Mozambique

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Mozambique	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Non - Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	World Governance Indicators (Average Score)

Major Investment Areas:

Agriculture - products:

cotton, cashew nuts, sugarcane, tea, cassava (tapioca), corn, coconuts, sisal, citrus and tropical fruits, potatoes, sunflowers; beef, poultry

Industries:

aluminum, petroleum products, chemicals (fertilizer, soap, paints), textiles, cement, glass, asbestos, tobacco, food, beverages

Exports - commodities:

aluminum, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity

Exports - partners:

South Africa 30.9%, Belgium 12.8%, China 9%, Italy 7.8%, Spain 6.2%, India 5.6% (2012)

Imports - commodities:

machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles

Imports - partners:

South Africa 30.7%, China 12.2%, India 11.4%, US 5.1%, Portugal 4.8%, Australia 4.4% (2012)

Investment Restrictions:

The Government of Mozambique is receptive to foreign investment, which it views as a means to drive economic growth and promote job creation. Virtually all business sectors are open to foreign investors. The government has processes in place to review and approve each foreign and domestic investment; however there are almost no restrictions on the form or extent of foreign investment.

For investment projects submitted to CPI, final approval is granted by the following government entities:

1) The Provincial Governor for domestic investment projects with an investment value of less than 1.5 billion meticais (about $55 million);

2) The Director General of CPI for foreign and/or national investment projects with an investment value of less than 2.5 billion meticais (about $92 million);

3) The Minister of Planning and Development for foreign and/or national investment projects with an investment value of less than 13.5 billion meticais (about $500 million);

4) The Council of Ministers for:

a) investment projects with an investment value greater than 13.5 billion meticais (about $500 million);

b) investment projects that require a land area greater than 10,000 hectares, to be used for any purpose, except if located on a forest area greater than 100,000 hectares;

c) any other projects that have foreseeable political, social, economic, financial or environment impacts such that their nature should be reviewed and decided by the Council of Ministers, at the proposal of the Minister of Planning and Development.

Contents

Section 1 - Background

Almost five centuries as a Portuguese colony came to a close with independence in 1975. Large-scale emigration, economic dependence on South Africa, a severe drought, and a prolonged civil war hindered the country's development until the mid 1990s. The ruling Front for the Liberation of Mozambique (Frelimo) party formally abandoned Marxism in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. A UN-negotiated peace agreement between Frelimo and rebel Mozambique National Resistance (Renamo) forces ended the fighting in 1992. In December 2004, Mozambique underwent a delicate transition as Joaquim CHISSANO stepped down after 18 years in office. His elected successor, Armando Emilio GUEBUZA, promised to continue the sound economic policies that have encouraged foreign investment. President GUEBUZA was reelected to a second term in October 2009. However, the elections were flawed by voter fraud, questionable disqualification of candidates, and Frelimo use of government resources during the campaign. As a result, Freedom House removed Mozambique from its list of electoral democracies.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Mozambique is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Mozambique was undertaken by the Financial Action Task Force (FATF) in 2011. According to that Evaluation, Mozambique was deemed Compliant for 0 and Largely Compliant for 1 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2011):

The AML system in the Republic of Mozambique is still in an early development stage and much work needs to be done with regard to the implementation of the AML/CFT system, capacity building and awareness raising within the reporting community and the general public.

Law 7/2 002 of 5 February is the primary enactment which supports the AML legal framework in Mozambique. AML Regulations, Decree 37 /2004 of 8 September, have also been issued for implementing Law 7/2002. Terrorist financing is not criminalised in Mozambique.

The major profit generating crimes include corruption, car theft, drug trafficking, human trafficking and illicit trade in precious minerals. While Law 7/2002 provides for a reporting regime, suspicious transaction reporting was found to be relatively low a nd there had been no prosecution for the money laundering offence at the time of the onsite visit.

The threat of domestic and international terrorism is low in Mozambique.

US Department of State Money Laundering assessment (INCSR)

Mozambique is deemed a Jurisdiction of Primary Concern by the US Department of State International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

As reported by the Attorney General's Office (PGR) to Parliament in 2017, money laundering in Mozambique is driven by cases of misappropriation of state funds, kidnappings, human trafficking, narcotics trafficking, and wildlife trafficking. With a long and largely unpatrolled coastline, porous land borders, and a limited rural law enforcement presence, Mozambique is a major corridor for the movement of illicit goods, with narcotics typically trafficked through Mozambique to South Africa or on to further destinations, such as Europe. The PGR and Bank of Mozambique (BOM) have shown a willingness to address money laundering, and the Government of Mozambique has taken steps to improve the legal framework; however, attorneys, judges, and police lack the technical capacity and resources to successfully combat money laundering. Mozambique would also benefit from better collaboration and information sharing among institutions, including the Central Cabinet for Combating Corruption, the Criminal Investigations Police, the FIU, and the BOM.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The discovery of U.S. $2 billion in illicit government-backed loans made by three state-owned companies in Mozambique without parliamentary oversight or inclusion in the national budget caused the IMF and international donors to halt direct budget support in 2016, with between U.S. $700 million and U.S. $1.2 billion of these funds still unaccounted for. Lax oversight of government borrowing creates opportunities for misappropriation of state funds and the potential for money laundering to hide ill-gotten assets.

International criminal syndicates are playing a more prominent role in illicit activities in Mozambique, with South Asian narcotics syndicates increasingly trafficking opiates and East Asian criminal organizations expanding engagement in wildlife poaching, illegal timber harvesting, and the transshipment of elephant ivory and rhino horns. Human trafficking for forced labor and commercial sex work remains an ongoing concern. Authorities believe proceeds from these illegal activities finance commercial real estate developments, particularly in the capital. Although money laundering in the official banking sector is a serious problem, it is conducted primarily through informal markets by foreign currency exchange houses, cash smugglers, and hawaladars. Black markets for smuggled goods and informal financial services are widespread, dwarfing the formal retail sector in most parts of the country. Although there are three free trade zones in Mozambique, there is no known evidence that they are tied to money laundering. KEY AML LAWS AND REGULATIONS Law 14/2013 and decree regulation 66/2014 provide additional tools and authority to combat money laundering in Mozambique. The law criminalizes terrorism finance, specifies evidence collection procedures, and allows for the seizure of documents. Mozambique has KYC provisions and STRs are analyzed and flagged by the FIU, which distributes them to relevant investigative bodies. The regulations also require enhanced due diligence for PEPs. The BOM has placed AML obligations on local banks, including compulsory justification for payments made in foreign currencies and declaration of origin for transactions greater than U.S. $13,000.

Mozambique's criminal code (Art. 234) permits the confiscation of money in financial institutions where there are grounds to believe that the funds are proceeds or instrumentalities of crime. In 2017, Mozambique joined the Asset Recovery Inter-Agency Network for Southern Africa (ARINSA). Through ARINSA, Mozambique affords its investigators and prosecutors the opportunity to share information with other members to identify, track, and potentially seize criminal assets.

Mozambique is a member of the ESAAMLG, a FATF-style regional body.

AML DEFICIENCIES

Although Mozambique has made steady progress establishing a legal framework that supports money laundering investigations, implementing agencies require access to more robust human, financial, and technical resources to investigate and prosecute money laundering and financial crimes cases effectively. The government has attempted to address this deficiency with money laundering content in its police academy training programs and through donor-supported seminars designed to build awareness of money laundering crimes. The FIU has expressed interest in joining the Egmont Group and has implemented many of the physical and information systems measures needed to become a member; however, it is still waiting for the Council of Ministers' approval to apply for membership.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Mozambique has demonstrated progress in enforcement under its AML laws and implementing regulations. In 2016, the PGR opened 16 money laundering investigations, twice the number it initiated in 2015. From these cases, the PGR brought seven indictments. During this same period, the BOM inspected six banks due to compliance concerns. The inspections found some deficiencies, but sanctions have not yet been initiated. The BOM also closed down Nosso Banco, a bank with ties to U.S. Department of the Treasury-sanctioned drug kingpin Mohamed Bachir Suleman. The PGR indicated it is investigating the possibility of fraud associated with the Nosso Banco bankruptcy. The U.S. government and Mozambique are in the early stages of establishing records-exchange procedures. To that end, the U.S. Drug Enforcement Administration opened its first office in Mozambique in 2017 and is working to develop the mechanisms that will facilitate future information sharing on money laundering and narcotics cases. Additionally, the FIU already has signed MOUs with FIUs in Angola, Cape Verde, Ethiopia, Lesotho, Malawi, Namibia, Brazil, South Africa, Swaziland, Uganda, Zambia, and Zimbabwe.

Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Mozambique does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a “safe harbour” defence to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations

Criminalised Financing of Terrorism - The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.

EU White list of Equivalent Jurisdictions

Mozambique is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Mozambique is not considered to be an Offshore Financial Centre

Reports

US State Dept Narcotics Report 2014:

Mozambique is not a significant producer of illegal drugs or chemical precursors. Cannabis is cultivated on a small-scale for local consumption. The country's Office to Combat and Prevent Drug Use (GCPCD) reports that domestic consumption of heroin, cocaine, and ecstasy is anecdotally thought to be on the rise in urban areas.

Mozambique's seldom-patrolled borders and coastlines, however, leave it vulnerable as a transit point for narcotics heading to destination markets in South Africa, Asia and Europe. Southwest Asian traffickers are believed to ship hashish, heroin, and synthetic drugs into Mozambique via small ships, while couriers carrying South American cocaine are frequently interdicted on international flights from Brazil. Government of Mozambique police contacts report that narcotics shipments make use of the same transnational crime networks that facilitate trafficking in persons and wildlife products derived from poaching.

The government's efforts to stem the flow of narcotics are further hampered by limited political will, corruption and a comprehensive lack of resources. Mozambique has yet to convict any major drug traffickers. While the GCPCD claims that narcotics–related arrests increased in 2013 from 2012, the office noted that every interdiction involved "small fish." Arrests rose despite cuts in funding to anti-drug programs – the GCPCD noted that its own budget was slashed by 20 percent over 2012 – but this may have been due to increased trafficking rather than improved government interdiction.

Among its accomplishments in 2013, the Government of Mozambique completed a draft comprehensive national anti-narcotics strategy. This strategy would replace the previous strategy that expired in 2007, to cover the period from 2008-2022, and currently awaits final approval from Mozambique's Council of Ministers.

The government's efforts to reduce demand for illegal drugs are centered on the GCPCD's educational drug prevention workshops, which are administered in all 11 Mozambican provinces. Drug treatment facilities are few and those that exist are located within psychiatric hospitals. The United States provides funding to the Joint Programme for Treatment of Substance Use Disorders, a program co-administered by the UN Office on Drugs and Crime (UNODC) and the World Health Organization that supports the development of the country's treatment system.

US State Dept Trafficking in Persons Report 2016 (introduction):

Mozambique is classified a Tier 2 (watch list) country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Mozambique is a source, transit, and, to a lesser extent, destination country for men, women, and children subjected to forced labor and sex trafficking. The use of forced child labor occurs in agriculture, mining, and market vending in rural areas, often with the complicity of family members. Women and girls from rural areas, lured to cities in Mozambique or South Africa with promises of employment or education, are exploited in domestic servitude and sex trafficking, in addition to voluntary migrants from neighboring countries. Mozambican girls are exploited in prostitution in bars, roadside clubs, overnight stopping points, and restaurants along the southern transport corridor that links Maputo with Swaziland and South Africa. Children exploited in prostitution is of growing concern in Maputo, Beira, Chimoio, Tete, and Nacala, which have highly mobile populations and large numbers of truck drivers. As workers and economic migrants seek employment in the growing extractive industries in Tete and Cabo Delgado, they increase the demand for sexual services, potentially including child prostitution. Mozambican men and boys are subjected to forced labor on South African farms and mines, or as street vendors, where they often labor for months without pay under coercive conditions before being turned over to police for deportation as illegal migrants. Mozambican boys migrate to Swaziland to wash cars, herd livestock, and sell goods; some subsequently become victims of forced labor. Mozambican adults and girls are subjected to forced labor and sex trafficking in Angola, Italy, and Portugal. Persons with albinism (PWA), including children, are increasingly vulnerable to trafficking for the purpose of organ removal. Informal networks typically comprise Mozambican or South African traffickers. South Asian smugglers who move undocumented South Asian migrants throughout Africa also reportedly transport trafficking victims through Mozambique. Previous reports allege traffickers bribe officials to move victims within the country and across national borders to South Africa and Swaziland, and prison officials force women to provide sex acts in exchange for provisions.

The Government of Mozambique does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government launched a national reference group to coordinate inter-ministerial anti-trafficking efforts with civil society stakeholders and sustained nationwide coverage of its regional “reference groups.” It also published four guides to assist police officers in the identification of potential trafficking victims and disseminated trafficking awareness materials across social media channels. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Mozambique is placed on Tier 2 Watch List. Although the government increased investigations of potential trafficking cases, it prosecuted 35 suspected traffickers and convicted 11 offenders compared with 44 prosecutions and 32 convictions in 2014. It did not finalize its national action plan or the implementing regulations for the 2008 anti-trafficking law. The government did not report identifying or protecting victims during the year, and the government’s funding for and provision of protective services remained inadequate.

US State Dept Terrorism Report

No report available

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	25
World Governance Indicator – Control of Corruption	18

Companies looking to operate in Mozambique face a very high risk of corruption in most sectors. Forms of corruption range from petty bribes to deeply entrenched clientelistic and patronage systems, and donor countries have shown dissatisfaction over the country's anti-corruption efforts. Corruption is particularly prominent in public procurement and the tax and customs administrations. Even though a relatively well-established legal framework is in place, many loopholes exist. For instance, the Anti-Corruption Law does not cover all forms of corruption (e.g., embezzlement is not covered). The judiciary is generally considered corrupt and is subject to political influence, impeding the effective enforcement of the law. Gifts and facilitation payments are common when dealing with officials. **Information provided by GAN Integrity.**

IMF Report: Republic of Mozambique : Selected Issues (March 2018) - Extracts relating to Corruption

For Mozambique, governance and corruption indicators have been progressively deteriorating. Over the past ten years, the Worldwide Governance Indicators (WGI) deteriorated on all six dimensions). While Mozambique still fares better than Sub Saharan Africa's (SSA) averages on two indicators, (voice & accountability and regulatory quality), it continues to fall behind neighboring countries in government effectiveness, control of corruption, and rule of law. The gap between its percentile ranking for control of corruption (21) and SSA average (31) stands out and marks a rapid drop since 2010 (41 percentile rank) (WGI 2016). This is in line with findings from other governance and perception of corruption indices, including the Corruption Perception index (CPI), the Ibrahim index of African Governance (IIAG), and the survey of business leaders by the World Economic Forum.

Several factors underlie this progressive deterioration in governance and corruption in Mozambique. These include: (i) a large informal economy with limited financial inclusion, which allows for a high share of cash transactions, and makes it difficult to track and control illicit transactions; (ii) a large, complex and obscure structure of beneficial ownership of state owned enterprises; (iii) a patronage political culture that often relies on the provision of benefits and public goods in exchange of political support; and (iv) weak and underfunded oversight and regulatory institutions.

The government recognizes the magnitude of the problem, but a coherent strategic plan remains to be enforced. Supporting anti-corruption efforts was at the forefront of president Nyusi 2014 presidential campaign and was emphasized in his inauguration speech, promising zero tolerance with government corruption. However, progress has been slow with momentum building up only recently. A new anti-corruption plan was adopted in November 2016 after the disclosure of hidden loans.4 This was also followed by other corruption cases making it to the news headlines While Mozambique has an updated anti-corruption framework, it faces the challenge of effective implementation and enforcement.

Financial sector integrity

Corruption constrains financial sector development through the following channels:

Preference for cash balances relative to deposits. The prevalence of cash transactions facilitates the concealment of illegal proceeds. Such proceeds reduce funds available for financial intermediation and delay financial sector development.

Money laundering in the financial system. In weak regulatory environments, criminal elements may take control of small financial institutions. Transactions with corrupt clients may increase operational risks for banks and other clients. These risks compromise the client base trust in financial corporations and their reputation. In addition, it may increase concentration of deposits in large and reputable financial institutions with strong control systems in place. In addition, an increased perception of respondent banks inability to manage money laundering risks, can compromise correspondent banking relationships.

Reduced access to finance for companies. Financial institutions operating in corrupt environments end-up increasing the cost of financial intermediation, leading to: (i) reducing credit to the economy, (ii) causing portfolio loan concentration and (iii) discouraging legitimate investment. In Mozambique, lending rates are structurally high, constraining access to credit for SMEs and households, and potential pricing risks of money laundering.

Over the last decade, Mozambique experienced a rapid growth of the banking sector. The banking sector expansion was driven by potential growth in a resource-rich economy. It experienced an increase in domestic source of funding, creating opportunities for financial intermediation and deepening. Mozambique ranks well in financial sector development in relation with comparable countries in SSA. The number of banks increased from 12 to 18 between 2005 and 2017. Also, bank branches increased from 214 to 659 in 2017, largely in urban areas (about 71 percent).

Mozambique faces structural characteristics that challenge financial sector development and integrity. These challenges interact with corruption and money laundering risks. The Mozambican banking sector is highly concentrated with the top 4 largest banks being foreign owned and holding almost 85 percent of loans and deposits in 2016. Many banks are small in size. The deposit base is narrow and concentrated in a few large clients.14 In mid-2017, there were 5.4 million bank accounts held by a maximum of 36 percent of the adult population. The use of cash transactions is important in demographic segments characterized by informality, poverty, and limited access to financial services and products.

Mozambique faces important anti-money laundering vulnerabilities. Mozambique was last assessed against the FATF 2004 standard by the Eastern and Southern Africa Anti-Money Laundering Group (ESAMLAAG) on September 2011. In its mutual evaluation report, Mozambique was not found compliant with any of the 40+9 FATF recommendations, and largely compliant with only one. As a consequence, it was placed – and remains – under enhanced follow-up. Some of the main concerns include: (i) inadequate AML/CFT supervision of financial institutions; (ii) lack of effective supervision of Designated Non-

Financial Businesses and Professions (DNFBPs); and (iii) lack of enforceable requirements for financial institutions to identify PEPs.

An effective implementation of the AML/CFT framework could support Mozambique's anti-corruption efforts. Proceeds of corruption must be laundered to be enjoyed. Therefore, an effective AML framework can contribute to the prevention, detection and confiscation of ill-gotten gains. Under the Financial Action Task Force (FATF) standard, a country's AML framework must require (i) enhanced scrutiny of transactions conducted by politically exposed persons (PEPs); (ii) transparency of the ultimate beneficial owner of corporate vehicles; and (iii) effective and operational agencies specialized in AML, such as financial intelligence units.

Mozambique has an asset disclosure system. This regime was included in the Public Probity Law, as part of the 2012 anti-corruption legislative package. The law requires public officials24 to disclose assets and interests legally owned – and those of their spouse, underaged children and legal dependents – to enhance transparency and prevent conflicts of interest. These disclosures are subject to verification by the 12 RVCs. The forms are accessible to law enforcement agencies and in fact, according to the PGR, corruption investigations have already been initiated because of the verification of asset disclosures.

To enhance its effectiveness, Mozambique should consider reassessing the implementation of their asset disclosures regime and further reforming the legal framework to bring in line with international best practices. For an asset disclosure regime to be truly effective, it should be publishable online, and subject to dissuasive sanctions for non-compliance or false declarations, and should comprise assets owned overseas. Verifications should be done methodically and accompanied by a comprehensive investigation into the declarant's lifestyle to detect non-declared assets. In Mozambique, the gravest sanction foreseen by the Public Probity Law is of two years imprisonment for the offence of illegally accessing the asset disclosures (art. 70 Law on Probity) and for prevarication (art. 74 Law on Probity). In Maputo alone, there are approximately 1,500 declarants. In 2017 only 869 disclosures were received. The RVC has yet to pursue those officials who have not declared their assets, and yet attempts to verify all forms received through the year. The verification process itself has shortcomings, as it consists on comparing the assets and interests declared with those declared the previous year, looking for discrepancies or suspicious increases in patrimony.

It is necessary to increase transparency in the ultimate beneficial owner of legal persons. Beneficial ownership of corporate vehicles continues to be obscure in Mozambique. It is required that the names of shareholders owning 20 percent or more shares of a company must be included in the articles of incorporation of a legal person. There is a registry of legal entities which is already digitalized, however, it collects exclusively information on the legal ownership of companies and is not accessible online. Bearer shares are still in use in Mozambique. Furthermore, powers of attorney are not registered. Beneficial ownership information of corporate vehicles is not required or held by financial institutions and DNFBPs. While fit and proper measures to prevent criminals and their associates from controlling financial institutions are in place, they do not cover the ultimate beneficial owner of corporate vehicles, making these measures difficult to enforce.

In this context, continue to strengthen access to finance could potentially support AML/CFT and anti-corruption efforts. Access to finance in Mozambique was at 14.2 percent in 2016.25 Mozambique has a highly informal economy. This, combined with absent supervision over DNFBPs may facilitate the concealment of proceeds of crime. An increase in the access to finance together with adequate AML/CFT supervision of DNFBPs could reduce the opportunities for financial crimes. Financial inclusion has improved since 2005 but more needs to be done.

Authorities are executing a detailed financial inclusion strategy based on three pillars that include access and use of financial services, strengthening of financial infrastructure, and better consumer protection and financial literacy

Read full report

Corruption and Government Transparency - Report by Global Security

Political Climate

Since his first term in office, Guebuza has pledged to address and fight high levels of poverty, crime, and corruption. Partly encouraged by pressure from foreign donors, who have seen the impact of their aid, comprising almost 40% of the Mozambique state budget, hampered by large-scale corruption, the government has started to signal its willingness to combat corruption by establishing a range of anti-corruption initiatives. In July 2012, President Guebuza signed into law the Public Integrity Act and the Witness and Protection Act. Furthermore, steps were taken against high-level corruption. In February 2012, the district administrator of the province of Nampula was arrested for the embezzlement of government funds, as reported by the US Department of State 2012. Freedom House 2013 also reports that in March 2012, former Interior Minister Almerino Manhenje, the former director, and the deputy director of the financial department, were all found guilty and convicted for illegal budgetary decisions and mismanagement of expenses in the year 2004. Despite improvements in the conviction of corrupt government officials, the US Department of State 2012 notes that impunity still remained a problem in Mozambique.

Despite comprehensive public sector reforms, legislation to combat corruption, and the establishment of different anti-corruption bodies, international reports evaluate that the control of corruption in Mozambique has only slightly improved in recent years. Several sources, such as the US Department of State 2013 and the Freedom House 2013, continue to report that corruption is perceived as widespread in Mozambique. According to the State of the Union's report 2010, corruption takes place at all levels of society, including the state administration as well as public and private sectors. The weakness of the National Assembly is cited as one explanation for the limited impact of anti-corruption initiatives, while the dominance of the ruling party FRELIMO and President Guebuza is frequently cited as an obstacle to the development of effective checks and balances in Mozambique. Meanwhile, the opposition parties are reportedly not in a position to act as an effective check on government policy. FRELIMO's one-party dominance has resulted in an overlap between the ruling party and the state machinery. Several observers mention the strong ties between the political and economic elite as one of the main factors behind the high level of corruption. Also in local administrations, corruption is allegedly a serious problem. In a 2010 article series, AllAfrica reported on allegations of extortion and bribery in relation to the management of the District Development Fund (DDF), an initiative that allocated MZN 7 million to the country's districts for developmental projects. Reportedly, local district administrators asked for a share of the money before funding a project.

According to Transparency International's Global Corruption Barometer 2013, 30% of the surveyed households consider the government's efforts to fight corruption as 'ineffective', while only 19% consider it as 'effective'. Furthermore, 32% of the respondents believed that corruption had increased 'a lot' over the past two years, while the police and public officials were viewed as the most corrupt public institutions. However, Mozambique's Attorney General, Augusto Paulino, has recently admitted that the public has a legitimate perception that corruption goes unpunished in the country, particularly due to the fact that several officials in the public administration torment citizens with demands for bribes, according to a 2012 article in AllAfrica. On a positive note, a July 2011 news article by AFP reports that the government of Mozambique has proposed new anti-corruption laws and toughened the Penal Code to criminalise embezzlement, influence peddling, and graft. The Parliament was expected to approve the changes at the end of the year 2011; however, the package was postponed to 2012, where the Assembly divided the package and passed the least controversial of the government bills concerning the protection of victims, witnesses and whistleblowers. As pointed out by a 2012 article in AllAfrica, the new Penal Code and Penal Procedural Code will not be discussed until October-December 2012, at the earliest. Nevertheless, the codes have still not been discussed under the time of review.

Business and Corruption

Although the general investment climate in Mozambique has improved significantly over the last several years, with economic growth rates among the highest in Africa, political stability, and government promotion of foreign direct investment, corruption remains a serious problem for foreign companies. In fact, most observers agree that corruption is one of the main constraints for doing business in Mozambique. For instance, the companies surveyed in the World Economic Forum Global Competitiveness Report 2012-2013 cite corruption as the second most problematic factor for doing business in Mozambique. Moreover, Mozambique's formal economy is shadowed by a substantial informal sector. This is supported by the Heritage Foundation 2013, which notes that many companies and businessmen have been driven into the informal sector due to arbitrary tax policies, marginal enforcement of property rights, and weak rule of law. The same report also notes that trade and investment policies have been undermined by government interference in the economy. The Government of Mozambique passed a new investment law in 2011, which came into force in 2012 and is referred to as the 'Mega-Projects Law'. The law requires that large foreign investment projects include domestic partners, as reported by the US Department of State 2013. The Heritage Foundation 2013 notes that this new law further hampers Mozambique's investment climate.

Several sources indicate that petty corruption is widespread in Mozambique. This is confirmed by the US Department of State 2013, according to which investors are faced with widespread corruption and bureaucracy which poses obstacles to doing business in Mozambique. The report further notes that civil servants extort bribes by threatening to impose antiquated regulations on companies. The US Department of State 2013 reports that a problem in solving the frequent occurrence of corruption within the Mozambican business environment is the fact that senior officials often find themselves in conflicts of interest between their public roles and their private business interests. Yet, President Guebuza signed the Law on Public Integrity in 2011, which is to address conflict of interest issues involving public officials, as reported by the US Department of State 2013.

Public procurement is an area of business activity where foreign companies are very likely to encounter corruption. Business executives surveyed by the Global Competitiveness Report 2012-2013 point to a significant extent of favouritism of well-connected companies and individuals in government officials' decisions regarding policies and contracts. Furthermore, business executives also indicate that the diversion of public funds to companies, individuals, or groups due to corruption is quite common and that the lack of ethical behaviour of companies in their interactions with public officials, politicians, and other companies represents a competitive business disadvantage for Mozambique. In order to best reduce the risk of extortion and demands for bribes in the procurement process, companies considering bidding on public tenders are advised to use a specialised due diligence tool on public procurement. Furthermore investors considering establishing themselves in Mozambique are generally advised to consult with experienced attorneys, to develop, implement and strengthen integrity systems, and to carry out extensive due diligence before committing funds or when already doing business in the country.

Regulatory Environment

The slow and cumbersome administrative procedures in most public services fuel the high level of corruption in Mozambique. For instance, according to the US Department of State 2013, the regulatory burden created by overly complicated procedures related to obtaining various licences produces a market for corrupt practices, in which public officials often request facilitation payments. These cumbersome regulations not only fuel corruption, but also pose obstacles to foreign direct investment in Mozambique. This perception is supported, among others, by the World Economic Forum's Global Competitiveness Report 2012-2013, in which business executives cite inefficient government bureaucracy as one of the greatest constraints to business operations in Mozambique. In the same survey, companies perceive government administrative requirements to be quite burdensome. Heavy bureaucracy and rigid laws increase the costs of doing business in Mozambique. Similarly, the World Bank & IFC's Doing Business 2013 reports that Mozambique performs poorly in terms of dealing with construction permits, enforcing contracts, registering property, and trading across borders. Companies report that officials use time-consuming and complicated procedures to deliberately delay permits and demand bribes for renewing a permit. Many companies consider this complicated and non-transparent administrative procedure as a major obstacle to doing business in Mozambique.

In contrast to the above, it is important to note that some improvements in the regulatory environment have been registered within the last few years. These improvements are, in part, the result of the establishment of the Investment Promotion Centre (CPI), which is intended to function as a one-stop shop for investors. Among a range of useful services, the CPI assists foreign investors in obtaining necessary licences and permits. The Commercial Code 2005 is also seen as a step forward in relation to modernising the regulatory system. Moreover, according to Doing Business 2013, Mozambique has made starting up businesses considerably easier by eliminating requirements for minimum capital and introducing a simplified licensing process. Starting a business in Mozambique now requires the entrepreneur to go through an average of 13 days and 9 procedures, at a cost of approximately 19.7% of GNI per capita, which is significantly less time-consuming and less costly than the regional average.

Companies should note that the commercial court system in Mozambique does not offer effective means for settling commercial disputes. The Commercial Code 2005 provides a modern legal basis for the resolution of commercial disputes, but serious deficiencies within the judicial system have limited the impact of the code; companies typically settle disputes privately or not at all, as reported by the US Department of State 2013. Similarly, the Bertelsmann Foundation 2012 also reports that the judiciary remains one of the weakest sectors in Mozambique. The judiciary is not only subjected to political interference from the ruling elite, but also to criminal networks and people with wealth. For disputes between international and domestic companies, the code closely follows the United Nations Commission of International Trade Law (UNCITRAL). The National Assembly has passed alternative dispute resolution legislation and has also established the Centre for Commercial Arbitration, Conciliation and Mediation (CASM), which offers commercial arbitration services. Mozambique has ratified the New York Convention 1958 and is a member of the International Centre for Settlement of Investment Disputes (ICSID), and thus accepts binding international arbitration of investment disputes between foreign investors and the state as long as provisions for such recourse have been specified in a written contract. Access the Lexadin World Law Guide for a collection of legislation in Mozambique.

Section 3 - Economy

At independence in 1975, Mozambique was one of the world's poorest countries. Socialist policies, economic mismanagement, and a brutal civil war from 1977 to 1992 further impoverished the country. In 1987, the government embarked on a series of macroeconomic reforms designed to stabilize the economy. These steps, combined with donor assistance and with political stability since the multi-party elections in 1994, propelled the country's GDP from $4 billion in 1993, following the war, to about $34 billion in 2015. Fiscal reforms, including the introduction of a value-added tax and reform of the customs service, have improved the government's revenue collection abilities.

In spite of these gains, more than half the population remains below the poverty line. Subsistence agriculture continues to employ the vast majority of the country's work force. Citizens rioted in September 2010 after fuel, water, electricity, and bread price increases were announced. In an attempt to lessen the negative impact on the population, the government implemented subsidies, decreased taxes and tariffs, and instituted other fiscal measures.

A substantial trade imbalance persists, although aluminium production from the Mozal Aluminium Smelter has significantly boosted export earnings in recent years. In 2012, The Mozambican Government took over Portugal's last remaining share in the Cahora Bassa Hydroelectricity Company, a significant contributor to the Southern African Power Pool. The government has plans to expand the Cahora Bassa Dam and build additional dams to increase its electricity exports and fulfil the needs of its burgeoning domestic industries.

Mozambique's once substantial foreign debt was reduced through forgiveness and rescheduling under the IMF's Heavily Indebted Poor Countries (HIPC) and Enhanced HIPC initiatives. However, in 2013, the Mozambique Tuna Company (EMATUM) issued an $850 million bond fully guaranteed by the Mozambican government primarily for the purpose of purchasing tuna boats. The government is attempting to reschedule this debt, in the expectation that a pending deal with a consortium led by a US company will provide enough revenue to pay off this debt. The pending deal has the potential to transform Mozambique's economy and dramatically increase GDP.

Mozambique grew at an average annual rate of 6%-8% in the decade up to 2015, one of Africa's strongest performances. Mozambique's ability to attract large investment projects in natural resources is expected to sustain high growth rates in coming years although weaker global demand for commodities is likely to weaken expected revenues from these vast resources, including natural gas, coal, titanium, and hydroelectric capacity.

Agriculture - products:

cotton, cashew nuts, sugarcane, tea, cassava (manioc, tapioca), corn, coconuts, sisal, citrus and tropical fruits, potatoes, sunflowers; beef, poultry

Industries:

aluminium, petroleum products, chemicals (fertilizer, soap, paints), textiles, cement, glass, asbestos, tobacco, food, beverages

Exports - commodities:

aluminium, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity

Exports - partners:

South Africa 24.9%, China 10.2%, Italy 8.9%, India 8.9%, Belgium 7.9%, Spain 4.4% (2015)

Imports - commodities:

machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles

Imports - partners:

South Africa 26.8%, China 19.3%, India 13.9% (2015)

Banking

The financial system of Mozambique reflects recent policies undertaken by the government and the Bank of Mozambique (Central Bank). In 1994 liberalization of interest rates was approved, and between 1996 and 1997 the government began to sell financial institutions to private buyers. The merger of two banks, the International Bank of Mozambique (BIM) and the Commercial Bank of Mozambique (BCM), was completed in 2001. The re-privatization of Banco Austral to ABSA and consequently to Barclays, the purchase of BNP Nedbank by African Banking Corporation, the closing of Credicorp, and more recently, the merger of Commercial Bank of Mozambique (BCI) and Banco de Fomento have streamlined and created major changes for the banking sector.

Grupo BIM dominates the Mozambican banking system. Grupo BIM controls 48% of the loan market and 52% of the deposit market, and has as its majority shareholder the Portuguese Commercial Bank (BCP). The second major player is BCI-Fomento. Standard Bank, Barclays, and the African Banking Corporation also offer financial services in Mozambique.

Commercial banks in Mozambique are best suited for providing short-term loans, trade-related finance, and fee-based services. Medium-term loans are available, but stiff collateral requirements and high interest rates deter many in the commercial sector. Long-term finance other than mortgage-based lending is not generally available. Leasing is an area of growing commercial bank interest. Many foreign companies find it advantageous to obtain offshore financing for their Mozambican operations. The range of services offered by domestic banks is limited, and innovation is not a hallmark of the sector. The Central Bank recently authorized two other commercial banks to operate: Moza Banco, which is a commercial and investment bank that was authorized in November 2007 and will start operating in May 2008 and Banco Terra (former GAPI) which is a development bank that will work closely with the agricultural sector.

Stock Exchange

The Mozambican Stock Exchange, founded in October 1999, was started with less than$5 million in capitalization. Although a fundamental instrument for the raising of finance by companies, to date the exchange's principal listing is Cervejas de Mocambique. The capital base requirement for listing is $1.5 million.

Section 4 - Investment Climate

Executive Summary

After a decade of consistently high growth rates and relative macroeconomic stability led to record investment flows in 2014, both foreign and domestic investment in Mozambique fell in 2015. Various factors could further depress investment in 2016: a high current account deficit, double digit inflation, currency volatility, the worst drought in decades, and rapid accumulation of debt approaching unsustainable levels.

However, vast untapped natural resources and large infrastructure and development needs still offer great opportunities to the U.S. investor. Mozambique averaged 7% GDP growth over the last decade and despite the downward revision in 2016 projections, Mozambique's economy remains on track to outperform the rest of the continent. Mid- and long-term projections still indicate consistently high growth rates driven by natural resource exploration and production, construction, and exploiting largely untapped agricultural potential. The government of Mozambique (GRM) is receptive to foreign investment, and American companies have successfully competed for projects in various sectors.

Mozambique remains a challenging place to do business. Investors must factor in widespread corruption, bureaucracy, legal and regulatory uncertainty, an underdeveloped financial system, poor infrastructure, and high on-the-ground costs. Surface transportation inside the country is slow and expensive, while bureaucracy, port inefficiencies, and corruption complicate imports. Maritime transport linking the national ports is insignificant. Macroeconomic issues in 2016 are expected to exert substantial pressure on small and medium-sized enterprises. Less than transparent government contracting in recent years suggests more rent-seeking and elite capture of increasing revenues from natural resources and other sources. Local labor law greatly limits hiring foreign workers, even when domestic labor lacks the required skills. These factors continue to hinder business registration, expansion, and sustainability and in 2015, Mozambique dropped five places in the World Bank's annual "Doing Business" report. In response, the Ministry of Industry and Commerce (MIC) has said it will lead efforts to implement reforms to improve Mozambique's standing. Mozambique has begun sharing draft local content legislation with the private sector.

Traditionally, South Africa has been Mozambique's largest trading partner. Other significant trading partners in 2015 include the United Arab Emirates, Italy, China, Portugal, and Mauritius. The United States had been a relatively minor trading partner, but has risen to become the second largest source of foreign direct investment, thanks to major investments in the oil and gas sector. There is also significant U.S. investment in tobacco production.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	112 of 168	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2016	133 of 189	doingbusiness.org/rankings

Global Innovation Index	2015	95 of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2015	$85,000	Center for Investment Promotion
World Bank GNI per capita	2014	$600	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of $4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Government of Mozambique is receptive to foreign investment, which it views as a means to drive economic growth and promote job creation. Virtually all business sectors are open to foreign investors. The government has processes in place to review and approve each foreign and domestic investment; however there are almost no restrictions on the form or extent of foreign investment. The government's Investment Promotion Center (CPI) seeks to bring investors to Mozambique and should be an investor's primary contact with the government during the initial investment stage. CPI is particularly interested in increasing investment in the central and northern regions of the country in order to address large regional development imbalances.

Contact information for CPI is:

Investment Promotion Center (CPI)
Rua da Imprensa, 332 (ground floor)
Caixa Postal 4635, Maputo
Tel: (258) (21) 313310/75 or (21) 313295/99
Fax: (258) (21) 313325
E-mail: cpi@cpi.co.mz
Internet: www.cpi.co.mz

Other Investment Policy Reviews

Mozambique has undergone investment policy reviews by both the United Nations Committee on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development.

OECD Investment Policy Review (2013)
http://www.oecd.org/daf/inv/investment-policy/mozambique-investment-policy.htm

UNCTAD Investment Policy Review (2012)
http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=222

Laws/Regulations on Foreign Direct Investment

Mozambique's Law on Investment, No. 3/93, dated June 24, 1993, and its related regulations govern national and foreign investment. Earlier amendments, from 1993 and 1995, were replaced by Decree No. 43/2009 in August 2009, which provided new regulations to the Investment Law.

CPI assists both local and foreign investors in obtaining licenses and permits. However, in general, large investors receive much more support from the government than small and medium-sized investors. Government authorities must approve all foreign and domestic investment requiring guarantees and incentives provided by the Investment Law and its regulations. The new Code of Fiscal Benefits, Law No. 4/2009 passed in January 2009, can be found at http://www.speed-program.com/investment. The Regulations of the Code of Fiscal Benefits are set forth in Decree No. 56/2009 approved in October 2009. In the third quarter of 2015, the metical depreciated drastically against the U.S. Dollar, losing more than half its value. As a result, CPI may revise the threshold amounts to qualify for fiscal benefits contained in the Investment Law.

In August 2009, Decree 43/2009 created GAZEDA, the Special Economic Zones Office. Both GAZEDA and CPI support and assist investors; however, GAZEDA focuses its activities on the Beluluane Industrial Free Zone in Maputo Province and, the Nacala Special Economic Zone in Nampula Province, Manga-Mungassa Special Economic Zone in Sofala Province, and Mocuba Special Economic Zone in Zambézia Province. More “free trade zones” are planned. The four existing zones allow exemptions from customs duties and value added tax on imports of equipment and raw materials for use within the zones. Other benefits such as a reduced corporate income tax rate are available, although for limited durations. A special labor and immigration tax scheme is available for industrial free zones.

Despite generally conducive laws, investors in Mozambique often find that public institutions have differing levels of knowledge, enforcement, and capacity to implement legislation. Courts and magistrates are overtasked and investors have complained of meddling from influential local interests.

Business Registration

Mozambique has begun the process to implement an online business registration process, and makes information on business registration and administrative practices available at: http://www.portaldogoverno.gov.mz/Servicos/NegInvestiment/reg/sociedades/socied2.

Companies must register with CPI, the commercial registry, tax authority, and social security institute. On average registering a business can take between 21 and 25 days as long as all documentation required for business registration is in order. There is no regime allowing simplified creation without a notary. CPI and GAZEDA are responsible for promoting and facilitating investment in Mozambique. They provide the following services to all investors:

Incorporation, Business Licensing (Licenciamento do Exercicio da Actividade), Entrance Visa (Visto de Entrada), Work Permits (Autorizacao de Trabalho), Residence Permits (Autorizacao de Residencia), Identification and Licensing of Land (Identificacao e Licenciamento de Terra, Identification of Business Partners (Identificacao de Parceiros para Negocios), troubleshooting, project monitoring, and implementation follow-up.

Mozambique defines the size of enterprises according to the Labor Law 23/2007. Large enterprises employ more than 100 employees. Medium-sized enterprises employ more than 10 but not more than 100 employees. Small enterprises employ up to 10 employees.

There are fiscal and tax benefits for all foreign and national investments depending on the sectors of activity. Foreign and national investors receive the same treatment, except that foreign investors have the right to transfer their profits abroad and repatriate capital invested.

All documents are checked carefully in the presence of the representative in order to ensure expedient approval. Depending on the sector of activity CPI will then coordinate the project with the corresponding Ministries for approval of the project. Investors have to fill in an application form and submit the following documents (in triplicate, in Portuguese or copies notarized by a Mozambican notary):

i. ID document or passport of each individual investor in the project
ii. Proof of the legal existence of each investing company or institution (statutes, Memorandum of Articles of Association, Company Registration Certificate)
iii. Proof of registration of Implementing company
iv. Proof of location in Mozambique of the activity of the project

Industrial Promotion

Law 4/2009 the Code of Fiscal Benefits created Science and Technology parks, Rapid Development Zones, Industrial Free Zones and Special Economic Zones in order for investors to benefit from tax exemptions. The government identified the agriculture, fisheries, and tourism sectors to receive incentives. Oil and gas sector benefits can be found under Industrial/Special Economic Free Zones as well as under Law 20 and Law 21 approved in December, 2014.

Limits on Foreign Control and Right to Private Ownership and Establishment

Mozambique's law on investments and its regulations generally do not make distinctions based upon investor origin, nor do they limit foreign ownership or control of companies. With the exception of Security & Safety, Media & Entertainment and certain game hunting concessions, there was no legal requirement that Mozambican citizens own shares of foreign investments until 2011. A new law governing public-private partnerships, large-scale ventures and business concessions, Law No. 15/2011, often referred to as the "Mega-Projects Law", passed in August 2011, states that Mozambican persons should participate in the share capital of all such undertakings in a percentage ranging from 5% to 20% of the equity capital of the project company. Regulations of this law (the "Mega-Projects Law") were approved by the Council of Ministers in June 2012, bringing it into effect. Mozambique is in the process of finalizing local content legislation that might eventually affect foreign ownership and control.

Lengthy registration procedures can be problematic for any investor -- national or foreign -- but those unfamiliar with Mozambique and the Portuguese language face greater challenges. Some foreign investors find it beneficial to work with a local equity partner familiar with the bureaucracy at the national, provincial, and district levels.

The legal system recognizes and protects property rights to building and movable property. Private ownership of land, however, is not allowed in Mozambique. Land continues to be owned by the State. The government grants land-use concessions for periods of up to 50 years, with options to renew, called DUATs (Direitos de Uso e Aproveitamento de Terra, or a land-use title). Essentially, land-use concessions serve as proxies for land titles; however, they are not allowed to be used as collateral. Although the overall land-related policy and legal framework is sound, there are some gaps in implementation of relevant laws and regulations. Key gaps include lack of clarity, limited capacity and unclear institutional arrangements, and low land tax and associated distorted incentives for land access.

There is no robust market in land user rights and land use titles are not easily transferable. The process to award land concessions is not transparent. The government at times has granted overlapping land concessions. Since the regulations of 1999 for the law of 1997, the land registration agency has accelerated the bureaucratic process of granting concessions and has reduced the period for issuance of land title to an average of 90 days, for most of the concessions (but a small percentage takes much longer, due to disputes and complexity of the procedures).

The government recently amended the regulation for community-land (Art.35) which previously allowed provincial governors to authorize the demarcation of an area of land for community management - without any maximum acreage. This has resulted in excessive requests of land allocation by communities, without any convincing justification of economic activities. Under the new regulation, governors are allowed to authorize land for demarcation for up to 1,000ha (Minister of Land, Environment, and Rural Development, up to 10,000ha, and Council of Ministers for any area above that threshold). The government is also drafting regulation on leasing land within the constitutional provisions which stipulate state ownership of all land.

Land surveys are being carried out throughout the country to enable individuals to register their land concessions. This process is moving slowly and will not provide any real legal protection to investors for some time to come. The Mozambican banking community uses property other than land, such as cars, private houses and infrastructure, as collateral. Investors should be aware of the requirement to obtain endorsement of their projects in terms of land use and allocation at a local level from the affected communities.

CPI assists investors to find land for development and obtaining appropriate documentation, including appropriate agricultural land. The government advises companies on relocating individuals currently occupying land designated for development; however companies are ultimately responsible for planning and executing resettlement programs.

Privatization Program

Mozambique's privatization program has been relatively transparent, with generally open and competitive tendering procedures in which both foreign and domestic investors have participated. Most remaining parastatals operate as state-owned public utilities, with government oversight and control, making their privatization more politically sensitive. While the government has indicated an intention to include private partners in most of these utility industries, progress has been slow.

Screening of FDI

Currently, CPI and GAZEDA handle the approval process for both foreign and domestic investors. CPI operates throughout the country, while GAZEDA is responsible for the establishment, management and development of Industrial Free Zones (ZFI) and Special Economic Zones (ZEE). For investment projects submitted to CPI, final approval is granted by the following government entities:

1. The Provincial Governor for domestic investment projects with an investment value of less than 1.5 billion meticais (about $55 million);

2. The Director General of CPI for foreign and/or national investment projects with an investment value of less than 2.5 billion meticais (about $92 million);

3. The Minister of Economy and Finances for foreign and/or national investment projects with an investment value of less than 13.5 billion meticais (about $500 million);

4. The Council of Ministers for:

a. investment projects with an investment value greater than 13.5 billion meticais (about $500 million);
b. investment projects that require a land area greater than 10,000 hectares, to be used for any purpose, except if located on a forest area greater than 100,000 hectares;
c. any other projects that have foreseeable political, social, economic, financial or environment impacts such that their nature should be reviewed and decided by the Council of Ministers, at the proposal of the Minister of Economy and Finances.

In turn, final approval of investment projects to be carried out under the ZFI or ZEE regime is granted by the Director General of GAZEDA.

Investors must submit a project application form including:

1. Copies of:

i) ID document or passport of each individual investor in the project
ii) Proof of the legal existence of each investing company or institution

2. Bank references and evidence of the necessary financial capacity to undertake the project
3. Financial accounts and annual report from the most recent financial year for each investing company or institution.

Concurrent to the project application, they must:

1. Make arrangements for land or installations, if necessary.
2. Create a project proposal and submit three (3) copies to CPI to get fiscal and customs incentives.

3. Incorporate the implementing company at the public notary and publish its statutes in the official gazette.
4. Register the company at the commercial registry and at the tax office.
5. If applicable, complete land concession title and submit technical designs and environmental impact study for approval by the relevant ministries.
6. Obtain the relevant business license (after technical inspection of the facilities) and start operations.

Competition Law

Law 10/2013 of 11 April 2013 (the Competition Law), established a modern legal framework for competition in Mozambique and created the Competition Regulatory Authority (the Authority) to enforce it. This took place in the context of a significant increase of foreign investment into Mozambique and the government's recent efforts to streamline economic initiatives and to liberalize some key sectors, such as communications, ports, railways, and financial services.
While the Competition Law still lacks provisions in several areas, statues published in August 2014 constitute a further step. The framework is inspired by the Portuguese competition enforcement system.

Violating the substantive prohibitions contained in the Competition Law (either entering into an illegal agreement or practice or implementing a concentration subject to mandatory filing) can result in a fine up to 5% of the turnover of each company in the previous year.

The Statute determines that the Competition Regulatory Authority's decisions may be appealed in court, namely to the Judicial Court of the City of Maputo, in the case of procedures leading to the application of fines and other sanctions, and to the Administrative Court, with regard to merger control procedures and requests for exemptions relating to restrictive agreements. The Competition Law entered into effect in July 2013. Companies with a presence in Mozambique are therefore advised to carefully consider the impact of the law on their activities.

2. Conversion and Transfer Policies

Foreign Exchange

Currency is freely convertible at banks and exchange houses for recurrent transactions while capital transactions have to be approved by the Central Bank. Guidelines for capital transactions with the Central Bank are normally outlined in the investment approval documents and can only be performed through a local bank. Foreign Direct Investments (FDI) into Mozambique must be registered with the Central Bank within 90 days to allow for the monitoring of foreign exchange. Private individuals are limited to a maximum of $5,000 per foreign exchange transaction and larger transactions must receive the approval of the Central Bank. The administrative procedures required for the repatriation of capital, profits and dividends, all of which are necessarily foreign exchange transactions, can take a significant amount of time and require coordination with the Ministry of Economy and Finance to obtain tax clearance. Investors should raise any foreign exchange concerns early in the negotiation process with the Government of Mozambique and ensure that profit, dividends and other repatriation of foreign exchange is included in their investment approval documents to avoid any potential issues in the future. In the first months of 2016, the Central Bank has exerted pressure on commercial banks to limit the sale of foreign exchange, making it difficult to obtain foreign currency in some instances.

Mozambique has officially had a free-floating exchange rate since 1992. The exchange rate remained stable until the middle of 2015, when declining reserves prevented the Central Bank from artificially supporting the metical. The metical then lost significant value in the final quarter of 2015. When the Central Bank realized that individuals were using debit and credit cards for financial operations in December 2015, it issued a notice regulating the use of bank cards; external payments made with a credit and/or debit card cannot exceed $14,000 per year. The Central Bank will approve higher limits in appropriate circumstances.

Transfers of currency are protected by Article VII of the International Monetary Fund (IMF) Articles of Agreement (http://www.imf.org/External/Pubs/FT/AA/index.htm#art7)

Remittance Policies

The Foreign Exchange Law (Law no. 11/2009 of 11 March and its subordinate regulation (Decree no. 83/2010 of 31 December) require companies to remit their export earnings to Mozambique and convert 50% thereof to local currency, commonly referred to as an "export surrender" requirement.

The country is not listed in Treasury's semi-annual report on currency manipulation.

Mozambique is not a Financial Action Task Force member although it has taken some substantial measures to address FATF requirements and recommendations. Mozambique is however, a member of a FATF-Style Regional Body (FSRB for short) in the East and South Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. In 2013 Mozambique passed new anti-money laundering legislation and undertook an in-depth study on terrorism financing and money laundering.

Mozambique is working towards implementing the recommendations of the Financial Action Task Force recommendations. Its most recent mutual evaluation can be found here: http://www.esaamlg.org/userfiles/Mozambique_Mutual_Evaluation_Detail_Report(5).pdf

3. Expropriation and Compensation

Certain private property, such as land, rental housing and second homes were nationalized in Mozambique following independence from Portuguese colonial rule in 1975; certain other properties, including many businesses abandoned by their owners, were temporarily taken over by the State. After Mozambique's turn away from socialism in the late 1980s, citizens had a period of time to lodge claims to regain residential property. The GRM retained some businesses, but sold off many as part of its privatization efforts. All but a handful of religious properties that were nationalized have been returned; negotiations are ongoing for the remaining few.

While there have been no significant cases of nationalization since the adoption of the 1990 Constitution, Mozambican law holds that "when deemed absolutely necessary for weighty reasons of national interest or public health and order, the nationalization or expropriation of goods and rights shall (result in the owner being) entitled to just and equitable compensation." The GRM has bought back land and property along the new circular road completed around the capital city of Maputo and in Catembe. No American companies have been subject to expropriation issues in Mozambique since adoption of the 1990 Constitution.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Mozambique's legal system is based on Portuguese civil law and customary law. In December 2005 the Parliament approved major revisions to the Commercial Code – the result of a collaborative effort starting in 1998 between the Mozambican government, the private sector, and donors. The previous Commercial Code was from the colonial period, with clauses dating back to the 19th century, and did not provide an effective basis for modern commerce or resolution of commercial disputes. The revised code went into effect July 1, 2006, and is generally viewed as a positive development.

In 1999, the Parliament passed Law no. 11/99 of 8 July (Law on Arbitration), which provides for foreign investors to have access to modern commercial arbitration. The Center for Commercial Arbitration, Conciliation and Mediation (CACM) offers commercial arbitration. CACM has two locations – one in Maputo and a second in the central city of Beira.

Bankruptcy

Since 1975, the bankruptcy process in Mozambique, based on the Code of Civil Procedure from 1967, has been slow, costly and complex. There has not been a unified bankruptcy law and bankruptcy filings were rare. Portions of the bankruptcy regulation could be found throughout the civil procedure code. In order to improve the legal framework on bankruptcy, the Government approved on June 4, 2014 a new comprehensive legal regime for bankruptcy. It streamlines the whole process of bankruptcy and sets the rules for business recovery.

Investment Disputes

Mozambique acceded in mid-1998 to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. For disputes between American and Mozambican companies where a violation of the nations' Bilateral Investment Treaty (BIT) is alleged, recourse via the international Alternative Dispute Resolution under the BIT may also be available. No investment disputes in the past ten years have involved U.S. investors. Investors who feel they have a dispute covered under the BIT should contact the U.S. Embassy.

International Arbitration

For disputes between international and domestic companies, the law closely follows the United Nations Commission of International Trade Law (UNCITRAL). Mozambique is a member of several key international arbitration conventions. For domestic arbitration, the law covers a wide range of potential disputes, including non-commercial issues.

Since 2009, CACM, a state institution, also offers labor mediation and arbitration. Although pro-worker regulations make hiring and firing of workers difficult, some amendments were made through Law No. 23/2009 of August 2009 (the Labor Law). In comparison with the legislation that preceded it, the Labor Law provides less generous compensation in cases of termination of employment contracts, encourages dispute settlement through arbitration, and allows broader use of fixed-term employment contracts that make it possible for employers to hire employees on seasonal or project-limited basis. However, the Constitutional Council ruled certain articles of the new Labor Law to be unconstitutional in October 2011. Mandatory mediation was determined to be illegal and cannot be imposed on either the employer or employee. The employee now has the right to go to court directly if desired and as permitted by the Constitution.

CACM has consistently increased the number of cases it receives and hears. In 2015, CACM heard a record 42 cases and resolved 27. CACM still does not have the authority to provide labor arbitration, it can only mediate. In 2015, COMAL (Commission for Labor Mediation and Arbitration), received 7,438 cases and had 402 cases from the previous year, which totaled 7,840 cases. Of those, COMAL mediated 5,924 cases, resolving 81% by mutual agreement.

CACM is revising the Arbitration Law to adapt it to reflect the increase in large foreign investments. The revision, expected within the next year, will potentially bring more security to investors as it will make international arbitration possible locally.

ICSID Convention and New York Convention

Mozambique has signed and ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, but has not been involved in ICSID proceedings. Mozambique is also a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Duration of Dispute Resolution – Local Courts

Recourse to the judicial system in Mozambique can present many obstacles for potential investors. Generally, the Mozambican judicial system is largely ineffective in resolving commercial disputes and certain cases consume a large amount of time and resources. Instead, most disputes among Mozambican parties are either settled privately or not at all, and there are no discernible patterns to resolution of investment disputes. A foreign court's ruling against a Mozambican party, in most cases, would generally be recognized and upheld by the Mozambican Supreme Court after it has been reviewed and confirmed, although implementation of decisions has proven problematic.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Mozambique has not notified the World Trade Organization (WTO) of any measures that are not consistent with its Trade-Related Investment Measures (TRIMs) obligations. The Code of Fiscal Benefits is structured into two parts: general incentives and specific incentives. The latter are granted to investments in strategic sectors of activity, such as agriculture and fisheries, basic infrastructure, rural commerce and industry, manufacturing and assembly industries, hotels and tourism, science and technology parks and large scale projects. The former are granted to investments in other sectors to which specific incentives are not granted under the Code of Fiscal Benefits or other legislation.

In limited cases such as agriculture and fishery and the creation of basic infrastructure, the specific incentives involve a reduction of the rate of corporate income tax. The general incentives include exemptions from customs duties and VAT on the importation of specially designated equipment located in the Customs Tariff Schedule, deductions in Corporate Income Tax depending on the geographical area of investment, as well as for expenses with public infrastructure, training of Mozambican employees and in the use of new technology which depreciate rapidly. Currently, investors in the agriculture and fishery sectors receive the most generous tax incentives. In late 2012, the government made a decision effective January 1, 2013 to raise the capital gains tax from 12.8 to 32 percent and to apply this tax rate on all transactions involving a Mozambican asset or entity between two parties, regardless of where either party is domiciled. This rate was not applied consistently throughout 2013, but applied to transactions completed from March 2014 forward.

Investment Incentives

The Code of Fiscal Benefits contains some specific incentives granted to entities that intend to invest in certain geographical areas within Mozambique that have great natural resource potential but which lack infrastructure and have low levels of economic activity. For this purpose the Rapid Development Zones (RDZ) regime was created, covering the Zambeze River Valley Zone, Niassa Province, Nacala District, Mocambique Island, Ibo Island and other areas approved by the Government. Investments in these zones are exempt from import duties on certain goods, and are granted an investment tax credit equal to 20% of the total investment (with a right to carry forward for five years). Additional modest incentives are available for professional training and in the construction and rehabilitation of public infrastructure, including but not limited to roads, railways, water supply, schools and hospitals.

Research and Development

U.S. and/or other foreign firms are able to participate in government financed and/or subsidized research and development programs.

Performance Requirements

Specific performance requirements are built into mining concessions and management contracts, and sometimes into the sale contracts of privatized entities. Investments involving partnerships with the government usually include milestones that must be met for the investor's project to continue. The government generally does not require investors to purchase from local sources nor does it require technology or proprietary business information be transferred to a local company. However, the draft regulations for new mining and petroleum laws might oblige investors to give preference in purchasing from local sources available in Mozambique which are of an internationally comparable quality and which are offered at competitive prices, in terms of delivery. The government of Mozambique intends to codify local content requirements; draft legislation is under review.

Foreign workers may only be contracted where there are no Mozambicans with such qualifications or their number is insufficient. The Ministry of Labor enforces quotas for foreign workers as a percentage of the workforce within individual private companies. All investments must specify the number and category of Mozambican and foreign workers to be employed.

Data Storage

The host government mostly does not require "forced localization." The new Credit Bureau regulation has a specific local domicile rule for data storage.

The government agency responsible for enforcing IT policy and rules is:

UTICT – Unidade Tecnica de Implementacao da Politica de Informatica
Technical Implementation Unit for IT Policy
Tel: (258) 21 309 398; 21 302 241
Mobile (258) 305 3450
Email: cpinfo@infopol.gov.mz
URL: www.infopol.gov.mz

6. Protection of Property Rights

Real Property

The government recognizes and enforces the protection of private property and provides a mechanism that protects and facilitates its acquisition and disposition.

Intellectual Property Rights

In December, the new Industrial Property Code was approved by a Decree and the new regime for protection of industrial property rights will come into effect in March 2016. Intellectual property rights (IPR) enforcement in Mozambique is sporadic and inconsistent. Raids and prosecutions are extremely rare. Occasionally, media reports describe large-scale raids on pirated items, but threats of prosecution seem to have little effect. Pirated copies of audio, videotapes, DVDs and other goods are commonly sold in Mozambique.

The Parliament passed a copyright and related rights bill in 2000. This bill, combined with the 1999 Industrial Property Act, brought Mozambique into compliance with the WTO agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPS). The law provides for the security and legal protection of industrial property rights, copyrights and other related rights. In addition, Mozambique is a signatory to the Bern Convention on International Property Rights, as well as the New York and Paris Conventions. Mozambique is not listed in the USTR's Special 301 report or the notorious market report.

Despite enforceable laws and regulations protecting intellectual property (IP) and providing recourse to criminal or administrative courts for IPR violations, it remains difficult for investors to enforce their IP rights. The registration process is relatively simple. Private sector organizations have been working together with various government entities on an intellectual property rights task force team in an effort to combat intellectual property right infringement and related public safety issues. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Valerie Laboy
Economic Officer

(+258) 2149 2797
LaboyVA@state.gov

A list of local lawyers is available at http://Maputo.usembassy.gov/legal_information.html

7. Transparency of the Regulatory System

Investors face myriad requirements for permits, approvals, and clearances that take substantial time and effort to obtain. The difficulty of navigating the system enables corruption, and bribes may be requested to facilitate routine transactions.

Regulations in the areas of labor, health and safety and the environment are routinely not enforced, or are selectively enforced. In addition, civil servants have at times threatened to enforce antiquated regulations that remain on the books to obtain favors or bribes. The government is aware of the problems and in recent years has launched a donor-funded effort to streamline procedures. Changes to laws and regulations are published in the Official Gazette. Public comments to propose new laws and regulations are usually limited and input usually comes from a few private sector organizations, such as the Confederation of Business Associations (CTA). CTA unites various business associations and officially represents the interests of the private sector in the public-private dialogue. The Association of Commerce and Industry, or ACIS, based in Beira, is a Mozambican non-profit business organization that represents the interests of over 300 companies, both national and international (including major U.S. companies). Mozambique is considering passage of a new law that would make public consultation on future legislation mandatory.

In 2010, Mozambique also enacted new International Financial Reporting Standards to bring its financial practices in line with international norms. Implementation of the new standards has been expensive and time-consuming for some investors.

8. Efficient Capital Markets and Portfolio Investment

The capital market in Mozambique is in an early stage of development. It remains relatively shallow and activity on the stock market is low. The stock exchange is a public institution under the guardianship of the Minister of Finance. The Bank of Mozambique is responsible for the supervision and surveillance. Issuance of corporate bonds remains relatively small and mostly limited to financial institutions and telecommunication firms. The investor base for both government and non-government securities is largely dominated by commercial banks, though a few insurance companies and investment management institutions are also active in the market. Corporate and government bonds are traded on the Stock Exchange and only one dealer operates in the country, with all other brokers incorporated into commercial banks which also act as primary dealers for Treasury bills. The secondary market remains underdeveloped and comprised mostly of transactions on the Stock Exchange. There is presently no active derivatives market and the Central Bank has yet to publish regulations for Mozambican-based funds.

The Government of Mozambique has notified the International Monetary Fund (IMF) that it has accepted the obligations of Article VIII sections 2, 3 and 4 of the IMF Articles of Agreement, effective May 20, 2011.

Credit is allocated on market terms but the requirements for eligibility exclude much of the population. Banks request collateral but since land cannot be used as collateral, the majority of individuals do not get access to credit. There is no restriction on foreign investors' related export activities in critical areas related to the food, fuel and health markets and they have access to credit in foreign and local currencies. There are no restrictions across all other sectors, but credit is in local currency. Available credit instruments include medium and short term loans, syndicated loans, FX derivatives, and trade finance (letters of credit, credit guarantees).

Money and Banking System, Hostile Takeovers

The banking sector is healthy and contributes significantly to the development of the national economy. Mozambican commercial banks must comply with the Basel II banking regulations. Banking has been growing robustly in Mozambique. Total commercial banks' loans grew 28.5% from $5.07 billion in January 2014 to $6.5 billion in January 2015. In 2015, $1.38 billion of that total was in foreign currency and in 2014, it was $1.17 billion.

Total deposits in commercial banks grew from $6.5 billion in January 2014 to $7.7 billion in January 2015.

$1.99 billion of total deposits in 2015 were in foreign currency and in 2014, that total was $1.92 billion. Only 36% of deposits are fixed, most of these being from a few large corporate clients.

The credit quality of the banking sector in Mozambique deteriorated marginally with the ratio of non-performing loans and doubtful exposures to total loans increasing from 2.9% in January 2014 to 3.5% in January 2015.

The total assets of the banking sector in Mozambique increased by 17%, from January 2014 to January 2015. The total assets of the three largest banks (73% market share) totaled $6.9 billion.

The role of Mozambique's central bank is to control inflation, regulate foreign exchange operations, and ensure banking compliance by commercial banks. In the third quarter of 2015, the metical depreciated drastically against the U.S. Dollar, losing more than half of its value. In response, the Central Bank implemented strict foreign currency outflow regulations and restrictions. It also implemented foreign currency conversion of 50% of incoming values to local currency and raised the base lending rate from 7.25 % to 10.75% to control double-digit inflation. These regulations are expected to be temporary measures to protect foreign currency reserves.

Regulations for both foreign customers and foreign organizations to open bank accounts largely relate to providing proof of legal status and employment in Mozambique. The Bank of Mozambique has established rules on hostile take-overs on a non-discriminatory basis.

9. Competition from State-Owned Enterprises

There are a variety of state-owned enterprises (SOEs) that compete with the private sector. Current state-owned enterprises have their origin in the socialist period directly following Mozambique's independence in 1975. Government participation varies depending on the company and sector and is managed by the Institute for the Management of State

Participation (IGEPE). IGEPE is mandated to manage the state's ownership in commercial enterprises in a number of key sectors of the economy and to participate in new investment opportunities, including public-private partnerships. IGEPE is also working to design and implement a new business plan and investment strategy. Following past privatization and restructuring programs, today IGEPE holds majority and minority interests in 128 firms, down from 156.

Some of the largest SOEs such as Telecomunicacoes de Mocambique (TDM), Aeroportos de Mocambique (ADM), Electricidade de Mocambique (EDM) and Linhas Aereas de Mocambique (LAM) have monopolies in their respective industries (Information & Communication – landline telephones, Travel – airports and air transportation, Energy & Mining – electrical utility). In some cases SOEs enter into joint ventures with private firms to deliver certain services. For example, Portos e Caminhos de Ferro de Mocambique (CFM) offers concessions for some of ports and railways. Some of these SOEs benefit from state subsidies. In some instances, SOEs have benefited from non-competed contracts that by law should have been competitively tendered. SOEs purchase or supply goods or services from private sector/foreign firms.

A list of published SOEs is available at: http://www.igepe.org.mz/index.php?option=com_content&view=article&id=76&Itemid=72&lang=pt

References: http://www.resourcegovernance.org/rgi/countries: the underlying country fact sheets provide information on competition from state-owned enterprises in the oil, gas and mining sectors for over 50 countries.

OECD Guidelines on Corporate Governance of SOEs

Mozambique's SOEs are not transparent and do not follow OECD guidelines on corporate governance. The value of SOE assets is unknown. According to the IMF, oversight is extremely limited and procedures need to be in place to ensure that the government's plans to sell public stakes in non-strategic enterprises move forward in a transparent and structured manner. Senior management reports to the Ministry of Economy and Finance. Management roles are subject to political influence.

Sovereign Wealth Funds

Mozambique has no sovereign wealth funds.

10. Responsible Business Conduct

Larger companies and foreign investors are aware of responsible business conduct (RBC), but tend to set their own standards. As part of some large investment projects, RBC-related issues are negotiated directly with the government according to local needs. RBC is an increasingly high profile issue in Mozambique, especially with the large mining companies which have had to relocate entire small communities in order to gain access to concession sites. The Mozambican corporate social responsibility network (www.pactum.co.mz) was created to promote sound initiatives and provide technical assistance to companies wishing to invest in the communities where they operate. Training and information on RBC is made available to members.

Business integrity initiatives are being mainly supported by business associations, civil society organizations, and some multinational companies. CTA is preparing a "Business Code of Conduct" which will include monitoring, sanctions, and an enforcement mechanism. Since CTA receives government resources, the project is viewed with skepticism. IoDmz (Institute of Directors of Mozambique) is one organization coordinating the implementation of corporate governance in Mozambique after publishing findings and recommendations from the African Peer Review Mechanism. IoDmz promotes business integrity initiatives, including the adoption of a Business Code of Ethics and a Business Pact against Corruption (BIPAC) in procurement and political funding. Another business association that is active in this area is ACIS (Commercial, Industrial and Services Association), with their Code of Business Principles. Mozambique is Extractive Industries Transparency Initiative (EITI) compliant.

11. Political Violence

Municipal elections taking place in 53 districts in November 2013 saw police and government security forces use lethal force against opposition gatherings during the early November campaign period in Beira, on the night of the elections in Mocuba and Quelimane, and during celebrations after the elections in Quelimane, resulting in numerous injuries and two deaths. Presidential elections held in October 2014 resulted in minor, targeted disruptions and violence.

Political tensions and deadly clashes on the EN-1 national highway and in the central provinces of the country occurred between armed elements of the main opposition party Renamo and government forces in 2013 and persist to date, after a pause in 2015. Renamo has attacked commercial and private vehicles in the region it accused of ferrying military personnel, disrupting business operations for national and international companies

In September 2010, violent street protests over rising consumer prices in Maputo and several provincial cities resulted in at least 13 deaths, most of which were attributed to the police. However, the largest protest against the government since Independence took place peacefully in late 2013.

Representatives of opposition parties and civil society complained about increased acts of bias and intimidation by the government and ruling party Frelimo during the last presidential and parliamentary election in 2014. Renamo, the main largest opposition party, did not recognize the election results, accusing Frelimo of rigging the election and insisting their presidential candidate won. Renamo officials initially refused to take their seats in parliament and the provincial assemblies, but ended their boycott in February 2015. Political-military tension between the Frelimo-dominated government and Renamo intensified in 2016.

12. Corruption

Mozambique ranked 112th out of 168 countries on Transparency International's 2015 Corruption Perceptions Index. Corruption and extortion by police are widespread, and impunity remains a serious problem. Corruption is a concern across the government, and senior officials often have conflicts of interest between their public roles and their private business interests.

Mozambique established an Anti-Corruption Unit in the Office of the Attorney General (renamed Central Office for the Combat of Corruption in 2005) to investigate corruption-related crimes. In 2005, the government passed Decree 22/2005, which created provincial-level offices to combat corruption. Offices were opened in Beira and Nampula and are in operation.

Though Mozambique has made progress to develop the legal framework to combat corruption, the policies and leadership necessary to ensure effective implementation have been insufficient. The National Assembly passed an anti-corruption bill in 2004 that updated antiquated legislation. A few civic organizations and journalists, with support from the U.S. government, remain vocal on corruption-related issues. One NGO, the Center for Public Integrity, continues to be active in publicly pressuring the government to act against corrupt practices.

The 2012 Law on Public Integrity bans government officials and parliamentarians from simultaneously holding positions in state-owned companies. This and other legislative reforms provide a sound basis for combating corruption, but implementation is the next crucial step. Mozambique passed a Right to Information law in 2014 and the Council of Ministers approved the regulation on October 13, 2015, but it was only released publicly in January 2016. There have already been cases of journalists requesting information based on the law and being denied.

In a 2016 CIP (Center for Public Integrity) and Transparency International assessment on integrity and transparency, Mozambique’s business environment scored 0 out of 100 for enforcement of laws prohibiting bribing of public officials. The assessment further noted that since so many local businesses are closely linked to the government, they have little incentive to promote transparency. The assessment concluded that despite strong rules prohibiting bribery of public officials, enforcement and evidence of sanctions is poor.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Mozambique signed the UN Convention against Corruption in 2004 and ratified it in 2008.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:

Ana Maria Gemo
Central Anti-Corruption Office (Gabinete Central de Combate a Corrupcao)
Avenida 10 de Novembro, 193
(258) 823034576
gabinetecorrupção@yahoo.com.br or anagemo@teledata.mz

Contact at "watchdog" organization:

Adriano Nuvunga
Center for Public Integrity (Centro de Integridade Publica - CIP)
Rua B, 79. Bairro da Coop
(258) 823016391
nuvunga@cip.org.mz

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Mozambique has signed bilateral investment agreements with: Algeria, Belgium, China, Cuba, Denmark, Egypt, Finland, France, Germany, Indonesia, Italy, Mauritius, The Netherlands, Portugal, South Africa, Sweden, Switzerland, United Kingdom, United States, and Zimbabwe.

In December 1998, Mozambique negotiated a Bilateral Trade Agreement (BIT) with the United States. The U.S. Senate ratified the treaty in November 2000, followed by the Mozambican Council of Ministers in December 2004. The United States-Mozambique BIT came into effect on March 3, 2005. In June 2005 the United States and Mozambique signed a Trade and Investment Framework Agreement (TIFA) that established a Trade and Investment Council to discuss bilateral and multilateral trade and investment issues. The Council held its first meeting in October of 2006. The latest TIFA Council meeting was held in January 2012.

Mozambique does not have a bilateral taxation treaty with the U.S. Double Taxation Treaties have been agreed with Portugal, Mauritius, Italy, South Africa, Botswana, India, Vietnam, Macau, the Sultanate of Oman and the United Arab Emirates. Further Double Taxation Treaties with Qatar and Uruguay are currently under negotiation.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The government established export processing zones called Industrial Free Zones, in 1999. The decree set up an Industrial Free Zone Council, which approves companies as industrial free zone enterprises, thereby providing customs and tax exemptions and other benefits, including profit repatriation. There are three essential requirements for Industrial Free Zone status: job creation for Mozambican nationals, the exportation of at least 85% of annual production, and a minimum investment of $50,000. Almost all industries, with the exception of prospecting and exploration of natural resources, processing of raw cashew nuts and seafood (including prawns) can be authorized under an Industrial Free Zone status.

Industrial Free Zone developers enjoy an exemption from customs duties, VAT, and tax on the importation of construction materials, machinery, equipment, accessories, accompanying spare parts and other goods destined for the establishment and operation of the Industrial Free Zone.

Free Zone concessions are granted for a renewable period of 50 years. Mozambique's large export-oriented investment projects of recent years operate as Industrial Free Zones. Mozal, a joint venture of several international companies, is the second largest aluminum producer in Africa and operates as a free-trade zone.

Special Economic Zones can be established on a case-by-case basis with the objective of developing specific geographical areas that benefit from exemption from custom duties and taxes, a free "off-shore" type foreign exchange regime, and special labor and immigration regimes. For example, a special tax and custom regime has been created for the Zambeze Valley until 2025.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	N/A	N/A	2014	$15,940	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2015	$4,831	2014	**	BEA
Host country's FDI in the United States ($M USD, stock positions)	N/A	N/A	2014	$-1	BEA
Total inbound stock of FDI as % host GDP	2014	15.5%	2013	4.22%	N/A

*National Statistics Institute (INE); Investment Promotion Center (CPI)

**BEA suppressed to avoid disclosure of data of individual companies

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	25,057	100%	Total Outward	0	100%
UAE	5,911	24%	Portugal	0	54%
USA	4,831	19%	South Africa	0	22%
South Africa	3,065	12%	Kenya	0	16%
Italy	2,076	8%	Zimbabwe	0	9%

Mauritius	1,884	8%			
"0" reflects amounts rounded to +/- USD 500,000.					

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	2,480	100%	All Countries		100%	All Countries		100%
UAE	891	36%	N/A	N/A	N/A	N/A	N/A	N/A
Mauritius	527	21%	N/A	N/A	N/A	N/A	N/A	N/A
South Africa	380	15%	N/A	N/A	N/A	N/A	N/A	N/A
Portugal	336	13%	N/A	N/A	N/A	N/A	N/A	N/A
China	72	3%	N/A	N/A	N/A	N/A	N/A	N/A

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Mixed legal system of Portuguese civil law, Islamic law, and customary law

International organization participation:

ACP, AfDB, AU, C, CD, CPLP, EITI (compliant country), FAO, G-77, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IDB, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITSO, ITU, ITUC (NGOs), MIGA, NAM, OIC, OIF (observer), OPCW, SADC, UN, UNCTAD, UNESCO, UNHCR, UNIDO, Union Latina, UNISFA, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

Incoming capital must be registered with the Bank of Mozambique. Foreign currency designated accounts may be opened and funds retained

Treaty and non-treaty withholding tax rates

Mozambique has nine tax treaties

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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