Frelimo Party, which includes merchandise which has nothing to do with the functioning of the party. At the time, CIP even published the names of the businesspeople who owned the merchandise, mostly well-known sponsors of Frelimo³¹. But there was no investigation by the tax

29 Nhamirre, B & Matine, J. (2015). *Parcerias Público-Privadas: Um Investimento Necessário Mas Problemático Em Moçambique - Caso da concessão do Porto de Nacala e Linha do Norte*. CIP. Available on <https://www.cipmoz.org/pt/2015/12/22/parcerias-publico-privadas-um-investimento-necessario-mas-problematizado-em-moçambique/> [Consulted on 28 March 2022]

30 Interview with a CFM staff member and former manager of Nacala Port.

31 Nhamirre, B & Mabunda, L. (2014). *Isenções aduaneiras do partido Frelimo*. CIP. Available on https://www.cipmoz.org/old_new/2014/05/18/isencoes-aduaneiras

or judicial authorities to ascertain responsibilities, even though they were faced with obvious cases of customs embezzlement.

In 2019, 2020, 2021 and 2022, CIP undertook more field work, collecting samples of import processes in the name of the Frelimo Party. This made it possible to set up a data base which led to the conclusion that the Frelimo Party is continuing to import various merchandise, benefitting from customs exemptions.

It is also possible to conclude that the merchandise has nothing to do with the functioning of the party. In fact, the merchandise is not used by the Frelimo Party, and nor does the Frelimo Party pay the invoices for acquiring the merchandise abroad. What the Frelimo Party does is “sell” the exemptions to commercial agents to import the goods for their own commercial interest. Table 2 summarises some merchandise imported in the name of the Frelimo Party, during the years covered by the study (2012-2022). These goods were sold by commercial agents, and some of the money, which should have been collected by the state in the form of taxes, was paid to the Frelimo Party.

Table 3. Summary of some merchandise imported by the Frelimo Party from 2012 to 2022

Mercadorias	Data da importação	Origem	Porto de descarga	Valor CIF declarado (em USD)	Direitos aduaneiros (em USD)*	Direitos aduaneiros (em MT)
1,380 motorcycles acquired at RADA KRISHIN General Trading CO (LLC)	Jun-12	Port of Chong Qing, China	Porto de Nacala	261,940.00	105,823.76	3,157,781.00
690 motorcycles acquired at Top Trade International, Hong Kong	Jun-12	Port of Shanghai, China	Porto de Nacala	130,970.00	52,911.88	1,578,890.50
1.610 freezers acquired at Al Ranin Electronics, Dubai	Sep-12	Port of Nanjing, China	Porto de Nacala	204,440.00	82,593.76	2,464,597.80
56 tonnes of cloth, acquired at Atlas Export, India	Sep-12	Port of UNPL, India	Porto da Beira	50,056.00	20,222.62	603,443.10
820 21-inch colour TV sets, acquired at RANIN ELECTRONICS, Dubai	Sep-12	N/A	Porto da Beira	32,191.00	13,005.16	388,074.09
1,610 freezers acquired at RADA KRISHIN General Trading, Dubai	Jun-12	Port of Nanjing, China	Porto de Nacala	204,440.00	82,593.76	2,464,597.80
414 motorcycles acquired at Chong Qing Hanyuan Motorcycle Import and Export of China	Sep-13		Porto da Beira	56,000.00	22,624.00	675,100.16
497 motorcycles acquired at Ching Qing Lifan Industry (Group) of China	Oct-13	Port of Chong Qing, China	Porto da Beira	323,000.00	130,492.00	3,893,881.28
1,310 freezers at Ranin Electronics, Dubai	Jul-13	N/A	Porto da Beira	75,980.00	30,695.92	915,966.25
1,310 freezers at Ranin Electronics, Dubai	Nov-13	N/A	Porto da Beira	75,980.00	30,695.92	915,966.25
340 freezers acquired at Wiltex Ltd	Nov-13	Hong Kong	Porto da Beira	31,000.00	12,524.00	373,716.16
340 freezers acquired at Wiltex Ltd	Dec-12	Hong Kong	Porto da Beira	31,000.00	12,524.00	373,716.16
18 tonnes of school exercise books acquired at Sundram Multipap Ltd, Mumbai	Mar-13	Nehru Port Trust, India	Porto de Nacala	N/A		0.00
5,000 tyres acquired at Mercury Traders, Dubai	Oct-13	Dubai	Porto da Beira	535,338.62	216,276.80	6,453,699.80
1,386 freezers acquired in China	Jan-14	China	Porto da Beira	119,136.00	48,130.94	1,516,124.74
696 freezers acquired in Dubai	Feb-14	Dubai	Porto da Beira	74,589.00	30,133.96	949,219.61
240 tyres acquired at Qingdao Doublestar Tire Industrial Co. Ltd, of China	Dec-14	N/A	Porto da Beira	26,000.00	10,504.00	330,876.00
11,800 batteries, brand 777, acquired at Mercury Traders, Dubai	Feb-14	Waihai, Jangmen, China	Porto de Maputo	283,200.00	72,994.80	2,299,336.20
Batteries, brand 777, acquired at Guangdong 777, New Energy Ltd	Sep-19	Port of Surabaya, Jakarta, Indonesia	Porto de Maputo	1,173,668.00	474,161.87	29,635,117.00
13,800 motorcycles acquired at Chongqing Shinerai Motorcycle Co Ltd	Sep-19	Port of Ningbo, China	Porto de Maputo	1,035,000.00	418,140.00	26,133,750.00
Used clothes, acquired at Alico Enterprises, FZCO	May-20	Port of Jebel Ali, Dubai	Porto de Maputo	1,870,618.00	755,729.67	50,331,596.16
Used clothes, acquired at Alico Enterprises, FZCO	Jun-21	Port of Jebel Ali, Dubai	Porto de Maputo	1,000,000.00	404,000.00	27,472,000.00
TOTAL				7,594,546.62	3,026,778.83	162,927,450.06

*Taxa de câmbio média anual: 2012 = 29,84; 2013 = 29,84; 2014 = 31,5; 2019 = 62,5; 2020 = 66,6; e 2021 = 68.

EnhancedMetaFilefalse* MERGEFORMAT Source: compiled by the author from consulting the import files.

In the period under analysis, from the sample collected, it can be ascertained that the Frelimo Party spent 7.6 million dollars on importing various merchandise. For this merchandise, it ought to have paid about 3 million dollars (approximately 163 million meticals at the average annual exchange rate for the period under analysis). The data presented in this study represent only about 10% of the total imports of the Frelimo Party over the period under analysis (2012-2021).

While the study was being held, the parties Frelimo, Renamo and the MDM, were asked to share information about the exemptions received over the previous 3 years. Only MDM shared the requested information. In a letter signed by the respective secretary-general, MDM informed that it had received exemptions in the amount of

ras-do-partido-frelimo/ [Consulted on 28 March 2022]

1,057,221.67 meticaís (approximately USD 15,800.00). Likewise, the General Directorate of Customs was asked to share information on the exemption granted to the political parties over a 3 year period, and it too did not do so.

Consequences of the illicit political financing

The illicit political financing has several consequences for the functioning of a democratic state under the rule of law, including the risk of privatisation of vital functions of the state, when State institutions come to be at the service of the interests of those who pay most, rather than the citizens.

The illicit political financing also contributes to breaking the trust between the holders of political power and the citizens. Since they are more concerned about those who are financing them, the politicians relegate to a secondary position the interests of the citizens, and consequently lose their trust.

The illicit political financing also helps distort the rules of the market economy. Take the case of the sale of customs exemptions to import a variety of merchandise. The companies that import goods without paying taxes, can sell them at lower prices, compared with the companies which pay taxes on their imports. This also contributes to the weakening of national industry, in that commercial agents can import at a cheaper cost, counting on the exemptions granted to the political parties, and in this way kill national production.

The same happens in the case of the manipulation of public contracting. There are companies which win tenders, not because they submitted more competitive bids, but simply because they benefit from the manipulation of the contracting procedures.

The distortion of the rules of the market economy also occurs in the case of the illicit political financing using money from the illicit economy. Here the risks are still greater, including the possibility of financing organised crime and terrorism. Those involved in illicit activities finance political entities and figures in exchange for protection for their businesses. The profits from these activities help finance various kinds of illicit activity.

In the current context of Mozambique, where organised crime and terrorism are the greatest threats to security, one cannot rule out the risk that the money from the sale of exemptions may be financing these activities. During the field work in Nacala, it was found, for example, that the goods imported in the name of the Frelimo party are not subject to rigorous inspection. There are even strong suspicions that some of the motorcycles imported in the name of the Frelimo Party have been used to carry drugs in improvised false bottoms in the fuel tanks.

The alternative to illicit political financing is open and transparent political financing, which is crucial in the struggle against corruption, and to obtain and keep the trust of citizens in politics. As argued by Falguera, E. et al³², transparency helps establish the equality of conditions, exposing and punishing undue influence over politicians, avoiding the infiltration of illicit money into politics, and encouraging the parties and candidates to adhere to the norms.

32 Falguera, E. Ohman, M. & Jones, S. (2014). Funding of Political Parties and Election Campaigns: A Political Finance Handbook, International IDEA

Conclusions

Although it has not been well studied, illicit political financing is a reality in Mozambique. It comes from various sources, including from the government itself through the manipulation of public procurement. It also comes from companies and businesspeople who are seeking influence in the Government to undertake business. However, the most serious source of illicit political financing in Mozambique is the illicit economy.

Cases of political financing with money from drug trafficking and contraband in natural resources have been dealt with previously, and this study has looked in more detail at political financing through the customs exemptions that are envisaged by the Law, but which the Frelimo Party transmits illegally to commercial agents.

The study referred to the serious implications which illicit political financing has for the State and for society, from the risk of privatising the vital functions of the State by interest groups, the breaching of trust between citizens and political leaders, the distortion of the rules of the market economy to the risk of financing organized crime and terrorism from illicit political financing.

The alternative to illicit political financing is open and transparent political financing, and accountability by political parties and by candidates for public office.

Recommendations

Faced with the above, the following are recommended:

- Revise the Law on Political Parties to introduce penalties for parties that fail to publish their accounts;
- Criminalise illicit political financing, by punishing both those providing the finance and those accepting it;
- Limit the number of customs exemptions attributed annually to political parties for the import of merchandise;
- The need to explain the purpose of the goods to be imported by the political parties and obligatory publication of annual reports detailing the exemptions received as well as the destination of the imported goods benefitting from exemptions.
- Obligatory publication of the names of persons and entities who finance political parties and election candidates, include the amounts of the financing

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Legislation

- Law no. 9/71, of 23 January, BR 1st Series, number 4, of 23 January 1991



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