



CENTRO DE INTEGRIDADE PÚBLICA  
Anticorrupção - Transparência - Integridade

## GOVERNANCE PROSPECTS FOR 2025: RISKS TO MONITOR IN THE YEAR AT THE START OF THE NEW GOVERNMENT'S TERM OF OFFICE

Maputo, March 2025

## **EDITORIAL INFORMATION:**

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Risks to Monitor in the year at the start of the new government's term of office

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## EXECUTIVE SUMMARY

The first term of office of the Frelimo candidate, Daniel Chapo, presents several risks that might affect his governance. In this executive summary, we present risks distributed in five pillars that correspond to the eight main thematic lines of intervention of CIP in its new strategic plan under implementation since 2024. We are referring to the pillars of Transparency and Political Integrity, Transparency and Integrity in the Public Sector, Justice and anti-Corruption, Transparency and Integrity in the Private Sector, and Transparency and Integrity in Environmental Governance.

In the pillar of **public finance**, the greatest risks are associated with the reduction of economic activity, with an impact on the shrinking of the capacity to mobilise state revenue, due to the mass unrest now under way. Initial estimates of fiscal losses indicate that the Government has not been able to collect more than 42 billion MT because of the unrest. This shows that, if the unrest continues, the new government will face serious difficulties in mobilising the resources needed for its plan of governance. Reducing the scale of the protests requires improvements in basic services, which could involve an increase in public expenditure. The difficulty in collecting revenue, plus the low level of trust of foreign creditors because of the socio-political instability, means that 2025 could be characterised by an exponential growth in domestic public indebtedness and, at the same time, the restructuring of the foreign debt.

In **public contracting**, the reforms planned could increase the risk of the emergence of new actors in business involving the State, some of them linked to the new political elite in power, as has occurred in all processes of political transition. It has been the practice in Mozambique that a new government means the emergence of new actors in the business sector, and consequently others, who previously dominated state businesses, collapse. The announced creation of a State Acquisitions Centre is a further factor that deserves greater attention, since there is a risk that it may become the epicentre for centralising corruption in the logic of the client network run by “the big man”.

In the **extractive industry**, political instability and the global risks, such as the fall in commodity prices and the changes in international markets, are significant risks. Furthermore, the country remains highly dependent on foreign markets such as India, China and South Africa and faces challenges in diversifying its economy and improving the sustainability of its extractive operations. The fluctuations in the prices of coal and natural gas, key export products, underline the economic vulnerability and the urgent need for strategic planning and economic resilience. The extractive industry in Mozambique plays a crucial role in the national economy, and it is forecast that its contribution to the GDP will increase from 10.6% in 2022, to 16%, in 2030.

In the area of **governance**, Daniel Chapo will have to face several risks. There is the obvious risk that the promises of reforms to the state apparatus, through which he received his entire political socialisation prior to reaching the post of President of the Republic, may not be implemented for two reasons. First, government decisions do not depend on the President of the Republic but on the Political Commission of the Frelimo Party, consisting of players who are trying to preserve their interests in the state; the second is that his political rise is largely due to fraudulent mechanisms used through the state machinery. Without these mechanisms, the power of the party that he has been heading as from 14 February is residual. In addition to the obvious deficit in legitimacy, the Chapo government faces a crisis of confidence among the citizens with regard to public institutions, which increases the risk of mass violence against these institutions. There is also the risk of the appearance of armed groups confronting the State, such as the Naparamas in Nampula and Zambézia, and the prevalence of terrorist acts in Cabo Delgado.

At the level of **decentralisation**, there is a risk that “wars of protagonism” will continue between the provincial governors and the secretaries of state in the provinces, because of the clash of powers between the State Representation Services in the province, and the provincial directorates.

In the pillar of **anti-corruption**, with the announced General State Inspectorate, the risk arises of the duplication of bodies with the same, or almost the same, attributes and powers, and an increase in costs, since there already exists the General Inspectorate of the Public Administration. The promises to fight against corruption announced by Daniel Chapo, without specific lines of guidance, run the risk that they will not be implemented. As for the promises of centralising public contracting, the main risk that could lead to this not happening, at least in the short to medium term, concerns the fact that it would be necessary to establish a specific legal regime for the operations of this acquisitions centre, and endow it with the necessary autonomy without interference, mainly political interference from members of the Frelimo Party.

In the **Private Sector** there are critical structural challenges for 2025, with direct impacts on trade, the extractive industry and timber operations. Political instability and lack of security, together with the devaluation of the Metical and increased import costs, are compromising the competitiveness of the MPMEs and discourage strategic

investments. Systemic corruption in the customs service and in the granting of licences worsens still further the business environment, reducing transparency and expanding inequalities in access to markets and to financing.

In the pillar of **environmental governance**, the government's weak capacity to respond to regular cyclones compromises the country's resilience in the face of climate change. Although the government is aware of the country's climatic vulnerability, it has not adopted efficient and effective measures to minimise the effects of cyclones. A further factor that represents a significant risk and worsens climate problems is poor inspection, together with lack of transparency in management and accountability for grants to victims of climatic events, which feeds corruption. New buildings have not been designed in accordance with the demands imposed by climate change, which makes them highly vulnerable to natural disasters. As a result, recently inaugurated infrastructures are often destroyed by extreme events. An emblematic example occurred in Metuge, in Cabo Delgado, where the Naminawe health centre, inaugurated in November 2024 was destroyed just a month later by Cyclone Chido, in December of that year.



## INTRODUCTION

2025 marks the start of the first term of office of Daniel Chapo as President of the Republic of Mozambique. Chapo's term of office is beginning in the midst of tension and turbulence resulting from a markedly fraudulent election.

The turbulence is characterised by a wave of protests that began on 21 October. According to civil society organisations who have monitored the situation (CIP, Decide, CDD and Amnesty International), so far more than 300 citizens have been killed and more than 600 were injured by bullets fired by the Mozambique Republic Police (PRM), which is operating in defence of the Frelimo Party, which has been in power since 1975.

Traditionally, the transition of power within Frelimo is marked by looting of the State and of public companies, leaving the coffers empty for the new government. This situation generates a financial crisis, obliging the new government to an excessive resort to domestic indebtedness to pay the wages of members of the public administration, and other commitments to third parties, and even to pay off previous debts. The most notorious examples are the looting of the Mozambique Airports Company (2009), of the Migrant Labour Directorate (2013-2015); and the bankruptcy of Mcel (2011-2015).

For this reason, the initial years of new governments are characterised by institutional restructuring, and changes of names, of ministries, of national, provincial and even district directorates, with the appointment of new leaders.

During the transition of powers, intra-institutional conflicts emerge which result in far-reaching restructuring in directorates and departments. This is a struggle for the repositioning of the new political elite for control of the bureaucratic apparatus of the State which it will make use of in the subsequent periods.

The Acquisitions Management and Implementation Units (UGEA), at all levels, are the main sources of struggle and hence are the object of restructuring to facilitate the manipulation of public tenders.

The repositioning and entry into play of new actors always leads to some businesspeople emerging and others collapsing, as mentioned earlier. This is what happened in the transition from the governance of Joaquim Chissano to that of Armando Guebuza and from Armando Guebuza to Filipe Nyusi. For example, in the governance of Guebuza, businesspeople such as Celso Correia, Salimo Abdula, Silvestre Bila and Fernando Sumbana became preponderant, and some were used as frontmen of Guebuza. With Filipe Nyusi these businesspeople not only disappeared, but lost ground in favour of the new players close to the "big man", mostly of Asian and Chinese origin. There was also the emergence of political entrepreneurs, such as Carlos Mesquita who became prominent over the past ten years. There were also survivors who made the transition and continued to gain prominence under Nyusi's governance. This is the case, for example, of the Sidat family which has continued to win many tenders. In particular, it has maintained its hegemony in the business of election materials.

In fact, Chapo will inherit a bankrupt state, and even he does not yet know the scale and seriousness of the problem.

Chapo's term of office will probably be overshadowed by his lack of legitimacy due to the way in which he and his party rose to power. Venâncio Mondlane, with high levels of popular legitimacy, will be a stone in the shoe of Chapo and of Frelimo. These will probably be five years of a political and social environment of tension, unpredictability, volatility and recurrent professional and mass demonstrations.

The so-called "Turbo V8" protests worsened the crisis by destroying a considerable part of the commercial and industrial fabric responsible for State revenue in the cities of Maputo and Matola. The supermarkets, and the small and medium companies closed, throwing thousands of citizens out of work. The Confederation of Business Associations (CTA) estimate at 32.2 billion meticaís the losses of companies due to the protests and 16,400 citizens lost their jobs<sup>1</sup>. Some foreign investors left the country and their return will depend on improved security and a stable political and

<sup>1</sup> CTA (2025, 20 de Fevereiro). Relatório Índice de robustez empresarial IV Trimestre: Crise pós eleitoral abala desempenho empresarial. Maputo: CTA.



social environment. Chapo will find it challenging, not only to pay wages and third party services, but also to invest in key sectors that have now collapsed, such as health and education.

CIP intends to use this document as a guide in its work of monitoring, consciousness-raising and advocacy for a transparent, honest and responsible governance. Since this is a public document, it is intended to be used by other civil society organisations, journalists, the Government, Parliament, development partners and other bodies and individuals, interested in governance.

The risk analysis is centred on CIP's traditional areas of activity, grouped into five pillars, namely: i) Transparency and Integrity in the Public Sector; ii) Transparency and Integrity in the Private Sector; iii) Transparency and Integrity in Politics; iv) Justice and Anticorruption; and v) Transparency and Integrity in Environmental Governance.

As for methodologies, the document results from documentary research and the review of relevant bibliography undertaken by CIP researchers who work in the areas monitored. The document is structured into five parts, each corresponding to a sector to be monitored.

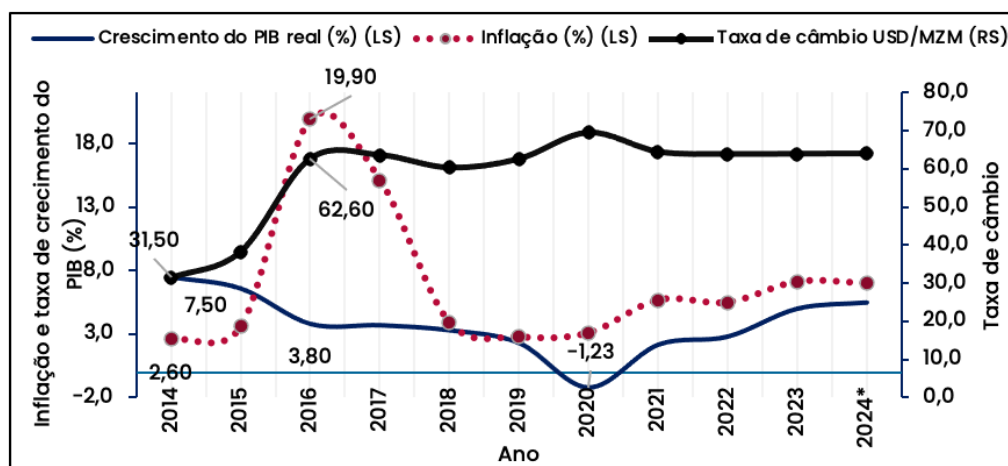
# 1. RISKS TO MONITOR IN THE PUBLIC FINANCES

The terms of office of the previous governments, led by Filipe Nyusi, in 2015-2019 and 2020-2024, were characterised by a significant increase in poverty and inequality. According to World Bank estimates, between 2015 and 2020 more than 5.8 million Mozambicans were thrust into poverty and the total number of Mozambicans living in poverty rose from 13.1 million to 18.9 million (World Bank, 2023).<sup>2</sup>

Several factors contributed to the deterioration of the quality of life during the period under analysis, particularly the impact of the hidden debts. The hidden debts caused a significant rise in inflation, a severe depreciation of the currency, and a sharp reduction in the rate of growth of the GDP. The rate of inflation, for example, jumped from 2.6% in 2014, when the hidden debts were revealed, to 19.9% in 2016. The MZN/USD exchange rate deteriorated from 31.5, in 2014, to 62.6, in 2016. The GDP growth rate fell from 7.5%, in 2014, to 3.8%, in 2016. Furthermore, the discovery of the hidden debts accelerated public indebtedness. The ratio of total public debt to GDP rose from 48.9%, in 2014, to 101.5%, in 2016, (excluding contingent liabilities) in addition to creating restrictions on foreign credit and opening space for the accelerated growth of the domestic public debt (see Graph No. 1).

In financial terms, the hidden debts, estimated at USD 2 billion, resulted in a cost higher than USD 11 billion for the country, corresponding to USD 403 dollars per capita.<sup>3</sup>

**Graph No 1. Evolution of the main macro-economic indicators, 2014-2024**



Source: CGE, 2014-2024; \*Data from PESOE 2024.

(English translation: Growth of real GDP (%) (LS); Inflation (%) (LS); Exchange rate MZN/USD (LS)

Inflation and GDP growth rate (%); Exchange rate)

The combined impacts of the hidden debts, natural disasters, terrorism in Cabo Delgado and the Covid-19 pandemic culminated in a period of unprecedented economic retraction, reflected in a negative growth rate of -1.23% in 2020. However, as from 2021 the economy began to show signs of gradual recovery, driven by a slight resumption of economic activities and greater resilience in key sectors.

Despite this, the challenges remain significant with a high public debt, inflationary pressures and social inequalities

<sup>2</sup> World Bank. (2022). Poverty Reduction Setback in Times of Compounding Shocks - Mozambique Poverty Assessment. Washington, DC: World Bank. Disponível em: <https://www.worldbank.org/> [Acessado em: 27 de Janeiro de 2025].

<sup>3</sup> Centro de Integridade Pública (CIP), Moçambique, e Chr. Michelsen Institute, Noruega. (2021) Custos e Consequências das Dívidas Ocultas Para Moçambique. Disponível em <https://www.cipmoz.org/wp-content/uploads/2021/05/Custos-e-consequencias-das-dividas-ocultas.pdf>

still evident. The new government will face the crucial task of consolidating this recovery, by promoting structural reforms, strengthening fiscal management and guaranteeing that economic growth is inclusive and sustainable, capable of reducing poverty and regional disparities.

## 1.1 Risks for the Public Finances

2025 began with the continuation of the post-election demonstrations, which had begun on 21 October 2024 as a result of protests against the election results which gave victory to the Frelimo Party and its candidate, Daniel Chapo. The protests were marked by the destruction of a large number of small and medium enterprises, and of public and private infrastructures, resulting in a reduction in economic activity, particularly in trade, tourism and transport and communications.<sup>4</sup>

The reduction in economic activity had an impact on the capacity to collect revenue for the state. Initial estimates of fiscal losses, according to Finance Minister Carla Louveira, indicate that the government was unable to collect more than 42 billion meticaïs as a result of the protests.<sup>5</sup> This shows us that, if the protests continue, the new government will face serious difficulties in mobilising the resources required for its plan of governance. In addition to the difficulty in obtaining revenue, the new Government will face significant challenges concerning its legitimacy and social pressure to improve the quality of public services. Furthermore, changes in the priorities of international partners could substantially reduce the flows of foreign aid, increasing pressure on the public budget. The possible reduction or suspension of the contribution of the United States<sup>6</sup> to development aid programmes, for example, could make a significant impact on essential sectors such as health, particularly the programmes against HIV/AIDS which depend heavily on this foreign support for their implementation and sustainability. To reduce this problem, it is hoped that the Government will increase the volume of investment in crucial sectors that are currently in crisis, particularly health and education.

Hence, the new government will face, on the one hand, a severe limitation in financial resources and, on the other, the need to increase and improve basic social services. In a context in which State revenue is mostly absorbed by running costs (see Table 1), notably by staff costs, which absorb more than 60% and debt servicing more than 10%, this implies that the response to the sector crisis will depend more on new, and essentially domestic, loans.

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4 Vale ressaltar que essas manifestações foram também uma resposta ao desgaste social em relação à qualidade da governação, já que até em distritos onde a Frelimo obteve uma vitória expressiva, também ocorreram protestos contra o governo da Frelimo.

5 Jornal Notícias. (2025, 21 de Janeiro). Manifestações violentas: Estado perde em receitas 658 milhões de dólares. Jornal Notícias. Disponível de <https://www.jornalnoticias.co.mz/2025/01/21/manifestacoes-violentas-estado-perde-em-receitas-658-milhoes-de-dolares/>

6 O País. (2024). Estados Unidos congela quase toda a assistência estrangeira. O País. Disponível em [31 de Janeiro 2025], de <https://opais.co.mz/estados-unidos-congela-quase-toda-a-assistencia-estrangeira/>

**Table No. 1. Coverage of running costs by state revenue, 2020-2024 (in millions of MT).**

	2020	2021	2022	2023	2024*
State Revenue	235,213.30	265,596.10	285691.8	326386.5	383,537.50
Running costs	226,744.60	247,028.30	315306.4	341989.8	339,524.70
Staff costs	124440.80	139192.92	194446.8	202845.4	199,375.20
Debt servicing	27377.90	26997.48	35434.2	51553.5	54,183.40
Other running costs	74,925.90	80,837.91	85,425.40	87,590.90	85,966.10
<b>% State Revenue</b>					
<b>Running costs</b>	<b>96.4%</b>	<b>93.0%</b>	<b>110.4%</b>	<b>104.8%</b>	<b>88.5%</b>
Staff costs	52.9%	52.4%	68.1%	62.1%	52.0%
Debt servicing	11.6%	10.2%	12.4%	15.8%	14.1%
Other running costs	31.9%	30.4%	29.9%	26.8%	22.4%

Source: CGE 2021-2023; PESOE 2024.

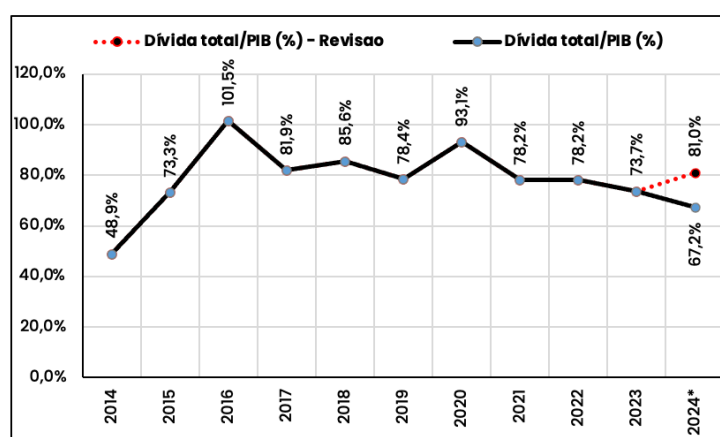
The scenario shown in Table 1 demonstrates the lack of sufficient resources to cover capital expenditure. Hence, in a context of low mobilisation of revenue, investment projects could depend entirely on foreign aid and on new loans to finance them, which could worsen the sustainability of the Public Finances.

## 1.2 Risk of restructuring the Public Debt

Due to the forecast of low revenue and the greater need to improve social services, the new government could face one of the largest budget deficits, greater than those of its predecessors. This deficit will imply still higher levels of indebtedness to cover the ever rising demand for financial resources. Hence, 2025 could be a year marked by a significant increase in the levels of indebtedness, worsening the already delicate sustainability of the Public Finances, which are stretched beyond acceptable levels.

Graph No. 2 shows the growing challenges in managing the public debt in 2025. According to the data in the Medium Term Fiscal Scenario (CFMP)<sup>7</sup>, the debt/GDP ratio initially projected for 2024 was 67.2%. However, by September 2024 this indicator had increased significantly, reaching 81.0%, which is an increase of 13.8 percentage points in comparison with the initial projection.

It is important to note that, in December 2023, the debt/GDP ratio was 73.7%. But by September 2024 this figure had increased to 81.0%, which is a rise of 7.2%. This increase shows a worrying deterioration in the country's fiscal situation.

**Graph No. 2. Evolution of the public debt/GDP ratio (%), 2014-2024.**

Source: MF, CGE; CFMP 2025-2027. (English translation: Total debt/GDP (%) Revision; Total debt/GDP (%))

<sup>7</sup> Ministério das Finanças. (2022). Cenário Fiscal de Médio Prazo 2025-2027. Maputo, Moçambique: Ministério das Finanças. Disponível em <https://www.mef.gov.mz>. [Acessado em: 27 de Janeiro de 2025].

The data presented show that, if the current scenario of difficulties in mobilising financial resources persists, it is likely that the levels of public indebtedness will continue to grow.

**Box 1: Political alterations of the donors**

Changes in the priorities of international partners have the potential to reduce substantially the flows of foreign aid, increasing the pressure on the public budget. The possible reduction or suspension of the contribution of the United States<sup>8</sup> to development aid programmes, for example, could have a significant impact on essential sectors such as health, particularly the programmes to fight against HIV/AIDS, which depend heavily on this foreign support for their implementation and sustainability.

With the reduction of international aid, the Government will be obliged to finance domestically a greater share of public expenditure, which could lead to a substantial increase in the budget deficit. This situation tends to raise the need to contract new loans, thus intensifying the weight of the public debt.

Hence, the limited capacity to mobilise to cover State expenditure, together with the social pressure to improve the services of critical sectors such as health and education - which are facing serious crises - could compromise the ability to service Mozambique’s public debt. Given this context, it is to be expected that the Government will be forced to restructure the public debt service to guarantee the country’s financial sustainability.

**1.3 Risk of downgrading the Sovereign Credit rating**

The worsening of political and social tensions, accompanied by demonstrations and instability, has damaged outside perceptions of the Government’s capacity to meet its financial obligations sustainably, given that the country may face difficulties in mobilising fiscal resources. These factors increase uncertainty and may lead to a significant deterioration in the classification of the country’s sovereign risk.

Deterioration in the classification of sovereign risk reduces the attractiveness of the country for foreign direct investment, which could compromise the projections of economic growth and limit the prospects for long term economic expansion. Without consistent flows of capital, the country may face additional challenges to stimulate the economy and strengthen its fiscal bases.

As a result, the country may find itself obliged to deal with an increase in the risk premium demanded by investors to finance its debt, which leads to higher interest rates on loans and a lesser willingness of creditors to grant credit. This may force the Government to resort to domestic indebtedness, worsening still further the already fragile fiscal situation.

The increase in the costs of finance and the lack of resources make it difficult to implement essential public policies, creating a cycle of economic and social instability. In this scenario, re-establishing the trust of investors becomes an urgent priority in order to reduce sovereign risk. To achieve this goal, concrete measures are necessary, such as stabilising the political environment, promoting economic reforms and guaranteeing more transparent and effective fiscal management.

<sup>8</sup> O País. (2024). Estados Unidos congela quase toda a assistência estrangeira. O País. Disponível em [31 de Janeiro de 2025], de <https://opais.co.mz/estados-unidos-congela-quase-toda-a-assistencia-estrangeira/>

## 1.4 Risk of the State business sector

The State Business Sector (SEE) displays a high potential to constitute fiscal risks, particularly with companies such as Mozambique Airlines (LAM), Mozambique Telecom (Tmcel) and Mozambique Airports (AdM). The poor financial performance of these companies represents a risk for the Public Finances, since they become candidates for financial inputs from the State, with little likelihood that they will be repaid.

According to the 2025 Fiscal Risks Report, the companies mentioned above have repeatedly recorded delays in paying domestic and foreign creditors. In 2023 they had accumulated a debt of approximately 3.95 billion MT.<sup>3</sup>

In a context of weak mobilisation of financial resources, these companies are forcing a diversion of resources from the State, which could have been used to attend to crucial sectors such as Health and Education.

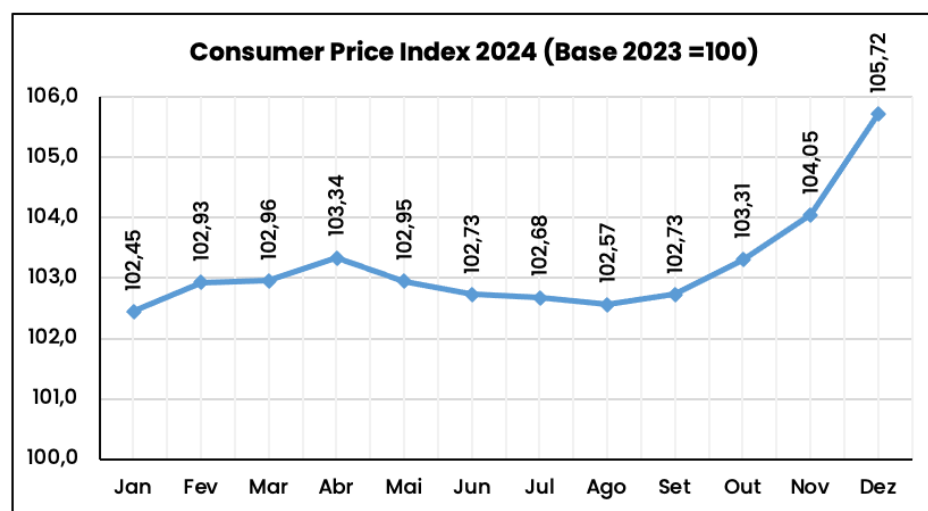
## 1.5 Risk of increase in the general level of prices

The post-election unrest in Mozambique has led to significant economic impacts, particularly rising prices, notably for foodstuffs, increasing the difficulties of the population.

The road blocks and damage to infrastructure have compromised the supply chain. They have increased transport costs, reduced imports and raised the final prices.

Data from the National Statistics Institute (INE) show that, in 2024, the level of prices remained relatively stable up until September, when an upwards trend began. Price increases became sharper in October, November and December, with rises of 0.56%, 0.72% and 1.60%, respectively.

**Graph No.3. Evolution of prices in 2024**



Source: INE.

According to the INE, foodstuffs and non-alcoholic drinks were the items mostly responsible for price rises, contributing approximately 1.16 percentage points out of an overall total of 1.60.

The accelerated rise in the general level of prices poses a significant risk for the Public Finances, by increasing the costs of state expenditure. Furthermore, it puts pressure on the Public Budget due to the need to expand social programmes, such as allowances for essential foodstuffs and for fuel, which could worsen the fiscal deficit.



## 1.6 Risk of depreciation of the metical

The political and social instability of the country may drive foreign investors away and reduce the supply of foreign currency, in a context of a weakened productive base and high dependence on imports, putting pressure on the exchange market.

In 2024 there were frequent complaints by commercial banks and businesspeople about the shortage of foreign exchange on the market, despite guarantees by the Bank of Mozambique that it was available. Despite the apparent shortage, exchange rates remained stable throughout the year. However, in November 2024, several commercial banks announced that they were limiting international transactions. This may suggest that exchange rate stability is being maintained administratively, which is unsustainable in the long term. This could lead to reduced intervention by the Bank of Mozambique on the exchange market. With the likely reduction, a scenario is expected in which the metical depreciates.

The depreciation of the metical has serious consequences for the Public Finances, with the increased cost of the foreign debt and of imports, particularly of fuel, medicines and grain. Considering that most of the public debt is foreign (63%), the devaluation of the metical raises the amount to be paid in foreign currency, expanding the fiscal deficit and reducing the resources available for priority areas, such as health, education and infrastructures,

Thus, the management of monetary/exchange policy will be crucial for the management of the Public Finances, requiring a delicate balance between the need to maintain macro-economic stability and the fiscal space to implement public policies that stimulate economic growth and social well-being. Measures such as strengthening international reserves, incentives to diversify exports and increasing the confidence of investors will be essential to mitigate the impacts of external and domestic shocks. Furthermore, efficient coordination between fiscal and monetary policies will be indispensable to minimise the negative effects of currency depreciation on the cost of the foreign debt and on the purchasing power of the public, while preserving the sustainability of the public accounts.

## SUMMARY OF RISKS, PROBABILITIES AND MEASURES OF MITIGATION

Risk	Probability	Justification	Measures of Mitigation
Restructuring of the public debt	High		Elimination of superfluous expenditure,
Downgrade of Sovereign Credit rating	High	Socio-political instability, slowdown in economic activity; high levels of indebtedness, economic vulnerabilities.	Creating conditions for political stability in the country
State business sector	High	LAM, ADM and TMCEL may need financial inputs	Reforms of the State Business Sector
Depreciation of the metical	Medium	Shortage of foreign currency	Reduce the rate of compulsory reserves
Increase in the general level of prices	High	Socio-political instability, shortage of goods on the market due to increased transport costs caused by blockades and destruction of roads and increased domestic fuel prices.	Creation of conditions for stability in the country

## 1.7 Conclusion

2025 could be an especially challenging year for the new government, which is taking the leadership with little popular legitimacy, in a scenario of political and social crisis which could worsen still further the situation of the Public Finances.

The low collection of revenue, combined with the need to implement popular policy measures, such as urgent improvements in the basic social sectors, particularly health and education, which are currently facing a deep crisis, could lead to still greater levels of indebtedness, which are already regarded as unsustainable.

Furthermore, it will be crucial for the Government to adopt measures to stimulate the private sector in order to drive its capacity to absorb the unemployed work force, given that the public sector is still operating under severe staff recruitment restrictions.

Institutions such as the International Monetary Fund (IMF) and the World Bank will continue to play a strategic role in the recovery of the Mozambican economy. Support will be through re-establishing foreign financial aid, interrupted for a period due to the scandal of the hidden debts. The IMF and the World Bank have provided financial support, promoting essential reforms and encouraging good governance. However, the country's success will depend fundamentally on the capacity of the Government to implement effective measures to consolidate the Public Finances and to face the persistent economic and social challenges.

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## 2. RISKS TO MONITOR IN THE EXTRACTIVE INDUSTRY IN 2025

2025 marks the start of the term of office of Daniel Chapo as President of Mozambique. His term is beginning in a disturbed political context. The election results were widely contested, resulting in violent demonstrations which added a significant level of uncertainty and risk to the political and economic environment of the country. Despite this, the forecast for economic growth for 2025 is 4.7%<sup>9</sup>. This scenario of political instability and economic optimism stresses the importance of monitoring the risks that can affect the extractive industry, a strategic sector for the growth and development of Mozambique.

The extractive industry in Mozambique plays a crucial role in the national economy. It is expected that its contribution to the GDP will increase from 10.6% in 2022, to 16%, in 2030<sup>10</sup>. According to data from the 3rd quarter of 2024, this sector accounted for approximately 55% of the total exports of the country.<sup>11</sup> The main resources extracted and exported include coal, with a weight of 25% of exports, natural gas (24%), heavy sands (5%) and rubies, sapphires and emeralds (1%). Furthermore, the extractive industry generates about 7% of formal jobs<sup>12</sup>, and is a vital source of employment and income for many communities.

### 2.1 Global trends and impacts on the extractive sector

The global conditions of 2025 will significantly influence the Mozambican extractive industry. The international prospects for 2025 indicate that the sector will be influenced by various global factors, as projected by institutions such as the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the World Economic Forum (WEF), and the United Nations (UN).

The IMF forecasts a post-pandemic global economic recovery, but with risks associated with inflation and the stability of the financial markets.<sup>13</sup> The World Bank stresses the importance of sustainability and of responsible environmental practices, envisaging greater international regulation of the extraction of natural resources.<sup>14</sup> The OECD warns of possible government interventions in fiscal and trade policies which may have a direct impact on raw material markets.<sup>15</sup> The WEF stresses the need for technological innovation and digitalisation to improve efficiency and reduce the environmental impact of the extractive industry.<sup>16</sup> The UN focuses on the need to achieve the Sustainable Development Goals (SDGs), by promoting responsible and equitable practices in the management of natural resources.<sup>17</sup>

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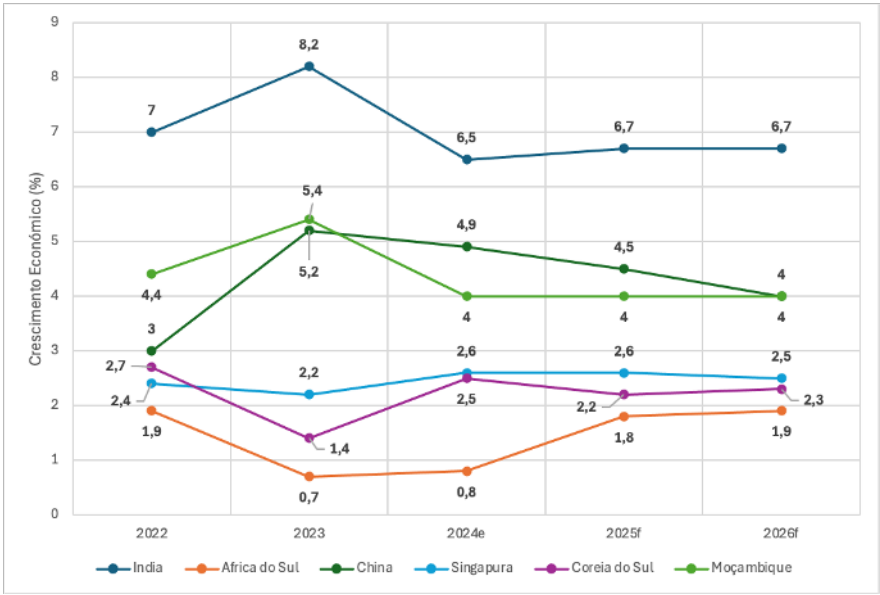
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## 2.2 Economic growth of the export destinations

The main destinations of Mozambique’s exports – India (natural gas, coal and cashew nuts), China (natural gas, heavy sands, oilseeds and coal), South Africa (electricity, natural gas, coal and bananas), Singapore (aluminium ingots, natural gas, tobacco, oilseeds and fruit), and South Korea (coal, natural gas, tobacco and aluminium wire)<sup>18</sup>, show heterogeneous economic trends for 2025, with a direct impact on the demand for Mozambique’s main extractive products. The graph below shows the growth expected for the main destinations of Mozambique’s exports.

**Graph No.1. Economic growth of the countries that are the main destinations of Mozambican exports (2022-2026)**



Source: World Bank. (2025)

The graph above shows that, with a robust growth of 6.7%, forecast for 2025, India will remain a promising market for exports of natural gas, and coal, and agricultural products such as cashew nuts. India’s dependence on natural gas strengthens the strategic position of Mozambique as a supplier. Despite projected growth of only 1.8%, geographical proximity and trade agreements favour continued exports of electricity, natural gas and coal to South Africa.

The graph also shows that China’s economic growth will slow down to 4.5%, influenced by internal structural adjustments.<sup>19</sup> This scenario can reduce the demand for heavy sands and coal, but natural gas remains relevant given the global energy transition. Singapore and South Korea are forecast to have moderate growth rates of 2.6% and 2.2%, respectively. The demand for aluminium ingots and coal should remain stable, while tobacco and aluminium wire may face market fluctuations.

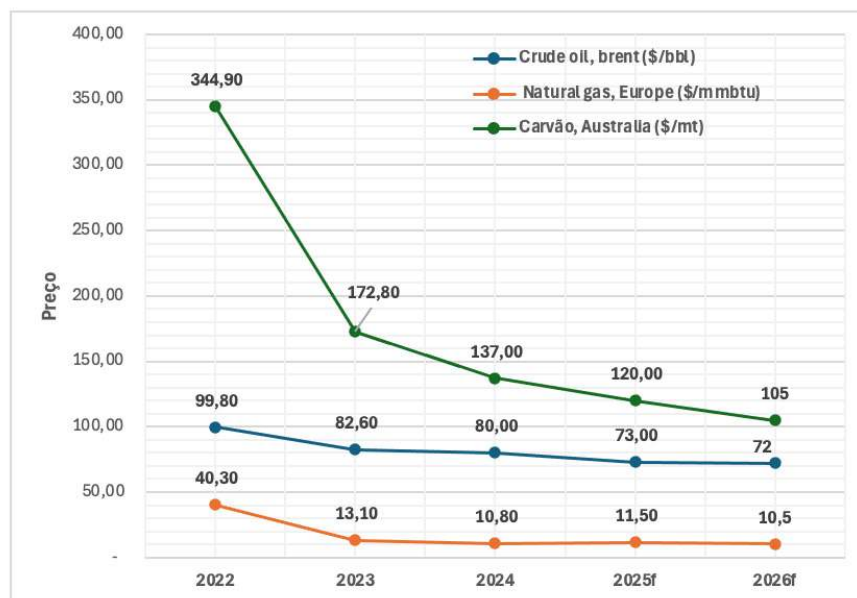
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## 2.3 Prices of the main export products

The international prices of the main products extracted in Mozambique, namely coal and natural gas<sup>20</sup>, are tending to fall in 2025. See the graph below.

Graph 2: Prices of Mozambique's main extractive products (2022-2026)



Source: World Bank. Commodity Markets (2025)

The above graph shows a forecast reduction in the price of coal to USD 120/tonne, with a negative impact on export income. Coal accounts for 25% of the country's total exports. It also shows a stabilisation of the price of natural gas at USD 11.5/mmbtu<sup>21</sup> for the European market, which may be positive considering the resumption of demand and the importance of this product for Mozambique's exports. It accounts for about 24% of total exports.

Crude oil, a product used as a reference for the price of several other products, has fallen to USD 73/barrel. Although petroleum is not a significant export product for Mozambique, the fall in its price could have an indirect impact on the economy. The reduction in petroleum prices could reduce the costs of importing petroleum derivatives, such as petrol and diesel, which could benefit sectors such as transport and agriculture, by reducing operational costs and potentially stimulating economic growth.

Furthermore, the stabilisation of the price of natural gas, at USD 11.5/mmbtu, is crucial for Mozambique given the growing weight of this product in the country's exports. The stable demand for natural gas in Europe could guarantee consistent revenue for Mozambique, helping to balance the public finances and to promote investments in infrastructures and social development.

<sup>20</sup> Incluído devido a sua importância e relação na formação dos preços dos outros produtos

<sup>21</sup> mmbtu significa "milhão de unidades térmicas britânicas" (million British thermal units), uma medida de energia usada principalmente para descrever a quantidade de energia no gás natural.



## 2.4 Economic and political challenges

The projections from the CFMP (2025-2027)<sup>22</sup> indicate a GDP growth rate of 4.7% in 2025, slightly higher than the estimate made by international institutions such as the World Bank, but lower than the rate projected for 2024, which is 5.5%. For 2026, a lower growth rate than in 2025 is forecast, followed by a recovery in 2027, when growth should reach 5.8%.

Despite these projections, which indicate moderate economic growth, the new Government will face at least three significant challenges, namely: i) it is inheriting a bankrupt State; ii) part of the commercial and industrial fabric has been destroyed, due to the unrest, which reduces the potential for collecting State revenue and increases the level of unemployment; and iii) a deficit of legitimacy, arising from the contested election results, which could generate political and social instability, making governance difficult. These challenges could impact in various ways on the extractive sector which has played a crucial role in the Mozambican economy.

According to the National Statistics Institute (INE)<sup>23</sup>, the weight of the extractive sector in the GDP was 15.88% in 2023, and 15.72%, up to the third quarter of 2024. These numbers reflect the relative importance of the sector in the composition of the national economy.

Furthermore, data from the CFMP (2025-2027) underline performance in terms of the real growth of the sector. In 2022, the sector grew significantly, registering a growth rate of 9%, driven by the increase in production of minerals such as gold, rutile and coking coal. In 2023, the sector's growth rate jumped to 34%, reflecting the post-pandemic economic recovery and the resumption of investments. For 2024, still greater growth is projected, of 41.8%, sustained by strategic projects such as Coral Sul and the potential resumption of the ExxonMobil project (which has not happened).

As from 2025, according to the CFMP (2025-2027), the sector should grow at a projected rate of 18.6%. In 2026, a reduction is forecast to 7.6%, due to challenges in attracting new investments and the need for regulatory reforms. In 2027, the sector should register a moderate recovery, with growth of 11.7%, driven by new projects and improvements in the infrastructure and regulation.

However, the post-election unrest has had a direct impact on the heavy sands industry in Nampula and the gas sector in Inhambane. The stoppages and political instability resulted in significant losses for the economy, affecting the confidence of investors and delaying the projects under way.<sup>24</sup>

Despite these challenges, there are positive signs for the future of the natural gas sector in Mozambique. The possible resumption of the TotalEnergies project in Area 1<sup>25</sup>, as well as the Final Investment Decision (FID) of ExxonMobil for Area 4 of the Rovuma Basin, forecast for 2026<sup>26</sup>, are important landmarks. Furthermore, the likely FID of TotalEnergies for a new terminal to import liquefied natural gas (LNG) in the Port of Matola, budgeted at USD 550 million, is expected by September 2025<sup>27</sup>, bringing promising prospects for the sector. The Coral Norte project, currently at the consulting stage, could also see its Final Investment Decision in 2025<sup>28</sup>, consolidating Mozambique as a relevant actor in the natural gas market.

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## 2.5 Inaugural speech of Daniel Chapo shows gaps and points to improvement in the extractive sector

The speech of Daniel Chapo, the new President of the Republic, stressed the importance of reforms in the extractive industry to promote transparency and attract investments, promising a “new era” for Mozambique focused on social inclusion, the fight against corruption and the modernisation of the sector. Although an inaugural speech, by its nature, does not allow the inclusion of operational details, it is essential that these initiatives be translated into clear and detailed strategies in the Government’s Five Year Plan (PQG) for 2025-2029, otherwise they remain just vague promises incapable of facing the structural challenges of the sector.

Among the commitments undertaken, the transformation of the National Institute of Mines (INAMI) into a Mining Promotion Agency is an ambitious proposal. However, it is indispensable that the PQG 2025-2029 should outline how the financial resources, allowances and fiscal incentives will be allocated to guarantee the modernisation and strengthening of the Small and Medium Enterprises (SMEs) and mining associations. Without these explanations, the initiative may not achieve the expected results, thus compromising innovation and the competitiveness of the sector.

A further critical aspect is the creation of a specialist regulatory body which, although it is an advance for the governance of the sector, raises doubts about its integration with the Mining Promotion Agency and other relevant bodies, such as the Ministry of Mineral Resources and Energy. The PQG should deal explicitly with inter-institutional coordination to avoid overlapping functions and inefficiencies that might discourage new investments.

The speech also left important gaps regarding inclusion and local development. Questions such as local content policy, the allocation of royalties, job creation and building the capacity of communities were not detailed. The PQG needs to guarantee that these themes are prioritised, given their direct impact on the people who live alongside the mining operations. The lack of concrete measures in this regard could strengthen inequalities and limit the social benefits generated by the sector.

Furthermore, the creation of a Petroleum Sector Transparency Forum is a positive initiative, but the effectiveness of this mechanism will depend on how it is made operational. The inclusion of local communities and of civil society organisations in the forum should be a priority in the PQG to ensure that it operates as a legitimate participation and monitoring platform.

Finally, support for artisanal mining, crucial for the subsistence of much of the population, was treated in a superficial manner. Formalising and regulating this segment is fundamental for reducing illegal practices and including the artisanal miners into the formal economy. Without a structured approach, the sector will continue facing challenges of sustainability and inclusion.

Although Chapo’s speech is a promising beginning, trusting only in declared intentions without expressing these promises in specific actions in the PQG may limit the expected positive impact. The risk of depending only on a speech is the maintenance of the *status quo*, perpetuating the inequalities and the structural challenges. However, with the inclusion of specific plans, measurable targets and clear monitoring mechanisms, the reforms proposed have the potential to transform the extractive sector into a sustainable and inclusive engine of development.

## 2.6 Main risks to monitor

Monitoring risks in the extractive industry is essential to mitigate negative impacts and take advantage of opportunities. The main risks to consider in 2025 are listed in the table below, alongside proposals for measures of mitigation.

Table 1: Table of Risks, Probabilities and Measures of Mitigation

Risk	Probability	Justification	Measures of Mitigation
<b>Political instability</b>	High	Tumultuous post-election scenario and violent protests	Inclusive political dialogue and institutional reforms.
<b>Volatility of commodity prices</b>	High	Fluctuations in the global commodity markets with projected falls in the price of coal and natural gas	Diversification of markets and guarantee greater local aggregate value
<b>Stricter environmental regulation</b>	Medium	Increase in international environmental requirements for sustainable practices	Alignment with international standards and implementation of sustainable extraction practices and clean technologies
<b>Lack of infrastructures</b>	High	Inadequate infrastructures for supporting industrial operations.	Invest in infrastructures and public-private partnerships.
<b>Economic instability</b>	High	Inflation and devaluation of the currency.	Strict monetary and fiscal policies and attraction of foreign investment.
<b>Dependence on a few export markets</b>	High	Concentration on markets such as India and China	Strategy of geographical diversification of exports
<b>Community conflicts</b>	Medium	History of bad practices in resettlement and insufficient compensation	Implementation of fair resettlement practices and transparency

The most critical risks are political instability and price volatility. The mitigation of these risks requires combined strategies, including the strengthening of public institutions, the promotion of dialogue between stakeholders, and economic diversification. Furthermore, the dependence on specific markets and the environmental challenges require long term efforts, such as technological innovation and adhesion to global undertakings.

In conclusion, the Mozambican extractive sector faces a challenging future, with 2025 promising to be a year of great contrasts. On the one hand, there are signs of economic optimism with projected growth of 4.7% and the expectation of continued expansion of the sector. On the other hand, political instability and global risks, such as falling commodity prices and changes in the international markets, pose significant threats.

Furthermore, the country remains highly dependent on foreign markets such as India, China and South Africa, and faces challenges in diversifying its economy and improving the sustainability of its extractive operations. The fluctuations in the prices of coal and natural gas, key export products, underline the economic vulnerability and the urgent need for strategic planning and economic resilience.

Hence, 2025 is not just a year of risks, but also an opportunity to re-assess the role of the extractive industry in sustainable development and in the structural transformation of the Mozambican economy.

## 2.7 Recommendations

Recommendation	Implementation suggestion
1. Prioritise local industrialisation and economic diversification	<ul style="list-style-type: none"> <li>- Revise the fiscal legislation to create incentives for local industrialisation.</li> <li>- Establish transparent criteria for granting incentives and creating funds for priority productive chains.</li> <li>- Hold independent annual audits to assess the effectiveness of the incentives.</li> <li>- Publish reports on the benefits granted and the results achieved.</li> <li>- Set up committees with civil society and the private sector for monitoring and regular adjustments.</li> </ul>
2. Strengthen environmental regulations aligned with the SDGs	<ul style="list-style-type: none"> <li>- Update the regulatory framework with specific targets for reducing environmental impacts.</li> <li>- Demand annual environmental audits and publish them for public consultation.</li> <li>- Include strict environmental clauses in the mining contracts and enforce sanctions in the event of non-compliance.</li> <li>- Guarantee that the companies publish annual environmental impact reports accessible to all interested parties.</li> </ul>
3. Establish effective dispute resolution mechanisms	<ul style="list-style-type: none"> <li>- Set up specialist sections in the courts to deal with disputes in the mining sector.</li> <li>- Set up local arbitration centres with skilled mediators.</li> <li>- Train professionals in the judicial sector in matters related with mining and the environment.</li> <li>- Develop digital platforms for tracking and for transparency in the settling of disputes.</li> </ul>
4. Explore new markets for extractive products	<ul style="list-style-type: none"> <li>- Set up a body dedicated to promoting exports of strategic products.</li> <li>- Hold market studies to identify new opportunities related to the energy transition.</li> <li>- Form commercial partnerships with countries interested in green and renewable minerals.</li> <li>- Participate in fairs and international events to diversify buyers.</li> </ul>
5. Make use of trends in digitalisation and technology	<ul style="list-style-type: none"> <li>- Introduce technologies for tracking and automation of processes in the extractive sector.</li> <li>- Set up technological innovation centres with public-private financing.</li> <li>- Undertake technical training programmes for workers in emerging technologies.</li> </ul>
6. Promote a fairer share of the economic benefits	<ul style="list-style-type: none"> <li>- Review and improve the mechanisms for the management and monitoring of funds intended for communities, guaranteeing greater transparency and efficiency.</li> <li>- Set up a transparency committee consisting of representatives of the Government, local communities and civil society to audit and divulge the use of resources.</li> <li>- Establish digital systems to track the allocation and use of funds.</li> <li>- Hold regular consultations with beneficiary communities to prioritise investments in critical areas, such as health, education and infrastructures.</li> <li>- Train the communities to participate in an informed way in the planning and monitoring of investments.</li> </ul>
7. Set up a technical group to monitor global risks and opportunities	<ul style="list-style-type: none"> <li>- Train a multi-disciplinary technical group with representatives of the government, the private sector, academics and civil society.</li> <li>- Write quarterly reports about global trends and their application in the national context.</li> <li>- Set up international partnerships to exchange information about markets and technologies.</li> <li>- Hold regular workshops to disseminate information to the stakeholders of the sector.</li> </ul>

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### 3. RISKS TO MONITOR IN THE AREA OF PUBLIC CONTRACTING IN 2025

The process of public acquisitions is constantly exposed to risks of corruption due to the large sums involved in the transactions. In Mozambique, at least 33% of the country's public expenditure, equivalent to 15% of the GDP, is destined for the acquisition of goods and services and to hire public works contractors<sup>29</sup>.

The context of the start of a cycle of governance suggests reforms in the public administration. In the area of public contracting, the planned reforms may increase the risk of the emergence of new actors in businesses involving the state, some of them linked to the new political elite in power, as has happened in all processes of political transition.

Not only is this year the start of a cycle of governance, but during 2025 infrastructures destroyed during the post-election unrest may be rehabilitated. Implementation of these jobs favours high risks of corruption in public procurement through the abusive use of direct awards of contracts with values above the market average and involving trafficking of influence. These jobs could be of low quality without those involved being held accountable.

Given the risks presented throughout this section, it is fundamental to strengthen the principles of transparency and integrity in the use of public so that the goods and services purchased by the State bring benefits to the collective.

#### 3.1 Risks of entry into the game of new players in public contracting

The arrival of a new government represents the entry into play of new actors. It has been the practice that, in this period, emerging business people arise and consequently others who had previously dominated State business, collapse. This was the case in the governance transition from Joaquim Chissano to Armando Guebuza and from Armando Guebuza to Filipe Nyusi.

Under the governance of Armando Guebuza, businesspeople such as Celso Correia, Salimo Abdula, Silvestre Bila and Fernando Sumbana became preponderant, and some were used as front men by Armando Guebuza.

In 2007, Celso Correia, regarded as a frontman of Armando Guebuza, headed the Insitec group, which held 18.1% of the shares of the Commercial and Investment Bank (BCI). Insitec made viable the purchase of the shares in Hidroelétrica da Cahora Bassa during the governance of Armando Guebuza<sup>30</sup>.

At the same time, the businessman Salimo Abdula, who also became prominent in the era of Armando Guebuza, was associated with strategic telecommunications projects through the company Intelec which at the time (2007) acquired 5% of the shares of Vodacom, which came to monopolise the mobile telephony market to the detriment of the mCel public network<sup>31</sup>.

During the governance of Filipe Nyusi new actors in State businesses came to the fore. Most of them were of Asian origin, such as the Indian businessman Joseph Parayanken. He is a figure linked to the company Moçambique Holdings Limited (MHL, Lda) and to the former Minister in the President's Office for civil matters, Constantino Bacela. MHL, Lda became the main supplier to the State of vehicles of the Mahindra brand<sup>32</sup>.

29 World Bank Group & DFID (2020). MOZAMBIQUE: Assessment of the Public Procurement System, Main Report. Disponível em: <https://openknowledge.worldbank.org/bitstream/handle/10986/35388/Main-Report.pdf?sequence=1>. [acessado em 15. 01. 2025]

30 @Verdade (30. 09. 2016) "Ministro Celso Correia deve 60 milhões de euros a banca portuguesa relacionados com a reversão de Cahora Bassa". Disponível em : <https://verdade.co.mz/ministro-celso-correia-deve-60-milhoes-de-euros-a-banca-portuguesa-relacionados-com-a-reversao-de-cahora-bassa/> . [acessado em 24. 02. 2025]

31 Reflectindo (31. 10. 2016) "Império empresarial de Guebuza". Disponível em: <https://comunidadeemocambicana.blogspot.com/2016/11/imperio-empresarial-de-guebuza-expande.html> . [acessado em 25.01.2025]

32 Camaramen (23. 08. 2023) "Ministro da Presidência, Constantino Bacela em estreia no negócio lucrativo as eleições". Disponível em: <https://camaramen.co.mz/5052/ministro-da-presidencia-constantino-bacela-em-estreia-no-negocio-lucrativo-das-eleicoes-cip/>. [acessado em 27. 01. 2025].



Faced with this risk, it is important to monitor the change of players in public contracting, particularly in a country where the exercise of politics is used as capital to enter and rise in the world of private business. It is also fundamental to create a data base, available to the public at large, of all suppliers to the State so as to detect conflicts of interest or trafficking in influence right at the start of the selection process for each public contract .

## **3.2 Risk of restructuring the Acquisition Management Implementation Units**

Among the measures announced by Daniel Chapo, on 14 January 2025, to fight against corruption in public procurement, to guarantee the quality of the services offered, and to contain the costs, is the creation of a State Acquisitions Centre, to replace the UGEAs.

The terms of reference are not yet known, but the creation of the State Acquisitions Centre could mean the existence of a single body responsible for purchases – that is, that purchases by all State institutions should be sent, reviewed and approved by this central unit.

The existence of a single purchasing centre may constitute a risk in that not only could it centralise the control of acquisitions in the person of the President of the Republic, but it could also slow down the acquisition of goods and services, particularly affecting the supply of public services in useful time.

The centralisation of purchases may also drive local suppliers (small and medium enterprises) into bankruptcy to the benefit of the large companies, who hold greater market power, and of those that operate with some political influence.

Furthermore, the system of centralising purchases could lead to conflicts between the local governments (consumer units) and the central government (unit responsible for purchases). This model of purchases could reduce the autonomy of local governments to acquire the goods and services they need, and this could endanger compliance with local governance plans and accountability. It might also have a negative impact on the decentralisation currently under way which presupposes the fiscal autonomy of local governments.

To mitigate this risk, it is essential to guarantee transparency in all phases of purchasing, in order to avoid irregularities. This may mean the need to strengthen mechanisms to consult the public bodies directly affected to better attend to their specific demands.

## **3.3 Risk of abuse of direct awards**

The start of the activities of the public administration, mainly in education, justice and public security, makes it indispensable to rehabilitate the infrastructures destroyed during the post-election protests. Given the urgency to conclude these jobs, there is a risk that the government will opt for direct awards as the form of hiring contractors. Although the law does envisage direct awards, particularly during emergencies and in periods of serious disturbances of public order, opting for this modality may constitute a risk of a lack of integrity in public contracting due to an environment that is favourable to corrupt practices.

Experience shows that in Mozambique the context of emergency has favoured diversion and the undue use of funds, and corruption, partly due to relaxing inspection and monitoring mechanisms.

As found by CIP (2020), between March 2020 and August 2020, MISAU spent 3.32 billion meticaïs in at least 110 cases of contracting by direct award to respond to the situation of COVID 19, because the Government had

established that an exceptional regime of public contracting should be used <sup>33</sup>.

According to the Ministry of Economy and Finance (2022), data from the audit of the MISAU contracts undertaken by the Administrative Tribunal and the General Inspectorate of Finance indicate that during implementation of the projects irregularities were registered concerning contracts not sent for prior inspection, contracts beyond their deadlines with 50% of the work done, approval of poor quality jobs, and diversion of funds<sup>34</sup>.

Furthermore, contracts awarded directly increase the risk of conflicts of interest in that the relevant authority has full powers to select the companies. It may choose them without benefitting the public interest. Contracts worth millions may be awarded to companies owned by businesspeople linked to the government of the day and to public servants who work for the contracting body, some of whom have no proven experience.

### 3.4 Risks of overinvoicing, poor quality of work done and lack of responsibility

A further risk associated with the rehabilitation of the infrastructures destroyed during the post-election unrest, particularly using direct awards as the form of contracting, concerns the poor quality and growing costs of the jobs, worsened by the lack of responsibility of the contractors due to relaxing the public procurement procedures, associated with the weakness of control mechanisms.

In contracts awarded directly, the suppliers do not merely tend to increase the prices of goods and services, but they also have no incentives to comply with the quality standards demanded in the goods and services to be provided, because of the lack of competition. This fact is recurrent.

According to CIP and CMI (2016), in the case of the work on the Maputo Ring Road, where there was no public tender to select the company, the price of the job (USD 5 million/km) was about twice the real minimum market cost (USD 2.5 million/km). Furthermore, the quality of this motorway was far below the standard required<sup>35</sup>.

To mitigate the risks associated with the rehabilitation of infrastructures destroyed during the post-election unrest, it is fundamental that the Government avoid direct awards and use open public tenders. Likewise, it should strengthen mechanisms to inspect the contracts and hold contractors responsible for the poor quality of the services provided.

### 3.5 Risks associated with public-private partnership contracts

In a year at the start of the term of office, and when the outgoing government has left empty coffers for the new government, worsening the already defective capacity for management and investment in public infrastructures, there is a high risk of transferring public companies in a low income situation to private management. Some of the companies farmed out may be linked to figures in the Frelimo Party.

According to data from the report of the Ministry of Economy and Finance on the fiscal risks for 2025, the Mozambican State disbursed 3,700 million meticaïs, from 2020 to 2023, to salvage financially the companies Airports of Mozambique and Mozambique Airlines<sup>36</sup>.

Despite the intervention of the State to keep the operations of these companies going, their operations have been characterised by high indebtedness and bad operational results. The conditions that characterise the operations of

33 CIP (16. 08. 2020) “Regime excepcional de contratação da Covid-19 acarreta altos riscos de corrupção”. Disponível em: <https://www.cipmoz.org/pt/2020/08/16/regime-excepcional-de-contratacao-publica-no-contexto-da-covid-19-acarreta-altos-riscos-de-corruptcao/> [acessado em 24.01.2025]

34 Ministério da Economia e Finanças (2022). “Relatório de monitoria da execução financeira e física dos fundos alocados em resposta à crise da Covid-19 em Moçambique”.

35 CIP & CMI (2016) “The costs of corruption to the Mozambican economy: Why it is important to fight corruption in a climate of fiscal fragility”. Disponível em: <https://www.cmi.no/publications/file/6027-the-costs-of-corruption-to-the-mozambican-economy.pdf> [acessado a 06.02.2025]

36 Ministério da Economia e Finanças (2024). “Relatório de Riscos Fiscais – 2025”.

many of the companies of the State Business Sector could be used by the Government to justify farming them out to private business.

The non-transparent way in which public-private partnership contracts are established creates opportunities for corruption and could make the agreements advantageous for the government. Hence, greater scrutiny is needed of the relations between the public and the private so that they bring benefits to the collective.

### 3.6 Conclusion

During this year, we may witness not only struggles for control of the bodies that manage procurement but also massive awards to new companies of the emerging business and political elite, which is a situation typical of the start of the term of office of a new Government.

The proposal for a new State Acquisitions Centre could mean the centralisation or concentration of the processes to award contracts and of clientelism in the figure of the Head of State. This is a mechanism via which companies of people close to the President may obtain gains through the manipulation of public tenders.

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## 4. RISKS TO MONITOR IN THE PRIVATE SECTOR<sup>37</sup>

The Mozambican private sector plays a central role in the national economy, covering about 90% of the formal companies, and making a significant contribution to the Gross Domestic Product (GDP). However, its sustainability is threatened by factors such as political instability, corruption, excessive red tape, limited access to credit and vulnerability to external shocks. In the commercial sector, which includes the import and export of footwear, vehicles, oilseeds, and second hand clothing, among others, the high logistical costs, the exchange oscillations, and the regulatory uncertainty reduce the competitiveness of local companies, creating barriers to the growth of micro, small and medium enterprises (MPMEs). In the extractive industry, the lack of regulatory predictability, and lack of security in some regions, make it difficult to attract foreign investment, resulting in the stagnation of projects essential for the economic development of the country. The exploitation of timber faces structural challenges which include illegal logging, difficulties in tracking products and the need for certification to gain access to the demanding international markets.

Corruption remains one of the main obstacles to the sustainable growth of these sectors, as shown by the study “Os Custos da Corrupção para a Economia Moçambicana”<sup>38</sup>. Illicit practices in obtaining licences, fiscal frauds and manipulation of import processes, raise operational costs and reduce the confidence of investors. In the extractive sector, the lack of transparency in concession and exploitation contracts compromises the sustainability of the industry and limits the benefits for local communities. For its part, forestry exploitation is particularly vulnerable to illegal logging, facilitated by networks of corruption which involve private companies and public actors, prejudicing the access of Mozambican timber to regulated international markets<sup>39</sup>.

The Business Enabling Environment (BEE), introduced by the World Bank to replace Doing Business, provides a comprehensive analysis of the business environment in Mozambique, stressing the need for structural reforms to reduce red tape, improve transparency and strengthen the regulatory institutions. Based on the most recent BEE metrics, it is expected that the sectors of trade, the extractive industry, and timber will continue to face critical challenges in 2025 due to the volatility of the Metical, the increase in import costs and the devaluation of national assets. According to the forecasts of the BdM<sup>40</sup>, GDP per capita could fall from US\$ 646 in 2023, to about US\$ 598 in 2025, reflecting a lengthy period of economic stagnation and an increase in poverty.

Given this scenario, the present analysis examines the challenges and the opportunities in the sectors of trade, the extractive industry and timber, dealing with the risks associated with economic austerity, the retraction of domestic demand and political instability. Strategies will be discussed to mitigate the negative impacts of corruption and regulatory inefficiencies, based on the recommendations of the BEE, BdM, World Bank and IMF. By promoting a more predictable and transparent business environment, Mozambique can strengthen economic resilience and guarantee sustainable and inclusive growth for the country's productive sectors.

37 Nota: A escolha das áreas de comércio, indústria extractiva e exploração da madeira como foco desta secção é estratégica e de carácter piloto, alinhando-se com a introdução desse pilar no novo plano estratégico. Essas áreas foram seleccionadas devido ao seu impacto directo na economia moçambicana e à necessidade de aprimorar a governação, a transparência e a competitividade nesses sectores-chave.

38 Centro de Integridade Pública (CIP), Chr. Michelsen Institute (CMI), & U4 - Anti-Corruption Resource Centre. (2016). Os custos da corrupção para a economia moçambicana: Por quê é que é importante combater a corrupção num clima de fragilidade fiscal. Maputo, Moçambique: CIP. Disponível em <http://www.cip.org.mz/>, Acessado a 12/02/2025, às 0630hrs.

39 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs.

40 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024. Disponível em: <https://www.bancomoc.mz> . Acessado a 20 de Janeiro de 2025, às 06:34hrs

## 4.1 Risk of Economic Austerity and Reduction in Domestic Demand

The Mozambican economy faced severe fiscal restrictions in 2024, worsened by the global slowdown and by commodity volatility, resulting in the slowdown of domestic consumption, which represents 55.8% of the GDP, and in the reduction of real household income<sup>41</sup>. The austerity policies to contain the physical deficit have impacted particularly on the urban areas and the MPMEs, who are suffering from restricted access to credit, a fall in demand and high operational costs, which may lead to the closure of up to 22% of these companies in urban and peri-urban areas. The economic contraction could reduce per capita GDP from US\$ 646, in 2023, to US\$ 598, in 2025<sup>42</sup>, increasing poverty and financial instability. Given the high likelihood of widespread bankruptcy, it is essential to implement subsidised lines of credit, extend fiscal deadlines and strengthen business capacity building programmes. The creation of emergency funds, allied to the reduction in red tape and incentives for transparency, will be determinant for avoiding an economic collapse in the private sector and preserving the competitiveness of the MPMEs.

Currency devaluation and the policies of economic austerity represent a significant risk for the trade sector in Mozambique. This devaluation has direct impacts on the import of essential goods, such as footwear, vehicles, second hand clothing, and oilseeds, among others. The continual depreciation of the Metical increases import costs, reducing the purchasing power of consumers and making these products less accessible to the population. The contraction of demand could lead to the closure of several MPMEs<sup>43</sup>. The BEE states that high levels of red tape in customs procedures and the lack of economic predictability are compromising the attractiveness of the commercial sector for investors, making long term sustainability difficult.<sup>44</sup> Furthermore, the corruption in the customs service is becoming worse given the economic difficulties with practices such as bribery to speed up customs clearance, and manipulation of invoices to reduce import tariffs, creating an environment of unfair competition<sup>45</sup>. Informality could grow significantly insofar as the high costs of formal trade make the operations of the MPMEs non-viable, pushing economic activity into illegal circuits and reducing tax collection<sup>46</sup>. To mitigate these risks, it is essential to implement structural reforms, such as the digitalisation of customs procedures, strengthening inspection and creating fiscal incentives for companies which operate within the standards of transparency and regulatory conformity, guaranteeing greater predictability for the commercial sector and reducing its vulnerability to exchange volatility and to market distortions.

The Mozambican extractive industry, particularly the SMEs operating in the sector, faces a medium to high risk arising from the devaluation of the Metical and the retraction of the global demand for natural resources. These are factors which increase operational costs and reduce the competitiveness of mineral exports. Inflation raises the prices of imported equipment, inputs and technologies, which are essential for the mining and exploitation of hydrocarbons. This compromises the viability of small operators and increases their dependence on foreign credit<sup>47</sup>. The volatility of commodity prices increases uncertainty in the sector, reducing the flow of Foreign Direct Investment (FDI), and leading to delaying or cancelling large scale projects, such as the TotalEnergies mega-project in Cabo Delgado, the resumption of which depends on more stable economic and political conditions<sup>48</sup>. Furthermore, corruption in the sector might worsen with the economic crisis, favouring practices such as the under-invoicing of exports, tax evasion, and illegal concessions granted to politically connected companies, undermining tax collection and the competitiveness of local SMEs<sup>49</sup>. To mitigate these risks, it is urgent to digitalise export procedures, undertake independent audits and strengthen transparency in the management of royalties and concession contracts, thus ensuring a more stable and attractive business environment for sustainable investments in the extractive sector.

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45 Centro de Integridade Pública (CIP), Chr. Michelsen Institute (CMI), & U4 - Anti-Corruption Resource Centre. (2016). Os custos da corrupção para a economia moçambicana: Por que é que é importante combater a corrupção num clima de fragilidade fiscal, p. 47. Maputo, Moçambique: CIP. Disponível em <http://www.cip.org.mz/>, Acessado a 12/02/2025, às 06:30hrs

46 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024, p. 56. Disponível em: <https://www.bancomoc.mz>. Acessado a 20 de Janeiro de 2025, às 06:34hrs

47 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024, p. 37. Disponível em: <https://www.bancomoc.mz>. Acessado a 20 de Janeiro de 2025, às 06:34hrs

48 Centro de Integridade Pública (CIP), Chr. Michelsen Institute (CMI), & U4 - Anti-Corruption Resource Centre. (2016). Os custos da corrupção para a economia moçambicana: Por que é que é importante combater a corrupção num clima de fragilidade fiscal, p. 63. Maputo, Moçambique: CIP. Disponível em <http://www.cip.org.mz/>, Acessado em 12/02/2025, às 0630hrs

49 Idem, p. 82.



Timber exploitation in Mozambique faces a high risk due to currency devaluation, an increase in operational costs and the lack of effective regulation. This compromises both the economic viability of the MPMEs of the sector and the environmental conformity demanded by the international markets<sup>50</sup>. Inflation raises the price of essential inputs, such as imported machinery and tools, reducing the competitiveness of the companies that operate legally, and making it difficult to implement sustainable practices<sup>51</sup>. The fall in the global demand for certified timber may lead exporters to look for less demanding markets in terms of environmental conformity, thus increasing the risk of commercial sanctions from the EU and the USA who have strict restrictions against timber that does not have adequate tracking<sup>52</sup>. At the same time, the pressure on operational costs may encourage illegal logging and the falsification of certificates, widening the performance of criminal networks that exploit the regulatory failings to export timber in an irregular manner, undermining tax collection and damaging formal companies<sup>53</sup>. Corruption in the timber sector tends to worsen in times of economic crisis, and is expressed in the irregular issuing of logging licences, under-invoicing of exports and connivance of environmental inspectors with illicit practices. To mitigate these risks, it is essential to strengthen the systems of digital tracking of timber, to step up independent audits and adopt tougher sanctions against illegal activities, as well as promoting incentives for sustainable exploitation and reforestation to guarantee the competitiveness of the sector in the long term.

## 4.2 Risk of devaluation of the Metical and Increase in Import Costs

In 2024, Mozambique faced significant challenges with the devaluation of the Metical, which has oscillated around 1 USD  $\approx$  65 MZN<sup>54</sup>. This scenario has impacted severely on the sectors of trade, the extractive industry and timber, by making it more expensive to import essential inputs and putting pressure on operational costs. The high dependence on imported goods, such as vehicles, footwear, second hand clothes, and oilseeds among others, exposes the traders to significant price increases, reducing the competitiveness of the MPMEs and affecting the purchasing power of consumers.

In the commercial sector, the devaluation of the Metical represents a high risk for the MPMEs which operate in the import and export of footwear, vehicles, oilseeds, and second hand clothes, among others, because it significantly increases operational costs, reducing the competitiveness and financial viability of these businesses<sup>55</sup>. The theory of exchange rates and inflation explains that the depreciation of the national currency increases the cost of imports, pushing up inflation and putting pressure on domestic consumption<sup>56</sup>. The BEE stresses that unstable macroeconomic environments discourage investment and intensify commercial barriers, creating a scenario of uncertainty for entrepreneurs and investors<sup>57</sup>. In Mozambique, where the economy is highly dependent on imported goods, keeping inflation at above 11% in 2025 could compromise still further the purchasing power of the public and reduce demand for goods marketed by the MPMEs<sup>58</sup>. Furthermore, excessive red tape and inefficiency in customs procedures favour corruption, expressed in under-invoicing imports, manipulating invoices and charging fees for clearing merchandise, which distorts competition and worsens tax evasion<sup>59</sup>. Without urgent reforms to stabilise the exchange rate, without digitalising customs procedures and strengthening inspection against illicit practices, there is a **high** probability that this risk will occur in 2025. It could result in the growth of informal trade, in worsening speculation about the Metical and in widening inequalities in the commercial sector.

50 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 56. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

51 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024, p. 42. Disponível em: <https://www.bancomoc.mz>. Acessado a 20 de Janeiro de 2025, às 06:34hrs

52 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 77. Disponível em <http://pubs.iied.org/13592PIIED>. Acessado a 14/02/2025, às 12:34hrs.

53 Centro de Integridade Pública (CIP), Chr. Michelsen Institute (CMI), & U4 - Anti-Corruption Resource Centre. (2016). Os custos da corrupção para a economia moçambicana: Por que é que é importante combater a corrupção num clima de fragilidade fiscal, p. 91. Maputo, Moçambique: CIP. Disponível em <http://www.cip.org.mz/>, Acessado a 12/02/2025, às 06:30hrs

54 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024. Disponível em: <https://www.bancomoc.mz>. Acessado a 20 de Janeiro de 2025, às 06:34hrs.

55 Idem, p. 47.

56 Fundo Monetário Internacional (FMI) (2024). Mozambique Economic Outlook 2024. Washington, DC: FMI. DOI: 10.5089/9781484324524.002, p. 22. Acessado a 20 de Janeiro de 2025.

57 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 34. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

58 Centro de Integridade Pública (CIP), Chr. Michelsen Institute (CMI), & U4 - Anti-Corruption Resource Centre. (2016). Os custos da corrupção para a economia moçambicana: Por que é que é importante combater a corrupção num clima de fragilidade fiscal, p. 88. Maputo, Moçambique: CIP. Disponível em <http://www.cip.org.mz/>, Acessado a 12/02/2025, às 06:30hrs

59 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 102. Disponível em <http://pubs.iied.org/13592PIIED>. Acessado a 14/02/2025, às 12:34hrs.

The devaluation of the Metical imposes a high risk on the MPMEs of the Mozambican extractive sector, because it makes it more expensive to acquire imported equipment and compromises the financial viability of the projects, resulting in reduced productivity and in the loss of global competitiveness<sup>60</sup>. The theory of comparative advantage suggests that countries rich in natural resources can compensate for technological backwardness by importing advanced machinery, but when the currency is devalued, the operational costs take off and the profit margins of the MPMEs become unsustainable<sup>61</sup>. The BEE warns that exchange volatility damages the financial predictability of investments in the extractive sector, making it difficult to attract foreign capital and leading to delays in strategic projects.<sup>62</sup> Furthermore, rising fuel prices have a direct impact on mining and hydrocarbons, increasing the cost of transport and of the distribution of raw material, reducing companies' profit margins<sup>63</sup>. In a scenario of economic crisis, corruption tends to intensify, and is expressed in underinvoicing the exports, tax evasion and manipulation of concession contracts to benefit companies with political connections<sup>64</sup>. If currency stabilisation measures and effective fiscal policies are not implemented, the extractive sector may face a severe retraction in 2025, compromising the collection of royalties and taxes, amplifying the illegal exploitation of natural resources and weakening the governance of the sector.

The devaluation of the Metical poses a high risk for MPMEs in the Mozambican forestry sector since, despite the potential gain in the competitiveness of exports, the costs of importing equipment essential for sustainable exploitation increase significantly, making it difficult to modernise the productive chain.<sup>65</sup> According to the theory of comparative advantage, countries with vast natural resources should invest in productive efficiency to guarantee sustainability, but exchange rate volatility forces many companies to resort to rudimentary methods, and thus intensify predatory exploitation<sup>66</sup>. The BEE warns that the lack of robust regulation and the precarious infrastructure in sectors dependent on exports compromise the attractiveness of investments and encourage illegal practices<sup>67</sup>. The increase in operational costs may also expand the clandestine exploitation of timber in regions with defective inspection, since the companies that face financial difficulties could cheat environmental regulations to maintain their profitability, worsening uncontrolled logging and tax evasion<sup>68</sup>. Corruption in the sector tends to worsen in periods of economic crisis, expressed in the falsification of environmental certificates, in the under-invoicing of exports and in favouring politically connected companies in obtaining concessions<sup>69</sup>. There is a **high** likelihood that this scenario will occur in 2025. The lack of an effective tracking and control system could facilitate trafficking in natural resources and the irregular granting of licences. If effective policies for exchange rate stabilisation and incentives for modernising the sector are not implemented, Mozambique could face commercial sanctions and restrictions on the export of timber, damaging tax collection, employment and the sustainability of the forestry sector.

### 4.3 Risk of political instability and lack of security

Political instability and armed conflicts in Mozambique, particularly in Cabo Delgado, are continuing to have a negative impact on the private sector, directly affecting trade, the extractive industry and timber operations. Increased uncertainty and the lack of legal security discourage investments and compromise the business environment. Instability in the region, essential for the exploitation of natural gas, generates collateral effects throughout the country, resulting in the retraction of exports, the loss of foreign capital and the increase in operational costs for companies of the strategic sectors.

60 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 57. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

61 Fundo Monetário Internacional (FMI) (2024). Mozambique Economic Outlook 2024. Washington, DC: FMI. DOI: 10.5089/9781484324524.002, p. 22. Acessado a 20 de Janeiro de 2025.

62 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 82. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

63 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 66. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

64 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 94. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs.

65 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 73. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

66 Fundo Monetário Internacional (FMI) (2024). Mozambique Economic Outlook 2024. Washington, DC: FMI. DOI: 10.5089/9781484324524.002, p. 45. Acessado a 20 de Janeiro de 2025.

67 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 102. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

68 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 94. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 12:34hrs.

69 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 131. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 12:34hrs.

In trade, political instability and insecurity pose a high risk for the MPMEs that operate in the import and export of vehicles, second hand clothing and oilseeds, among others, impacting directly on logistical costs and the predictability of businesses<sup>70</sup>. According to the BEE, exchange rate volatility and the lack of an adequate infrastructure increase transport and storage costs, reducing the competitiveness of local companies and making access to international markets difficult<sup>71</sup>. Furthermore, red tape and corruption in customs procedures are critical factors which restrict commercial efficiency, leading to the payment of bribes to release merchandise, and to the manipulation of import tariffs, damaging transparency and increasing operational costs<sup>72</sup>. There is a high likelihood that this scenario will occur in 2025, since insecurity on the roads and difficulties in access to credit for traders are tending to worsen economic retraction and to foment informal and illegal practices in the sector. If urgent measures are not implemented, such as the digitalisation of customs procedures, the strengthening of the logistical infrastructure, and policies to encourage formal trade, the country may face a worsening of inflation and a significant loss of competitiveness on the regional market, causing difficulties for economic recovery and for attracting strategic investments.

In the extractive industry, political instability and insecurity pose a high risk for the MPMEs that operate in mining and in hydrocarbons, impacting directly on investment, competitiveness and tax collection<sup>73</sup>. The continuing insurgency in Cabo Delgado and the lack of regulatory predictability have pushed investors away and made it difficult to implement new concession and exploitation contracts, resulting in the suspension of strategic projects, such as that of TotalEnergies, and in a reduction of FDI of up to 15%<sup>74</sup>. In addition to insecurity, the unstable business environment favours corrupt practices, including the irregular award of contracts, the under-invoicing of exports and tax evasion, compromising transparency and the governance of the sector<sup>75</sup>. Informal and illegal mining are tending to grow, expanding environmental impacts and reducing revenue collection, while foreign companies are looking for more predictable markets. If Mozambique does not take urgent measures, such as strengthening security in strategic areas, digitalisation of licensing, and fiscal incentives to attract foreign capital, the extractive sector could suffer a prolonged crisis, damaging revenue collection, employment and the international credibility of the country.

The timber sector in Mozambique faces a high risk of instability due to weaknesses in forestry governance, logistical insecurity and growing international pressure for strict environmental certification<sup>76</sup>. According to the BEE, the absence of a safe and regulated environment favours illicit practices, such as the irregular granting of licences, contraband and clandestine logging, which reduce revenue collection and compromise the country's reputation on the international market<sup>77</sup>. Political instability and violence in strategic regions have made inspection difficult, allowing criminal networks to operate freely and encouraging companies to resort to illegal practices to reduce their operational costs. If this trend continues in 2025, reduction in timber exports is to be expected due to increased restrictions by the EU and other regulated markets and a worsening of environmental degradation and informality in the sector<sup>78</sup>. To mitigate these risks, it is essential to digitalise the tracking of timber, strengthen environmental inspection and adopt reliable certification mechanisms, guaranteeing that the sector is in conformity with international standards, and ensuring the long term economic viability of the Mozambican forestry industry.

## 4.4 Risk of Digital Transformation and Technological Innovation

Digital transformation is a determinant factor for the competitiveness of trade, the extractive industry and timber operations in Mozambique. However, in 2024 the country was still at the initial stage of this process, with only 30% of the MPMEs possessing a significant digital presence<sup>79</sup>. This scenario limits the capacity of Mozambican companies to compete in an ever more digitalised global market, dependent on advanced technologies.

70 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 102. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado em 20 de janeiro de 2025, às 06:65hrs.

71 Idem, p. 89.

72 Idem, p. 131

73 Idem, p. 117.

74 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 142. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs.

75 Idem, p. 89.

76 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery, p. 112. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de janeiro de 2025, às 06:65hrs.

77 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 87. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs.

78 Idem, p. 136.

79 Banco Mundial (2024). Mozambique Economic Update: Preparing for Recovery. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado em 20 de janeiro de 2025, às 06:65hrs.

In the commercial sector, the lack of digitalisation represents a high risk for the competitiveness of the MPMEs that operate in import and export, restricting their access to international markets and increasing their operational costs<sup>80</sup>. The BEE stresses that digitalisation is a determinant factor, reducing bureaucracy and guaranteeing greater transparency in commercial transactions<sup>81</sup>. However, the limited digital infrastructure, high internet costs and low adoption of e-commerce platforms prevent Mozambican companies from taking part in global supply chains, making it difficult to export products such as footwear, vehicles, second hand clothing, and oilseeds, among others<sup>82</sup>. The absence of digitalisation does not only make logistics more expensive, but also favours corrupt practices, such as the manipulation of customs tariffs, the under-invoicing of merchandise, and requests for bribes to speed up customs clearance<sup>83</sup>. If this scenario persists, Mozambique could lose trade opportunities, increasing dependence on middlemen, and expanding the informal market where transactions take place without inspection or quality control. To mitigate these risks, it is essential to implement a national programme of digitalisation of trade, modernising the digital infrastructure, building the capacity of entrepreneurs and workers, and establishing strategic partnerships with global platforms of electronic trade, guaranteeing greater logistical efficiency and transparency in commercial processes.

In the extractive industry, the low level of adoption of technology poses a high risk for the competitiveness and sustainability of the sector, limiting productive efficiency and making it difficult to conform with environmental standards and global technologies<sup>84</sup>. According to the BEE, digitalisation and automation are essential for increasing productivity and attracting investments. But Mozambique still operates with conventional methods, without digital tracking, automation or effective environmental monitoring<sup>85</sup>. The absence of technological innovation raises the operational costs of the MPMEs of the extractive sector, making them less competitive in global markets that demand that products can be tracked and require strict regulatory conformity<sup>86</sup>. In addition to the economic impact, the lack of modernisation intensifies corrupt practices, such as the manipulation of production data, irregular granting of mining licences, and fiscal frauds, which undermine transparency in the management of natural resources<sup>87</sup>. There is a high likelihood that this risk will occur in 2025, due to the inadequacy of the digital infrastructure, the lack of fiscal incentives for innovation and the scarcity of skilled labour in the technological sector. To reverse this scenario, Mozambique should adopt modernisation policies, including financial incentives for innovation, investments in digital tracking technology and professional capacity building for the digital transition in the extractive sector. Without these measures, the country will remain vulnerable to economic and environmental crises. It will lose competitiveness in global trade and will have difficulty in attracting strategic investments.

In timber operations, the lack of digital transformation is a high risk for the transparency, sustainability and competitiveness of the sector, as noted by the BEE, which points to digitalisation as an essential factor for strengthening the governance of the sector and regulatory conformity<sup>88</sup>. Currently the lack of technological tools, such as blockchain, for certification of origin and monitoring via satellite hinders the effective tracking of timber, favouring illegal extraction, under-invoicing and fraudulent exports<sup>89</sup>. The growing international pressure for stricter environmental standards could lead to the exclusion of Mozambican timber from strategic markets such as those of the EU and the USA, resulting in commercial embargoes and the loss of foreign investments<sup>90</sup>. Furthermore, informality and illegal logging tend to increase without an efficient system of digital inspection, intensifying environmental degradation, territorial conflicts and tax evasion. The absence of a robust tracking system also opens the path for corrupt practices, including fraudulent licensing, manipulation of export records and falsification of environmental certificates, undermining still further the credibility of the Mozambican forestry sector on the global market<sup>91</sup>. There is a high probability that this scenario will occur in 2025, considering that Mozambique has not yet

80 Banco Mundial. 2024. Mozambique Digital Transformation and Innovation Report, p. 93. Disponível em: <https://data.worldbank.org/>. Acessado em 20 de janeiro de 2025.

81 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 93. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 1234hrs.

82 Idem, p. 78.

83 Banco Mundial. 2024. Mozambique Digital Transformation and Innovation Report, p. 97. Disponível em: <https://data.worldbank.org/>. Acessado em 20 de janeiro de 2025.

84 Idem, p. 112.

85 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 89. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 1234hrs.

86 Idem, p. 76.

87 Banco Mundial. 2024. Mozambique Digital Transformation and Innovation Report, p. 118. Disponível em: <https://data.worldbank.org/>. Acessado em 20 de janeiro de 2025.

88 Banco Mundial. 2024. Mozambique Digital Transformation and Innovation Report, p. 134. Disponível em: <https://data.worldbank.org/>. Acessado em 20 de janeiro de 2025.

89 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 89. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 1234hrs.

90 Idem, p. 76.

91 Banco Mundial. 2024. Mozambique Digital Transformation and Innovation Report, p. 147. Disponível em: <https://data.worldbank.org/>. Acessado em 20 de janeiro de 2025.



adopted effective regulations to track timber exploitation. To mitigate these risks, the country should implement urgently a digital tracking system, based on blockchain, regulate digital environmental certification and invest in technological infrastructure and technical capacity building. The modernisation of inspection would reduce illicit practices and guarantee greater regulatory efficiency, protecting the competitiveness of Mozambican timber and ensuring its sustainability in global trade. If these measures are not adopted, Moçambique could face a severe crisis in the sector, with significant fiscal losses, exclusion from strategic markets and the worsening of predatory exploitation of natural resources.

## 4.5 Risk of sustainable exploitation of natural resources

The exploitation of natural resources remains a strategic pillar for the Mozambican economy with a direct impact on trade, the extractive industry and timber operations. In 2024, exports of natural gas generated approximately US\$ 1.5 billion, consolidating its importance as a source of foreign exchange and an engine of economic growth<sup>92</sup>. In addition to gas, resources such as coal, graphite and rubies have driven revenue collection and are attracting international investment. However, excessive dependence on these commodities places the economy in a vulnerable situation, especially in light of the volatility of global prices and the economic and social challenges associated with the exploitation of these resources.

The dependence of the Mozambican MPMEs on the import and export trade, particularly in essential goods such as footwear, vehicles, second hand clothing and oilseeds, among others, exposes the sector to serious structural risks, worsened by exchange rate volatility, and by the systemic corruption in the customs service<sup>93</sup>. The weakness of the Metical, added to the oscillation of international commodity prices, may significantly raise import costs, reducing the companies' profit margins, and limiting the purchasing power of the public<sup>94</sup>. Logistical inefficiency and excessive customs red tape encourage illicit practices, such as underinvoicing, tax evasion and irregular granting of import licences, creating market distortions which favour the expansion of informal trade and undermine tax collection<sup>95</sup>. There is a medium to high probability that this risk will occur in 2025, driven by growing global economic uncertainty and by the trend of international decarbonisation policies, which could reduce demand for the resources exported by Mozambique, restricting liquidity in the commercial sector. To mitigate these impacts, it is essential to diversify the economy, to strengthen domestic production and to digitalise customs procedures, guaranteeing greater transparency and reducing the opportunities for corruption. If these strategies are not implemented, Mozambican trade might face a scenario of severe retraction, high inflation and the advance of contraband, compromising the sustainability of the MPMEs and the country's competitiveness on the global market.

The vulnerability of the Mozambican MPMEs in the extractive industry is strongly linked to the volatility of the global prices of minerals and hydrocarbons, which has a direct impact on revenue collection and on investments in the sector<sup>96</sup>. According to the theory of the commodity cycle and the paradox of abundance, economies that are excessively dependent on the exploitation of natural resources face cycles of growth and recession, and are highly susceptible to external and internal shocks. Global decarbonisation and the reduction in the Chinese demand for coal may drastically reduce the flow of FDI, while excessive red tape, regulatory uncertainty and corruption compromise the viability of new projects<sup>97</sup>. There is a medium to high probability that this risk will occur in 2025, considering the growing requirement of ESG standards and the need for environmental conformity, factors which raise operational costs and discourage investments in mining. Furthermore, the weakening of the extractive industry could increase unemployment in regions dependent on the sector, expanding social pressure on the Government for the redistribution of revenue and intensifying political instability<sup>98</sup>. The crisis in the sector may also drive illicit practices such as the irregular granting of licences, the underinvoicing of exports and tax evasion, undermining still further the collection of revenue for the State. To mitigate these risks it is essential to reformulate the regulation

92 Banco de Moçambique. 2024. Conjuntura Económica de Moçambique – Relatório Anual 2024. Disponível em: <https://www.bancomoc.mz>. Acessado em 20 de janeiro de 2025, às 0634hrs.

93 Banco Mundial. 2024. Mozambique Economic Update: Preparing for Recovery, p. 112. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado em 20 de janeiro de 2025, às 0665hrs.

94 Banco de Moçambique (2024). Conjuntura Económica de Moçambique – Relatório Anual 2024, p. 78. Disponível em: <https://www.bancomoc.mz>. Acessado em 20 de janeiro de 2025, às 0634hrs.

95 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 94. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado em 14/02/2025, às 1234hrs.

96 Banco Mundial. 2024. Mozambique Economic Update: Preparing for Recovery, p. 147. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado em 20 de janeiro de 2025, às 0665hrs.

97 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 89. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs.

98 Idem, p 103.

of the sector, strengthen transparency in the management of natural resources and diversify the economy, reducing excessive dependence on mining and promoting alternative sustainable products.

The exploitation of timber in Mozambique poses a high risk of instability in 2025 due to the absence of effective regulation, weaknesses in inspection and the growing international pressure for strict environmental standards<sup>99</sup>. The theory of the tragedy of the commons shows that the lack of forestry governance can lead to the over-exploitation of resources, resulting in irreversible environmental degradation and in reduction in global competitiveness. The EU and the USA are already imposing restrictions on the import of timber of doubtful origin and Mozambique, without a robust system of tracking and certification, runs the risk of losing access to these regulated markets<sup>100</sup>. The persistence of illegal logging and the lack of reforestation policies could not only reduce revenue collection, but also encourage the growth of contraband, resulting in the expansion of the informal market and in increased corruption, especially in licensing and in inspection<sup>101</sup>. Furthermore, the favouring of business groups with political connections could distort competition and compromise initiatives for sustainable exploitation. To mitigate these risks, Mozambique should adopt a national timber tracking system, strengthen environmental governance, and establish strategic partnerships with the international markets that require ecological certification. Without these measures, the country will not only face commercial sanctions and a fall in exports, but will also experience an increase in environmental degradation and in the negative socio-economic impact on the communities which depend on the sustainable exploitation of forestry resources.

## 4.6 Conclusion

The Mozambican private sector is facing critical structural challenges for 2025, with direct impacts on trade, the extractive industry and timber operations. Political instability and lack of security, together with the devaluation of the Metical and the increase in import costs are compromising the competitiveness of the MPMEs and are discouraging strategic investments. Systemic corruption in the customs and in the granting of licences worsen still further the business environment by reducing transparency and expanding inequality in access to markets and financing. Furthermore, the low level of digitalisation of trade and the absence of effective tracking mechanisms in forestry exploitation expose Mozambique to commercial sanctions and to significant losses of revenue. The trend for a retraction in domestic demand and the risk of bankruptcy of up to 22% of the MPMEs reflect the urgency of structural reforms to stabilise the economy and guarantee the sustainability of the private sector.

To mitigate these risks, it is essential to implement effective public policies which promote a more predictable regulatory environment, the strengthening of governance and the digitalisation of commercial and industrial procedures. The diversification of the economy with incentives for sustainable agriculture, manufacturing and tourism could reduce the dependence on commodities and improve the country's economic resilience. The modernisation of the logistical infrastructure and the creation of tracking mechanisms for the exploitation of natural resources are fundamental to guarantee conformity with international standards and avoid commercial restrictions. The success of these strategies will depend on greater coordination between the Government, the private sector and international partners, ensuring that Mozambique boosts its competitiveness, attracts long term investments and builds a more sustainable and inclusive productive sector.

99 Banco Mundial. 2024. Mozambique Economic Update: Preparing for Recovery, p. 163. Disponível em: <https://www.worldbank.org/en/country/mozambique/publication/mozambique-economic-update>. Acessado a 20 de Janeiro de 2025, às 06:65hrs.

100 Muianga, M., & Norfolk, S. (2017). Investimento chinês no sector florestal moçambicano. IIED - International Institute for Environment and Development, p. 72. Disponível em <http://pubs.iied.org/13592PIIED>, Acessado a 14/02/2025, às 12:34hrs

101 Idem, p. 97.



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on acquisitions has been undergoing alterations over time without improving the fight against corruption<sup>105</sup>.

It is also necessary to question the gains that the creation of a Acquisitions Centre could bring to the area of public contracting, in terms of fighting against acts of corruption. For there already exists the Acquisitions Supervision Functional Unit (UFSA) which is empowered to coordinate and supervise all activities related with public contracting. Is there not a risk of repeating a model which has already proved to be a failure? Is it not necessary to ask what is going wrong with UFSA before creating an almost identical body (we must know what is going to change)? So there is a risk that this measure will fail, if no diagnosis is made of the reasons which led UFSA to fail.

Another risk inherent to setting up a State Acquisitions Centre is its potential to compromise the decentralisation currently under way. To what extent will a Centre based in Maputo be able to coordinate and respond in an efficient and effective manner to the sector acquisition needs of the provincial and district governments?

Are there no risks to the financial autonomy of the provincial governments who are seeking greater decentralisation to meet local demands?

To what extent will access to privileged information on the needs in goods and services of the State on the part of officials of this central acquisitions unit create conditions favourable to the centralisation of corruption in actors located in Maputo, which eliminates the possibility of the appearance and consolidation of a provincial level business sector that provides services to the State, since potentially clientelist networks of businesspeople and lobbyists based in Maputo could have access to and control over this acquisitions centre?

### 5.3 Risk of duplicating bodies with the creation of the General State Inspectorate

The question is: what type of body will this be? What will be its attributes and powers? There already exists the General Inspectorate of the Public Administration (IGAP)<sup>106</sup>. The risk that may arise is the duplication of bodies with the same, or almost the same, attributes and powers. Hence, to economise on State resources, the powers of IGAP could be increased (its name could even be changed to General State Inspectorate) without necessarily creating more public bodies, some of which end up becoming irrelevant.

So we think that IGAP could be transformed into the body that Daniel Chapo wants to set up because, analysing their attributes and powers, the two bodies would deal with the same matters linked to the promotion of transparency in public bodies. However, it is a measure that does not bring much substance to the goal of fighting corruption and promoting transparency in the public sphere.

### 5.4 Risk of failure to digitalise State services

The Public Administration Reform and Development Strategy already envisaged the computerisation of the public service<sup>107</sup>. This means it is not a pioneer measure but one that was never fully implemented (although there are some computerised services in the public administration). Here there is also a risk that this measure will remain to be implemented. First, a diagnosis of the current situation must be made to find out what failed, so that the whole public service is not computerised. But the Public Administration must be cleared of red tape and computerised, to prevent public officials from using the current situation to practice acts of corruption.

<sup>105</sup> <https://www.dlapiperafrica.com/pt/mozambique/insights/2022/amendments-to-the-public-procurement-regulation.html>

<sup>106</sup> Criada pelo Decreto n.º 24/2020 de 30 de Abril e aprova o Regulamento da Actividade da Inspeção-Geral da Administração Pública

<sup>107</sup> Estratégia de Reforma e Desenvolvimento da Administração Pública (2011-2025) - Aprovada pelo Conselho de Ministros na sua 29ª Sessão Ordinária, de 14 de Agosto de 2012.

## 5.5 Risk that strengthening the supervision of the public companies may fail

This is a measure that will also come into conflict with the interests of the Frelimo Party, and particularly its members. The public companies were always used by the Frelimo Party to satisfy its private interests and those of its individual members, by taking funds out of the Treasury<sup>108</sup>. One must, for example, question the need for the so-called “non-executive directors” in public companies and regulatory bodies. These positions are often held by prominent members of the Frelimo Party, early very high salaries. Will Chapo enjoy sufficient legitimacy to do away with these practices of pure clientelism in the Frelimo Party? By way of illustration, Roque Silva, former General Secretary of the Frelimo Party, was appointed a non-executive director of HCB<sup>109</sup>, replacing the late Manuel Tomé, who had also been Frelimo General Secretary<sup>110</sup>. There are also the cases of Filipe Paúnde,<sup>111</sup> another former General Secretary of Frelimo, who was appointed Director of the Mozambique National Institute of Communications (INCM), and of the late Fernando Faustino, who was a director of the National Hydrocarbon Company (ENH) and chairperson of the Association of Veterans of the National Liberation Struggle (ACLLN)<sup>112</sup>. This phenomenon has become known as “the revolving door”<sup>113</sup>. It should be noted that, if Chapo intends to fight against the lack of transparency which often leads to corruption, he should first undertake measures to separate “State business” from the private interests of the Frelimo Party. The acts mentioned above end up slipping into situations of lack of ethics and conflict of interests.

## 5.6 Other risks that may contribute to Daniel Chapo failing in the fight against corruption

The Strategy for Preventing and Fighting against Corruption in the Public Administration - EPCCAP (2023 – 2034) - was completely ignored in the inaugural speech of Daniel Chapo. However, it is a document which shows the structuring vision of the country in the fight against corruption intended to last for 10 years. This would have justified it being mentioned by Daniel Chapo. What one notes is that the measures mentioned by Daniel Chapo for the fight against corruption are not envisaged in the EPCCAP. These are scattered measures which cannot be monitored, since they do not present indicators and targets. That is, there is a notorious mismatch between the main measure for fighting corruption approved in the previous governance led by Nyusi and the current government. Will more time and State resources be invested in creating a new EPCCAP or is it intended to improve the existing one?

The question of the lack of continuity between the programmes and projects of previous governments and the current one, even when they have already been designed and are under implementation, should be considered. In certain cases, there is a need for continuity, thus saving public resources.

The risk that is now presented is that the government led by Daniel Chapo is not identifying with the EPCCAP, which could lead it not to commit to its implementation, improvement and monitoring. However, the EPCCAP ought to be the main document of the government of Daniel Chapo in its desire to fight against corruption.

A further aspect which creates great expectations for the governance of Daniel Chapo concerns the possibility of holding a trial of former Finance Minister Manuel Chang in Mozambique. Chang still has about two and a half years of his sentence to serve in the United States<sup>114</sup>. He will then be deported to Mozambique, where criminal

108 Rfi. (11 de Outubro de 2022). CIP acusa Frelimo de usar empresas públicas como saco azul. Rfi disponível em: <https://www.rfi.fr/pt/mo/C3%A7ambiente/20221011-cip-acusa-frelimo-de-usar-empresas-p%C3%BAblicas-como-saco-azul> (24 de Janeiro de 2025);

109 Agência de Informação de Moçambique. (17 de Julho de 2024). Roque Silva indicado administrador não executivo da HCB. AIM disponível em: <https://aimnews.org/2024/07/17/roque-silva-indicado-administrador-nao-executivo-da-hcb/> (24 de Janeiro de 2025);

110 IntegrityMagazine. (14 de Julho de 2024). Roque Silva substitui o falecido Manuel Tomé na função de Administrador não executivo da HCB. Disponível em: <https://integritymagazine.co.mz/arquivos/29452>

111 <https://cartamz.com/index.php/politica/item/8922-frelimo-nao-abandona-o-job-for-the-boys-filipe-paunde-nomeado-administrador-do-incm> (acessado a 24 de Janeiro de 2025);

112 [https://www.cmh.co.mz/images/Relatorio&Contas/Relatorio\\_&\\_Contas\\_AF20.pdf](https://www.cmh.co.mz/images/Relatorio&Contas/Relatorio_&_Contas_AF20.pdf)

113 [https://www.rtp.pt/noticias/politica/portas-giratorias-um-em-cada-quatro-governantes-portugueses-saiu-da-politica-para-grandes-empresas\\_v1378710](https://www.rtp.pt/noticias/politica/portas-giratorias-um-em-cada-quatro-governantes-portugueses-saiu-da-politica-para-grandes-empresas_v1378710)

114 Rádio Moçambique. (18 de Janeiro de 2025). Manuel Chang condenado a 8 anos nos EUA. RM disponível em: <https://www.rm.co.mz/manuel-chang->

proceedings are under way in which he is an accused, related with the case of the “hidden debts”. It is possible that political obstacles will be created so that the trial of Chapo does not happen, since he might denounce facts that are not yet known, and which he probably did not reveal in the trial held in the United States, but which are of interest to Mozambican justice. This could test the commitment of Chapo to fight against corruption since it is political power which should create all the conditions for the trial to take place. As is known, political power conditions judicial power<sup>115</sup> and the Public Prosecutor’s Office in Mozambique.

As for the actions that have been taken to remove Mozambique from the grey list of the International Financial Action Group (FATF), it is possible that Mozambique will leave the grey list in the first quarter of 2025<sup>116</sup>, since 25 of the 26 recommendations to this end have already been complied with<sup>117</sup>. However, there is always a risk that the country may be placed on the grey list again, if the measures implemented are not consistent and effective in the fight against money laundering and financing terrorism. For the country, even after leaving the grey list, will be subject to monitoring to verify effective continuation of these measures. If this does not happen, there could be damage both for companies and for citizens who may find their financial transactions subject to greater scrutiny and consequent restrictions. Mozambique was placed on the FATF grey list in 2022.<sup>118</sup>

The current post-election crisis has brought a new actor who has been decisively playing a prominent role in harassing people who oppose the regime of the ruling Frelimo Party, namely the Attorney-General’s Office (PGR). The PGR has repeatedly threatened lawsuits against demonstrators and opponents of the regime. But when members of the police (PRM) commit crimes, including murder, we do not see the same forceful reaction from the PGR, through the opening of criminal proceedings. This kind of selective action from the PGR leads the public to react against police agents, which could result in a situation of anarchy. Several people could be killed, among both the police and the demonstrators. In this case, the PGR, as the guardian of legality and defender of the interests of the State, should act in a way that respects the principle of legality. That is, it should pursue and investigate all the evidence of crime in the same way, and cease to be an extension of the Government and of the PRM. The major recommendation for Daniel Chapo and for his government is to move away from mere political speeches about the fight against corruption to the production of specific measures seeking to attack this evil. Above all, the measures to be taken must be applied strictly. There have been enough speeches calling for a vigorous struggle against corruption, but without any follow-up action. So Daniel Chapo should, in the Government’s five year programme present measures with measurable indicators and targets so as to monitor compliance with his promises to fight against corruption.

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115 <https://www.voaportugues.com/a/mo%C3%A7ambique-presidente-do-supremo-quer-autonomia-financeira-do-sistema-judicial/6806616.html>

116 <https://aimnews.org/2024/11/06/mocambique-podera-sair-da-lista-cinzenta-no-primeiro-trimestre-de-2025/>

117 <https://observador.pt/2025/01/28/mocambique-espera-sair-em-marco-da-lista-cinzenta-de-jurisdicoes-financeiras/>

118 <https://savana.co.mz/?p=7898>



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## 6. RISKS TO POLITICAL INTEGRITY IN THE GOVERNANCE OF DANIEL CHAPO

When Daniel Chapo took office as the fifth president in the history of Mozambique, this inaugurated a new phase in Mozambican democracy. Chapo's inauguration also marked the climax of Mozambique's democratic regression, which began in 2010, at the start of the second term of office of Armando Guebuza (Intelligence Unit, 2011).

When, in 2015, Filipe Nyusi took office as the fourth president of Mozambique, the expectation was that he would be able to halt the decay of democratic values that the country had accumulated in the previous 25 years since the start of the democratic transition in 1990. However, 2015 marked the return of the country to authoritarian regimes, and it ceased to be part of the list of hybrid democracies (Intelligence United, 2016).

The 10 years that followed were ones of the consolidation of State authoritarianism, with the silent suppression of the constitutional rights of citizens, particularly the freedoms of demonstration, expression and assembly, among others. Communications in advance to hold demonstrations were constantly and persistently rejected. Peaceful demonstrations were violently repressed and elections were increasingly fraudulent and violent. In this period, the country experienced the darkest phase in the short history of Mozambican democracy.

The investiture of Daniel Chapo, on 15 January 2025, was marked by violent opposition to the election results that determined his rise to power. The police have murdered more than 300 people. Venâncio Mondlane, the candidate whom the Constitutional Council says was defeated, still has higher levels of legitimacy than Daniel Chapo. This means that Chapo's term of office could be overshadowed by possible violent demonstrations, called by Venâncio Mondlane.

### 6.1 Risk of increased State authoritarianism

Daniel Chapo rose to power through fraud, associated with the violence of the defence and security forces, who act in defence of partisan interests rather than republican ones. The promises to reform the state apparatus, through which he had received his entire political socialisation until he reached the post of President of the Republic, might not be complied with for two reasons: first, government decisions do not depend on the President of the Republic, but on the Political Commission of the Frelimo Party, which Chapo has chaired as from 14 February<sup>119</sup>; secondly, he owes his own political rise in large measure to fraudulent mechanisms used through the State machinery, without which the power of the party he has headed as from 14 February is residual.

The violent post-election protests uncovered Frelimo's, and its candidate's, deficit of legitimacy as a result of the fraudulent elections in which the Constitutional Council declared them the winners. Apparently, the majority of citizens recognise the candidate of the opposition, Venâncio Mondlane, as the legitimate winner. This dilemma poses a high political risk for the governance of Chapo. In the next five years, Venâncio Mondlane could, whenever he deems convenient, use his popular legitimacy to call demonstrations or destabilise the governance of Daniel Chapo.

The demonstrations could oblige Chapo to resort to coercive means, such as the defence and security forces, to repress his opponents and eliminate the leaders of the demonstrations, as is happening now throughout the country<sup>120</sup>. Recently, in an interview with Portuguese television, Chapo showed his discomfort at the possibility of a shadow government that Venâncio Mondlane wants to set up. He made it clear that in Mozambique he is the only President of the Republic. Only he forms the Government, and he is "the commander-in-chief of the defence and security forces

<sup>119</sup> O partido Frelimo realizou a sessão extraordinária do Comité Central onde Filipe Nyusi irá renunciar o cargo do Presidente do partido e Daniel Chapo irá assumir o cargo, acumulando com o de Presidente da República.

<sup>120</sup> Os membros do partido PODEMOS, que lideraram as manifestações durante três meses (21 de Outubro a 16 de Janeiro), muito próximos de Venâncio Mondlane, estão a ser caçados e eliminados clandestinamente.

and the guarantor of compliance with the Constitution of the Republic of Mozambique”.

On 24 February, Chapo indicated that he could resort to State authoritarianism to govern when he declared, at a mass rally in Cabo Delgado, that: “Just as we are fighting terrorism and there are young people shedding their blood for the territorial integrity of Mozambique, for the sovereignty of Mozambique, to maintain our independence, here in Cabo Delgado, even if we have to spill blood to defend this country against demonstrations, then we shall spill blood. We shall fight against terrorism, we shall fight against the Naparamas and we shall fight against the demonstrations”<sup>121</sup>.

The risk is very likely that Daniel Chapo will increase the levels of authoritarianism in order to govern and hold onto power in the context of his low legitimacy and particularly in the current context of the State’s bankruptcy. The State does not have the money available to make massive public investments in strategic sectors, such as education, health and infrastructures; or to improve wages in the public administration and lever the economy so as to create more job opportunities. These are matters that would make it possible to win some sympathy in society.

For this risk not to happen, it is indispensable that President Daniel Chapo recovers the legitimacy lost in the elections of 9 October. This is only possible through adopting a responsive governance, putting the national interest above individual or group interests. But adopting a responsive policy or governance demands that leaders take measures that meet the expectations of citizens. For this, it is essential to observe high standards of ethics and of political integrity which stress the need for rulers to make moral and ethical judgments about the relevance of their decisions for citizens.

The reference to his duties as commander of the defence and security forces and as guarantor of compliance with the Constitution seems a clear message to Venâncio Mondlane that he, Daniel Chapo, will, whenever justified, resort to coercive means to impose constitutional order.

## 6.2 Risk of emergence of a new clientelist network

Traditionally, Frelimo governments, after the start of the democratic transition in 1990, have been characterised by the emergence, at the start of each cycle of governance, of a new clientelist network and structure, formed by new actors around the “big man”. This network is responsible for distributing public tenders, mining concession licences, and State business in exchange for loyalty. There also emerge new actors of corruption, but also many others manage to make the transition from governance to governance, consolidating their tentacles in the State.

Among the authors who could emerge and those who could consolidate their tentacles, there are both Mozambicans and foreigners. While the Mozambican actors may be concentrated in the public tenders, concession licences, corruption and intermediation of illicit businesses, and lobbying; the foreigners, mostly Asian, particularly Chinese, may stand out in the looting of natural resources, precious stones, timber and contracts with the state. Other Asian actors could be concentrated in illicit businesses, under the intermediation of Mozambicans, particularly trafficking in drugs and precious stones. Some of these actors may have financed the election campaign of Frelimo and of Chapo, in a clear display of electoral clientelism.

Electoral clientelism refers to an act whereby a business person or politician gives his full support to confer a certain advantage to somebody of weak power, competing in the election, in the expectation that, on achieving victory, he will repay the favour through valuable contracts, political positions, covering up crimes committed in the past or others (Levieque, 2024: 64).

One example of electoral clientelism is the case of the hidden debts. Frelimo and its then candidate Filipe Nyusi received from Privinvest 10 million and one million US dollars, respectively, for the 2014 election campaign<sup>122</sup>. A

121 Discurso de Daniel Chapo transmitido em directo pela Televisão de Moçambique a 24 de Fevereiro de 2025, em Pemba, capital de Cabo Delgado.

122 CIP (2017). Partido Frelimo recebeu 10 milhões de dólares das dívidas ocultas. Disponível em <https://cipmoz.org/wp-content/uploads/2019/10/di%CC%80>

further example is the customs exemptions that Frelimo granted to businesses in Nacala-Port for financing the 2009 elections<sup>123</sup>.

In his book *Os Riscos do Sistema Político*, Macuácu (2023) warns of the risk of State capture through the financing of political parties by economic agents. This risk is real in that the Frelimo election campaigns have been financed by several actors including smugglers of timber, as was shown by a CIP study in 2014<sup>124</sup>.

### 6.3 Risk of blockades by the Political Commission

The Frelimo Party Political Commission poses a serious risk to the governance of Daniel Chapo in that it can block decisions of the Government. It is the task of this body to guide the Government, which means that the President of the Republic receives instructions from the Political Commission about the measures to be implemented during his governance. The lack of decision-making autonomy of the President in governing the country exposes him to the risk of political blockades within his party preventing him from taking measures to solve citizens' problems.

Interviewed by the paper *O País*, in 2012, the then General Secretary of Frelimo was clear about the supremacy of the party over the Government: "it is the party that guides the Government (...) The President will receive instructions from the Political Commission. He will implement them in the Presidency (of the Republic)"<sup>125</sup>.

For example, Chapo was only able to complete the appointment of ministers to his government 15 days after taking office. The first 12 ministers were appointed on 17 January, two days after Chapo's investiture<sup>126</sup>. There were still six ministers to be appointed. The difficulties in appointing ministers may be related to the Frelimo Political Commission blocking Chapo's proposals since it is up to this body to pronounce upon the composition of the Frelimo Government<sup>127</sup>.

The Frelimo Political Commission consists of 21 members, each with their own interests. The current Political Commission was set up under Filipe Nyusi, which means that the governance of Daniel Chapo may be hostage to various interests of these members, most of whom are loyal to the previous President of Frelimo and of the Republic.

### 6.4 Risk of flight of investors, increased unemployment and poverty due to political and social instability

The post-election demonstrations resulted in the destruction of the business fabric, particularly in the cities of Maputo and Matola. By early February, many supermarkets, notably those selling basic goods, had not reopened. Examples include chain stores selling consumer goods at relatively accessible prices, such as the Recheio supermarkets. The Mozambican Confederation of Business Associations (CTA) estimates that about 40% of the industrial fabric of the country was vandalised, with losses estimated at 32.2 billion meticaís. 16,400 citizens had lost their jobs<sup>128</sup>. Most

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81vidas-ocultas-.pdf (acessado a 23 de Janeiro de 2025).

123 Nhamire, B. & Mabunda, L. (2014). Isenções Aduaneiras do partido Frelimo: Carta do Comité Central confirma negócio ilícito do partido no poder. Disponível em [https://macua.blogs.com/files/cip-a\\_transparencia\\_07.2014.pdf](https://macua.blogs.com/files/cip-a_transparencia_07.2014.pdf) [acessado a 22.01.2025]

124 Mabunda, L. (2014). Partido Frelimo financia-se com dinheiro de contrabando de madeira na Zambézia. <https://www.cipmoz.org/pt/2014/10/18/partido-frelimo-financia-se-com-dinheiro-de-contrabando-de-madeira-na-zambezia/> [acessado a 24.01.2025]

125 Mabunda, L. (2012, 6 de Agosto). O que há de errado na recandidatura de Guebuza à presidência do partido? Disponível em [https://macua.blogs.com/moambique\\_para\\_todos/2012/08/o-que-h%C3%A1-de-errado-na-recandidatura-de-guebuza-%C3%A0-presid%C3%A2ncia-do-partido.html](https://macua.blogs.com/moambique_para_todos/2012/08/o-que-h%C3%A1-de-errado-na-recandidatura-de-guebuza-%C3%A0-presid%C3%A2ncia-do-partido.html) (acessado em 23 de Janeiro de 2025) e pode ver-se o artigo 76, no2, alínea a) dos Estatutos da Frelimo. Disponíveis em [https://www.frelimo.org.mz/wp-content/uploads/2023/10/estatuto\\_do\\_partido\\_06\\_02\\_23.pdf](https://www.frelimo.org.mz/wp-content/uploads/2023/10/estatuto_do_partido_06_02_23.pdf) (acedido a 22 de Janeiro de 2025)

126 Esta informação pode ser consultada em <https://www.presidencia.gov.mz/por/Actualidade/Presidente-da-Republica-nomeia-Primeiro-Ministro-e-membros-do-governo> (consultada a 22 de Janeiro de 2025).

127 Artigo 76, alínea q) dos estatutos do partido Frelimo. Disponíveis em [https://www.frelimo.org.mz/wp-content/uploads/2023/10/estatuto\\_do\\_partido\\_06\\_02\\_23.pdf](https://www.frelimo.org.mz/wp-content/uploads/2023/10/estatuto_do_partido_06_02_23.pdf) (acedido a 22 de Janeiro de 2025)

128 CTA (2025, 20 de Fevereiro). Relatório Índice de robustez empresarial IV Trimestre: Crise pós eleitoral abala desempenho empresarial. Maputo: CTA.

of the damage occurred in Maputo province, with a significant impact on the industrial sector.<sup>129</sup> The destruction threw 12,000 people into unemployment. The number could rise, according to the CTA, to 500,000 unemployed, as a result of the destruction or the flight of investors. The unemployment will be reflected in an increase in poverty levels since thousands of households may be deprived of income to cover their expenses..

There are reports that some investors have abandoned the country, giving up on investing in Mozambique because of the high risk of instability. There are fears that possible new demonstrations will cause incalculable losses to the private sector. For foreign direct investors, Mozambique has become a country of high political and social risk, so that it cannot be recommended for foreign investments.

Recently the governments of the United States and of the United Kingdom issued a note warning their citizens that Mozambique is a high risk country for travel<sup>130</sup>.

The solution for political and social stabilisation involves not only responsive governance, but also serious and genuine dialogue with other national political forces. However, this is not happening since Daniel Chapo prefers to ignore completely the establishment of a platform of dialogue with Venâncio Mondlane, preferring to sit at the table with actors who are politically irrelevant in terms of mass mobilisation such as Albino Forquilha, Ossufo Momade, Lutero Simango and Salomão Muchanga.

Prolonging this climate of political indefinición, due to the absence of this political dialogue, is not good for re-establishing the trust of either Mozambican or foreign investors. Companies, households and individuals all fear the climate of uncertainty. In a scenario of uncertainty, they delay structuring investments.

The political reforms announced should lead to the depoliticisation of the State and its democratisation, making it a Republican state in which the national interest always prevails over private or political party interests. Governance should put the national interest above private interests which will make Mozambicans feel included in the new national project. The sense of ownership may reduce the risk of destruction of goods, including public property.

Attracting foreign direct investment, which will be reflected in increased employment, involves creating a favourable, stable and trustworthy environment for investors.

## 6.5 Risk of increased distrust of citizens in public institutions

Mozambican public institutions are suffering from a lack of confidence from citizens. The evidence was seen during the confrontations between demonstrators and the police, with destruction of police stations, and the vandalism of schools, health centres and other public services. When a citizen rebels against public institutions he is sending a message of total lack of confidence because the institution brings him no benefit. One of the main factors indicated as responsible for the lack of trust of citizens in public institutions is corruption. In the case of Mozambique one can add clientelism and politicisation.

Citizens ceased identifying with the institutions supposedly because they serve those who work there and the ruling politicians. The public institutions are regarded as belonging to the Frelimo Party. For citizens, destroying a public institution seems to have the same meaning as destroying an office of the Frelimo Party.

The continued lack of trust in public institutions will increase the risk of violent confrontations, which could often result in paralysis, destruction of institutions and harassment of public officials in the neighbourhoods, particularly members of the police.

129 Integrity Magazine (2024, 30 de Dezembro). “Manifestações pós-eleitorais deixam 12 mil moçambicanos desempregados”, afirma CTA. Disponível em <https://integritymagazine.co.mz/arquivos/36474> (acessado a 30 de Janeiro de 2025).

130 Visão Moçambique (2025, 14 de Fevereiro). EUA e Reino Unido desaconselham viagens a Moçambique devido a risco de segurança. Disponível em <https://jornalvisaomoz.com/eua-e-reino-unido-desaconselham-viagens-a-mocambique-devido-a-riscos-de-seguranca/> (acessado a 17 de Fevereiro de 2025).

To reduce or eliminate this risk, the observance of ethics and the moralisation of institutions must be imposed so that citizens feel that they own them. Public services must, in the first place, benefit citizens.

The assumption is that trust in the institution will result in public expectation as to the likelihood that the political system will produce the results expected and preferred by the citizens. (Moisés, 2010:11-12).

According to Moisés (2010), citizens' lack of trust in the institutions reduces their commitment to cooperate with them and increases the risk of ignoring the laws and norms which regulate the functioning of the State. That is, the perception and public expectation that the institutions will comply with the functions attributed to them reduces the risk of conflict and violence within a State. Chapo's government will have the tough mission of creating among citizens this expectation and belief so as to avoid conflicts. Hence the police should act in a republican and not in a partisan manner, refraining from kidnapping and murdering supporters of Venâncio Mondlane.

## 6.6 Risk of appearance of uncontrolled armed groups

Cabo Delgado is today a province devastated by terrorism, which erupted almost 8 years ago. The post-election unrest created conditions for the emergence of uncontrolled armed groups. In Nampula and Zambezia provinces, particularly in Ribáuè and Morrumbala districts, traditional militias, known as Naparamas, have circulated and staged attacks<sup>131</sup>.

In reply, the armed forces have deployed to pursue and fight against these groups whose motivations are still unknown. They may not be related with the protests against the election frauds. Apparently the group has no connection with Renamo.

But it should not be forgotten that Renamo could still constitute a source of political instability in Mozambique. The internal crisis in the party, together with the defective demobilisation, could form a real source of instability in the central and northern regions of the country.

Daniel Chapo will have the task of solving all these foci of tension, through responsible governance that prioritises inclusion. The continuation of clientelist and corrupt policies of exclusion will only lead the country to various conflicts of destabilisation.

In the general picture, Daniel Chapo will have a difficult governance because his government lacks legitimacy as a result of the way he won the elections and the crisis of confidence of citizens towards public institutions: corrupt, weak and politicised.

The lack of expectations that the institutions could comply with their attributes, because they are politicised, could increase the risk of conflicts and of violence against them.

The internal conflicts for control of the clientelist network, which manages the large scale businesses of the State could block and annul any willingness of Daniel Chapo to reform the political system so as to make the public institutions credible in a context in which he is fully aware who are the individuals and groups whom he must repay for the fact of putting him in power fraudulently.

Political and social stability in Mozambique depends on the response that Daniel Chapo gives through responsive political decisions to return to citizens the belief that the institutions will work for them.

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131 Carta de Moçambique (2025, 3 de Fevereiro). Tensão pós-eleitoral: Morrumbala volta a ser palco de terror e...Manuel de Araújo culpa PRM e SERNIC. Disponível <https://www.cartamz.com/index.php/politica/item/18628-tensao-pos-eleitoral-morrumbala-volta-ser-palco-de-terror-e-manuel-de-araujo-culpa-prm-e-sermic> (acessado a 30 de Janeiro de 2025).



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## 7. INSTITUTIONAL RISKS IN DECENTRALISED GOVERNANCE

### PROVINCIAL AND MUNICIPAL

#### 7.1 Risks of continuity of the ‘wars of protagonism’ between the Governor of a Province and the Secretary of State in the Province

During the first cycle of implementation of provincial decentralised governance (2020-2024) the Government did not revise the legislation so that it could fully resolve the problem of the conflict of powers and attributes between the State representation services in the province, headed by the Secretary of State, and the provincial directorates, headed by the elected provincial governor.

By keeping the legislation that has been in force since 2020, there are risks that the new cycle of provincial decentralised governance (2025-2029) will face the same “war of protagonism” between the provincial governor and the Secretary of State, causing a certain ungovernability in the province, as some studies have indicated<sup>132</sup>.

In order to mitigate this risk, it is urgent to revise the normative instruments approved by the Government which fix the powers of the above-mentioned bodies, namely Decrees nos 63 and 64/2020, of 7 August<sup>133</sup>. The Secretary of State should exercise only the exclusive functions of sovereignty (according to article 141 and paragraph 2, of article 268 of the CRM), reserving all executive functions for the provincial governor (according to articles 279 and 280 of the CRM).

Daniel Chapo has also said that this exercise is one of his priorities, following his investiture speech on 15 January, when he stated that the Secretary of State in the province will retain only the functions of inspecting and monitoring the central interests of the State in the province<sup>134</sup>.

In fact, the Commission of Reflection on the Model of Decentralisation (CREMOD), set up by the Government in July 2023<sup>135</sup> in order to study formulas for overcoming the dilemmas resulting from implementing the new model of decentralisation, should be an important resource for solving this important question.

#### 7.2 Risks of failing to honour promises made during the election campaign

Unlike the municipalities, the financial and fiscal regime of the provincial decentralised governments is not regulated. Although Law No. 16/2019, of 24 September, which defines the financial and patrimonial regime of the provincial government bodies, indicates as sources of financing the fees for licences granted and for the provision of services, fines, revenue that results from administrative services and from State financial transfers<sup>136</sup>, the truth is that, 6 years after its approval, no instrument has been created to regulate these matters, such as, for example, the design of a Provincial Tax/Fiscal Code.

The continued lack of regulation of the tax or fiscal system for the province may limit compliance with the governance programmes of the provincial executive, as seen in the previous five year period. During the previous term of office (2020-2024), the decentralised governments were financed solely out of transfers from the central government<sup>137</sup>, which, to some extent, compromises compliance with promises to solve the problems of local citizens<sup>138</sup>.

132 Maússe, I. (2024, 23 de Maio). Governação Descentralizada Provincial: 4 anos após implementação, Serviços e Direcções Provinciais permanecem com competências concorrentes. In Centro de Integridade Pública (CIP). Disponível em: <https://www.cipmoz.org/pt/2024/05/23/governacao-descentralizada-provincial-4-anos-apos-implementacao-servicos-e-direcoes-provinciais-permanecem-com-competencias-concorrentes/>, consultado a 10 de Janeiro 2025.

133 Que regulamentam, respectivamente, a Lei n.º 7/2019, de 31 de Maio, que estabelece o quadro legal de organização e funcionamento dos órgãos de representação do Estado na Província, e a Lei n.º 4/2019, de 31 de Maio, que estabelece o quadro legal dos princípios, normas e competências dos órgãos executivos dos órgãos de governação descentralizada provincial.

134 Discurso de Investidura do 5.º Presidente da República de Moçambique, Maputo, 2024. p. 9.

135 Criada pela Resolução n.º 21/2023, de 17 de Julho.

136 A lei dá um conceito genérico de receitas próprias, sem ter em conta se a sua obtenção depende ou não do esforço de entidade beneficiária, o que resulta que, tanto o produto das transferências do estado como de legados, heranças e outros, constituem receita própria. Assim, segundo o artigo 15 da Lei n.º 16/2019, de 24 de Setembro, são receitas próprias dos OGD: (1) o produto de cobrança de taxas por licenças concedidas, (2) o produto de taxas resultantes da prestação de serviços, (3) o produto de multas definidas por lei, regulamentos ou posturas, (4) produto de legados, doações e outras liberalidades, (5) rendimento de serviços administrados em concessão ou exploração, (6) rendimento de bens e direitos próprios, moveis e imoveis em concessão ou exploração, (7) produto de alienação, abate de bens e direitos próprios, (8) transferências financeiras do Estado.

137 O Relatório da extinta CRED – Comissão de Reflexão sobre a Viabilidade das Eleições Distritais em 2024, apontou que com a implantação de descentralização provincial levou a um aumento das despesas de funcionamento nas províncias em mais de 7,8 mil milhões de MT entre o ano 2019 e 2023. Estas despesas acrescidas das outras despesas que estão a cargo do nível central, como é o caso de alguns investimentos e parte dos salários dos OGD, têm sufocado as contas públicas (Vide Relatório da CRED, Maputo, Abril de 2023, pp. 13 e 14).

138 Artigo 267, n.º 1 da CRM.

To mitigate this risk, it is urgent to regulate the tax regime of the executive bodies of decentralised governance, since its absence makes these bodies almost entirely dependent on funds from the State Budget<sup>139</sup>.

The design of this regime would allow the clear establishment of sources of finance for the provincial decentralised governments, creating some financial independence from the central government. It would also be useful for the next Quarterly Progress Reports submitted by CREMOD to the Council of Ministers, in line with the resolution that set it up, to indicate solutions to the problem.

### 7.3 Risks that CREMOD will end its mandate without a consensual, solid and harmonised report on the Model of Decentralisation

The Council of Ministers set up CREMOD through Resolution No. 21/2023, of 17 July, with the purpose of designing proposals to overcome the main dilemmas of the current model of decentralisation, begun with the constitutional amendments of 2018<sup>140</sup>. CREMOD this year (2025) enters its second and last mandate. So far, it has only submitted two Quarterly Progress Reports, out of the six that it should have submitted, in accordance with Article 9, paragraph 1 of the above-mentioned Resolution.

Furthermore, neither of the two Quarterly Progress Reports submitted by CREMOD to the Council of Ministers went to public debate. That is, the contents of both the first and the second report remain “a secret” between the members of the Commission and the government of President Filipe Nyusi which recently left office.

The failure to publish these reports, and the lack of an opening to discuss the preliminary results, could call into question, not only the relevance of setting up CREMOD, but also the credibility, consensual nature and solidity of the result that this Commission will bring at the end of its mandate next July<sup>141</sup>.

Given this scenario, according to the study made by the Centre for Public Integrity (CIP)<sup>142</sup>, there are risks that CREMOD will end its two year mandate in July without solving the pressing constraints that mark the model of decentralisation that has been in force since January 2020, notably:

- (I) the overlapping powers and attributes between the bodies of state representation in the province and the bodies of Provincial Decentralised Governance;
- (II) the lack of clarity on the criteria for the allocation of the budget for each province;
- (III) the lack of regulation of the fiscal regime to be applied to the new model of decentralised governance. Because of this, the elected provincial governments survive on the basis of funds transferred by the central government; and
- (IV) the design of fragile solutions which do not respond perfectly to the problems which weaken the current model of decentralisation, and may even be the source of other types of constraints during this new cycle of governance.

To mitigate this risk, the government led by Daniel Chapo should open up to discuss publicly the preliminary results that CREMOD has managed to obtain so far. This would allow the results to be scrutinised by various social actors. Recommendations could be suggested to improve the design of a model of decentralisation that is consensual, sustainable, harmonious and durable. Once this has been done, the possible extension of the mandate of CREMOD could be studied so that it brings more ideas to the decentralisation process.

139 A dependência financeira dos órgãos de governação descentralizada provincial embaraça as contas públicas centrais e num contexto em que o governo central se ressentia de um défice no Orçamento do Estado, considerando os atrasos no pagamento de salários na função pública, atrasos no pagamento das horas extraordinárias e sérias dúvidas no pagamento do décimo terceiro salário, etc., que já resultaram em manifestações e greves na função pública (Carta (2023, 7 de Dezembro). Governo apresenta Orçamento para 2024 com défice de 2.5 biliões de USD. Disponível em: <https://cartamoz.com/index.php/politica/item/15512-governo-apresenta-orcamento-para-2024-com-defice-de-2-5-bilhoes-de-usd>, consultado a 23 de Janeiro de 2025; vide, também, DW (2025, 17 de Janeiro). Greve da função pública em Moçambique por 13.º salário. Disponível em: <https://www.dw.com/pt-002/greve-da-fun%C3%A7%C3%A3o-p%C3%BAblica-em-mo%C3%A7ambique-por-13%C2%BA-sal%C3%A1rio/a-71330755>, consultado a 23 de Janeiro de 2025).

140 Lei n.º 1/2018, de 12 de Junho.

141 De acordo com o n.º 2 do artigo 9 da Resolução que a cria, Resolução n.º 21/2023, de 17 de Julho, “[a] CREMOD deve ainda, no fim do prazo do mandato, apresentar um relatório final com as principais constatações e recomendações”.

142 Mäusse, I. (2024, 27 de Novembro). A menos de dois meses do fim de mandato: Governo mantém em profundo “segredo” as conclusões preliminares sobre o modelo de descentralização proposto pela CREMOD, In Centro de Integridade Pública (CIP). Disponível em: <https://www.cipmoz.org/en/2024/11/27/a-menos-de-dois-meses-do-fim-de-mandato-governo-mantem-em-profundo-segredo-as-conclusoes-preliminares-sobre-o-modelo-de-descentralizacao-proposto-pe-la-cremod/>, consultado a 22 de Janeiro de 2025.

## 7.4 Risk of defects in the provision of public services by the decentralised bodies

The period after the general elections of 9 October 2024, and particularly after the announcement of the results by the National Elections Commission (CNE) on 24 October, was marked by a wave of demonstrations and protests which ended in vandalism and the destruction of various infrastructures, both public and private. During the same period, some commercial establishments that had generated fiscal revenue for the provincial and municipal authorities, in the context of decentralisation, closed down<sup>143</sup>.

It is also worth noting that, although the 25 measures in force for the next 100 days, counted as from 17 January, recently announced by Venâncio Mondlane<sup>144</sup> – the presidential candidate defeated in the last presidential elections – do not refer to the payment of taxes and fees for the decentralised bodies, hypothetically, if the post-election tension continues, there are risks that the sources of revenue of these bodies will be affected.

Should this risk occur, it could put constraints on decentralised governance, making it, to some extent, unable to guarantee the provision of particular essential public services, which are highly dependent on the sources of funding of these bodies, which lack the capital to cover their costs, notably wages, water, fuel, etc<sup>145</sup>.

In this regard, a study which used as its sample seven (7) municipalities, undertaken by the Centre for Public Integrity (CIP) in May 2023<sup>146</sup>, concluded that the municipalities are not sustainable, particularly when only their own revenue is taken into account. They do not have the minimum capacities to exercise their attributes.

To mitigate this risk, there must be a frank and calm political dialogue between the main political opponents from the latest elections, a measures that was being rehearsed by the outgoing President of the Republic, Filipe Nyusi, in the final days of his term of office.<sup>147</sup>

If this dialogue occurs, it will guarantee that there is more investment in the territories under the jurisdiction of the decentralised bodies, allowing the maintenance, recovery and increase in sources of revenue making it possible to cover the running costs and capital costs of these bodies<sup>148</sup>. Only in this way will the provision of public services and improvements of the quality of life of the citizens residing in these areas be viable.

## 7.5 Risks inherent in the new design of powers between the Secretary of State in the province and the Provincial Governor resulting from potential amendment of the law

There is a national consensus that the current legislation on decentralisation needs amendment, looking particularly at the problem of conflict of powers between the Secretary of State in the province and the provincial governor. Both the previous government, in setting up CREMOD<sup>149</sup>, and the current one, through the statements of President Daniel Chapo, in his inaugural speech, agree on the need for urgent revision of the legislation in order to clarify the powers of each of these bodies<sup>150</sup>.

143 É o que, por exemplo, aconteceu em sede do Mercado Grossista do Zimpeto, na Cidade de Maputo, de acordo com a reportagem exibida pela TV Sucesso, no dia 13 de Dezembro de 2024. Disponível em: <https://www.facebook.com/watch/?v=1385583415907862>, consultado a 22 de Janeiro de 2025.

144 O documento, em referência, tem a designação de Decreto n.º 1/2025, de 17 de Janeiro. Disponível em: [https://macua.blogs.com/moambique\\_para\\_todos/2025/01/decreto-n%C2%BA-1-2025-de-17-de-janeiro-ven%C3%A2ncio-mondlane.html](https://macua.blogs.com/moambique_para_todos/2025/01/decreto-n%C2%BA-1-2025-de-17-de-janeiro-ven%C3%A2ncio-mondlane.html), consultado a 4 de Fevereiro de 2025.

145 VOA (2022, 12 de Outubro). Moçambique: Sem impostos, municípios tornam-se insustentáveis. Disponível em: <https://www.voaportugues.com/a/mo%C3%A7ambique-sem-impostos-munic%C3%ADpios-tornam-se-insustent%C3%A1veis/6787140.html>, consultado a 23 de Janeiro de 2025.

146 Centro de Integridade Pública (CIP) (2023, 17 de Maio). Sustentabilidade Financeira das Autarquias Locais: uma crítica às propostas de incremento do número de Autarquias Locais em Moçambique. Disponível em: <https://www.cipmoz.org/wp-content/uploads/2023/05/SUSTENTABILIDADE-FINANCEIRA-DAS-AUTARQUIAS-LOCAIS-2.pdf>, consultado a 22 de Janeiro de 2025.

147 O País (2024, 30 de Dezembro). Presidente da República reúne-se com partidos políticos. Disponível em: <https://opais.co.mz/presidente-da-republica-reune-se-com-partidos-politicos/>, consultado a 23 de Janeiro de 2025.

148 AIM (2024, 21 de Novembro). IMD aponta problemas socioeconómicos como causa das manifestações. Disponível em: <https://aimnews.org/2024/11/21/imd-aponta-problemas-sociais-como-sendo-o-motor-das-manifestacoes/>, consultado a 23 de Janeiro de 2025.

149 Cfr. artigo 5 da Resolução que cria a CREMOD, Resolução n.º 21/2023 de 17 de Julho.

150 Cfr. Discurso de Tomada de Posse de Daniel Chapo ao cargo de Presidente da República. Disponível <https://www.presidencia.gov.mz/index.php/por/In-formacao/Imprensa/Discursos/DISCURSO-DE-INVESTIDURA-DO-51-PRESIDENTE-DA-REPUBLICA-DE-MOCAMBIQUE-SUA-EXCELENCIA-DANIEL-FRANCISCO-CHAPO>, consultado a 4 Fevereiro de 2025.

Changing the law on decentralisation could risk new foci of conflict resulting from the new format of attributes and powers of the Secretary of State in the province in his relationship with the governor. Connected to this is the risk inherent to the discontinuities of routines, powers and attributes of the provincial and district governments, which overload the staff of these institutions, the users of the public services and the public at large. This happened in the first months of implementation of the current model of decentralisation<sup>151</sup>.

To mitigate this risk, the process to amend these norms must be comprehensive, and open to the participation of various social actors. The Government must not make amendment of the law exclusively its own business. In this regard, it is worth recalling that the norms currently in force, which have generated this conflict of powers between the Secretary of State and the Provincial Governor, were designed by the previous government on its own. Even after the specific alterations introduced in April and August 2020, it was not possible to heal the overlapping of powers and attributes between the two bodies in the province.

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151 A este respeito, veja mais desenvolvimento no estudo desenvolvido pelo CIP. Cfr. Maússe, I. (2024, 23 de Maio). Governação Descentralizada Provincial: 4 anos após implementação, Serviços e Direcções Provinciais permanecem com competências concorrentes. In Centro de Integridade Pública (CIP). Disponível em: <https://www.cipmoz.org/pt/2024/05/23/governacao-descentralizada-provincial-4-anos-apos-implementacao-servicos-e-direccoes-provinciais-permanecem-com-competencias-concorrentes/>, consultado a 10 de Janeiro 2025.

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▪ **Legislation**

Law no. 7/2019, of 31 May, which establishes the legal framework for the organisation and operations of the bodies that represent the State in the Province.

Law no. 4/2019, of 31 May, which establishes the legal framework of the principles, norms and powers of the executive bodies of the bodies of provincial decentralised governance.

Law no. 1/2018, of 12 June which approves the Amendments to the Constitution of the Republic.

Resolution no. 21/2023 of 17 July, which sets up CREMOD – Commission of Reflection on the Model of Decentralisation.

Decree no. 63/2020, of 7 August, regulating the norms, powers and principles of the bodies representing the State in the Province (Law no. 7/2019, of 31 May).

Decree no. 64/2020, of 7 August, regulating the norms, powers and principles of the executive bodies of the bodies of Provincial Decentralised Governance (Law no. 4/2019, of 31 May).



## 8. CLIMATE RISKS AND ENVIRONMENTAL GOVERNANCE

This section deals with the main risks to be monitored in the area of environmental governance in 2025, namely the climatic vulnerability of Mozambique and the growing involvement of politically exposed persons (PEPs) in mining<sup>152</sup> which could hinder adequate environmental inspection. Mining is responsible for damaging the environment with negative impacts on the population and on the ecosystems. This section also presents recommendations for adapting to climate change and for preventing and mitigating environmental problems.

### 8.1 Climate risks

The risks of environmental governance in Mozambique are analysed in a context of growing global concerns about climate change, environmental problems and social conflicts.

Mozambique, which has a tropical to sub-tropical climate, is classified in fifth position in the world ranking of climatic vulnerability<sup>153</sup>. It is highly exposed to extreme climate events such as droughts, cyclones and floods<sup>154</sup>.

Cyclones make the population still more vulnerable and worsen their poverty. More than half the population lives below the poverty line, and about two thirds live in coastal regions, where they face precarious housing conditions and degraded public infrastructure<sup>155</sup>. The main impacts of cyclones include:

- i. The recurrent humanitarian crises are worsened during the rainy season;
- ii. The loss of housing and infrastructures, particularly in vulnerable coastal areas;
- iii. The reduction of agricultural productivity and an increase in food insecurity.

The cyclones that hit Mozambique from 1980 to 2023 are shown in Graph No 1. In December 2024 Cyclone Chido caused significant impacts, followed by Cyclone Dikeledi in 2025. These phenomena caused loss of life, injuries and destruction of housing and essential infrastructure, including health units and schools, worsening the vulnerability of the communities affected<sup>156</sup>.

In the last ten years, cyclones have annually caused socio-economic and environmental problems and the government's response has been inefficient and ineffective.

Graph No. 1. Cyclones that hit the Mozambican coast 1980-2023

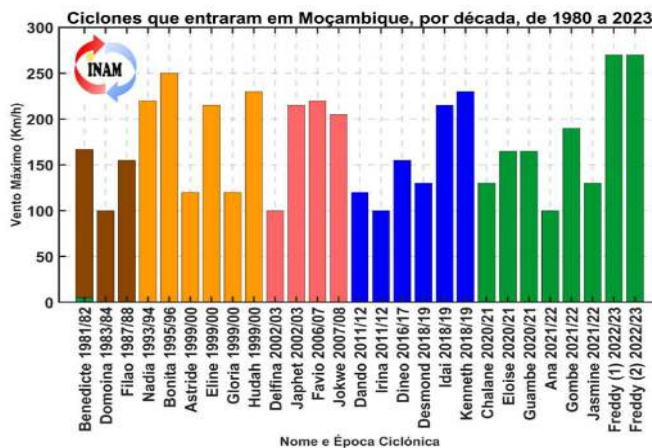


Figura 8: Sistemas tropicais que atingiram a costa moçambicana por década (cada cor representa 10 anos).

Source: National Institute of Meteorology, 2023<sup>157</sup>.

152 Calangue, M. (2025, 18 de Fevereiro). Governo de Chopo composto por homens de negócios. In CIP <https://www.cipmoz.org/wp-content/uploads/2025/02/Governo-de-Chopo-composto-por-homens-de-negocios-1.pdf> [acessado a 19 de Fevereiro de 2025 às 11:00h].

153 AFRICAIA, Lda (2022). Relatório sobre o Impacto das Mudanças Climáticas no Saneamento em Moçambique. <https://www.wateraid.org/mz/sites/g/files/jkxoof341/files/o-impacto-das-mudanas-climticas-no-saneamento-em-moambique.pdf> [acessado a 14 de Janeiro de 2025 às 10:30h]

154 Food and Agriculture Organization-FAO (2016). AQUASTAT Country Profile –Mozambique. 17 pp. FAO, Rome.

155 Miguel, R. (2024, 12 de Setembro). Moçambique, entre pobreza, eventos climáticos e falta de recursos para atender afetados. In VOA. <https://www.voaportugues.com/a/moambique-entre-pobreza-eventos-climaticos-e-falta-de-recursos-para-atender-afetados/7781867.html> [acessado a 14 de Janeiro de 2025 às 12:00h].

156 UNICEF Mozambique (2025). Ciclone Dikeledi e Chido em Moçambique. <https://www.unicef.org/mozambique/ciclone-dikeledi-e-chido-em-moambique> [acessado a 20 de Janeiro de 2025 às 12:00h].

157 Instituto Nacional de Meteorologia (INAM) (2023). Relatório do Estado do Clima de Moçambique em 2023. <https://www.inam.gov.mz> [acessado a 14 de

The impacts of cyclones are devastating for the population, the economy and the environment, hitting key sectors such as agriculture, housing and transport infrastructures. The government's poor capacity to respond to cyclical cyclones compromises the resilience of the country in the face of climate change. Although the government is aware of the climatic vulnerability of the country, it has not adopted efficient and effective measures to minimise the effects of cyclones.

Another significant risk that worsens climate problems is poor monitoring linked to lack of transparency in managing and accounting for donations for victims of climate events, which feeds corruption.

Not all the people affected receive humanitarian assistance and among those who do receive it, the distribution of resources happens in a precarious and non-transparent manner with signs of corruption and theft<sup>158</sup>. Furthermore despite the efforts to rebuild infrastructures after disasters, these are destroyed again in the next cyclone season, compromising the resilience of the communities affected and representing a significant waste of economic resources.

In Mozambique, new buildings have not been designed in accordance with the requirements imposed by climate change, and so are highly vulnerable to natural disasters. Hence, recently inaugurated infrastructures are frequently destroyed by extreme events. One emblematic example occurred in Metuge, Cabo Delgado, where the Naminawe health centre, inaugurated in November 2024<sup>159</sup> was destroyed only a month later by Cyclone Chido, in December.

The lack of effective policies for building climate-resilient infrastructures may be linked to hidden economic interests. Companies profiting from post-disaster reconstruction might deliberately avoid implementation of sustainable construction measures, thus guaranteeing the maintenance of lucrative contracts for reconstruction after each disaster. This dynamic may benefit groups linked to political power, resulting from a deliberately ineffective government response.

The measures recommended to prevent, adapt to, and mitigate natural disasters include:

- i. Consult architects specialised in bioclimatic architecture to guide the building of infrastructures resistant to tropical storms and cyclones, and elevated roads with gutters to prevent flooding;
- ii. Introduce regulations which make it obligatory to build climate-resilient infrastructures and drainage channels in all public works;
- iii. Build retention basins/wetlands;
- iv. Discuss the resettlement plan with the Assembly of the Republic, universities, local communities and Civil Society Organisations (CSOs);
- v. Account to Parliament for the sums received to manage natural disasters, in plenary sessions, transmitted by the media;
- vi. Set up committees to monitor the work of the INGC which include civil society;
- vii. Assess the level of satisfaction of the resettled communities, through surveys held by independent bodies;
- viii. Raise public awareness of systems to catch and conserve rain water and on the methods to build homes and other resilient constructions, using local materials.

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Setembro de 2024 às 12:20h].

158 Sebastião, A. (2029, 02 de Abril). Moçambique: Mais fiscalização na distribuição de alimentos. In Deutsche Welle (DW). <https://www.dw.com/pt-002/moçambique-ingc-reconhece-desonestidade-na-distribuição-de-bens-às-vítimas-do-idai/a-48169879> [acessado a 21 de Janeiro de 2025 às 08:20h].

159 Nações Unidas, Moçambique (2024, 21 de Novembro). Cabo Delgado: Presidente Filipe Jacinto Nyusi inaugura Centro de Saúde de Naminawe, distrito de Metuge. <https://mozambique.un.org/pt/284257-cabo-delgado-presidente-filipe-jacinto-nyusi-inaugura-centro-de-saúde-de-naminawe-distrito> [acessado a 11 de Fevereiro de 2025 às 10:20h].

## 8.2 Involvement of EPPs in the mining sector

In addition to climate risks, the mining sector, regarded as a significant source of State revenue, faces growing challenges concerning the involvement of Politically Exposed Persons (PEPs), constituting another risk in environmental governance. This involvement raises concerns about conflicts of interest, corruption and worsening environmental degradation, compromising not only the sustainability of natural resources, but also the rights and quality of life of the local communities.

The connection of multinational companies with Politically Exposed Persons can influence actions of government agencies responsible for environmental monitoring. For example, the population of Moatize have reported serious negative environmental impacts caused by Vulcan<sup>160</sup> and the government has not taken measures to restrict its operations or demanded practices which do not pollute the environment. The poor performance of the Government heightens concerns about political influence in the absence of offenders against the environment being held responsible.

Many of the PEPs involved in mining live in the centre of the cities, particularly in the capital, while many of the mines they operate are in remote and isolated areas where living conditions are precarious and the access roads to the mines are damaged, making transport and communications still more difficult. Geographical and social distance mean that these elites do not feel the negative impacts of environmental degradation, while the local population directly suffers the consequences of uncontrolled mining.

The involvement of the PEPs in the mining sector may increase predatory mining<sup>161</sup>, since it will be difficult to monitor the projects of the PEPs. The lack of inspection and responsibility could increase the challenges in mining, namely:

- i. Inappropriate community consultation procedures, often characterised by lack of transparency, and exclusion of real participation by the local communities.
- ii. Granting of environmental licences to companies which have defrauded or manipulated Environmental Impact Studies (EIA), resulting in the approval of projects without a rigorous assessment of their ecological and social impacts.
- iii. Expropriation of land from the affected communities, forcing displacement and increasing the socio-economic vulnerability of the population.
- iv. Loss of means of livelihood, including productive agricultural land and trees used for energy, food and construction, compromising the food and economic security of the local households.
- v. Illegal deforestation, loss of biodiversity and destruction of sensitive ecosystems, such as mangroves and primary dunes, essential for coastal protection and ecological balance.
- vi. Ruthless exploitation of natural resources, favouring private profit to the detriment of environmental sustainability and the needs of the communities.
- vii. Lack of treatment of gaseous, solid and liquid wastes, causing air, soil and water pollution, affecting public health and the local ecosystems.
- viii. Inadequate closure of mines, without effective environmental rehabilitation, including:
  - a. Failure to use native or pre-existing plants to recover degraded habitats.
  - b. Absence of restoration and fertilisation of soils, compromising their future use for agriculture and local food security.
- ix. Lack of effective environmental monitoring and of responsibility among companies that practice predatory mining, allowing environmental degradation to occur without punishment or corrective measures.
- x. Lack of transparency in the management of mining revenue.

To mitigate the growing influence of PEPs in mining, and the associated negative environmental impact, it is essential to implement monitoring mechanisms to guarantee greater transparency and sustainability. The main measures include:

160 Catueira, A. (2024, 29 de Agosto). População dá ultimato, mas poluição e detonações da mineradora Vulcan continuam em Moatize. In VOA. <https://www.voaportugues.com/a/populacao-da-ultimato-mas-poluicao-e-detonacoes-da-mineradora-vulcan-continuam-em-moatize/7764281.html> [acessado a 11 de Fevereiro de 2025 às 11:00h].

161 Rodrigues, M., Mate R. e Massingue R. (2024, 19 de Setembro). Mineração predatória – Impactos socioeconómico e ambiental da exploração de areias pesadas pela empresa Haiyu Mining, para as comunidades do distrito de Angoche. In CIP. <https://www.cipmoz.org/pt/2024/09/19/mineracao-predatoria-impactos-socioeconomico-e-ambiental-da-exploracao-de-areias-pesadas-pela-empresa-haiyu-mining-para-as-comunidades-do-distrito-de-angoche/> [acessado a 11 de Janeiro de 2025 às 10:20h].

- i. Involve Civil Society Organisations (CSOs) in Environmental Impact Assessments (AIA) to ensure that the granting of environmental licences follows rigorous criteria.
- ii. Divulge and guarantee free access to Environmental Impact Studies (EIA), ensuring transparency in project approval.
- iii. Set up systems for strict monitoring by CSOs to inspect projects with negative environmental impacts, especially those associated with PEPs as effective beneficiaries.
- iv. Implement regular environmental inspection in all phases of the project, guaranteeing participation by CSOs and local communities to avoid irregularities.
- v. Ensure inspection of the waste treatment systems by the CSOs, guaranteeing that the companies comply with environmental standards and do not contaminate the environment .
- vi. Divulge and guarantee public access to the reports on environmental quality produced by the companies, ensuring independent verification of the data.
- vii. Promote transparency in the accounts of the mining projects, making it possible to follow the amount of ore extracted, the revenue generated and the profits of the companies.
- viii. Strengthen the sanctioning of offending companies, including PEPs involved in predatory practices, ensuring adequate sanctions and the environmental recovery of the affected areas.

### 8.3 Conclusion

The effects of climate change and of environmental degradation are an alarming reality in Mozambique, with severe impacts on vulnerable population groups and essential ecosystems. Environmental governance remains fragile with insufficient government actions and frequently influenced by private economic interests, often to the detriment of the welfare of the affected communities and of environmental sustainability.

It is urgent to strengthen environmental governance, strengthen public policies, guarantee construction of climate-resilient infrastructures, improve inspection mechanisms and actively involve civil society in environmental protection. Without concrete measures, Mozambique will remain hostage to unsustainable practices, compromising its socio-economic development and the preservation of its natural resources for future generations.

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- Rodrigues, M., Mate R. e Massingue R. (2024, 19 September). Mineração predatória – Impactos socioeconómico e ambiental da exploração de areias pesadas pela empresa Haiyu Mining, para as comunidades do distrito de Angoche. In *CIP*. <https://www.cipmoz.org/pt/2024/09/19/mineracao-predatoria-impactos-socioeconomico-e-ambiental-da-exploracao-de-areias-pesadas-pela-empresa-haiyu-mining-para-as-comunidades-do-distrito-de-angoche/> [consulted on 11 January 2025].
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