Policy Brief

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Centro de Integridade Pública

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The Costs of Corruption to the Mozambican Economy

THIS BRIEF IS BASED ON THE REPORT "THE COSTS OF CORRUPTION TO THE MOZAMBICAN ECONOMY: WHY IT IS IMPORTANT TO FIGHT CORRUPTION IN A CLIMATE OF FISCAL FRAGILITY". THE REPORT WAS PUBLISHED JOINTLY BY THE CENTRO DA INTEGRIDADE PUBLICA (CIP) IN MAPUTO, MOZAMBIQUE, AND THE CHR. MICHELSEN INSTITUTE IN BERGEN, NORWAY IN MARCH 2016.

Counting the Costs

What is the price that Mozambique has to pay for the widespread corruption in the country? What is the cost of corruption for the Mozambican economy, the state and its people?
In a nutshell: the estimated **average annual cost of corruption**, as observed during the ten years from 2004 to 2014, is up to **4.9 billion US$**. This figure is based on a sample of 36 cases that occurred from 2004 to 2014. The figure of 4.9 billion US$ is equivalent to around 30% of the 2014 GDP and 60 % of the 2015 budget. Clearly this burden of corruption is crippling for the budget, the economy, business and socio-economic development and welfare. This is especially acute in the context of fiscal fragility and macro-economic uncertainty in the wake of secret sovereign debt that was revealed in April 2016 – after the study was published.
The annual cost of corruption figure of 4.9 billion US$ is a snapshot and open to be contested. This is due to the nature of corruption, and the (necessary) limitations of the research conducted. Rather than fact, the values of the cost of corruption were taken as more or less plausible assumptions. As a result, the value of 4.9 billion US$ is a **worst case scenario**. Taking into account the fact that many cases did not occur repeatedly over the ten-year period under investigation, the average cost of corruption from 2004-2014 reduces to $1.78bn per year. In a more conservative scenario, where only cases with the highest confidence are counted (26 of 36 cases), the annual damage is close to 500 million US$ per year. The working figure for the calculations in the report is the worst case aggregated value of the annual average corruption cost – i.e. $4.9bn. This is due to the fact that the cases counted are likely to be representative of other cases the research team were unable to take into account. The worst sectors for corruption are customs, fisheries and maritime security (EMATUM), liquid fuel imports, procurement in telecoms and procurement in the construction/public works sector.

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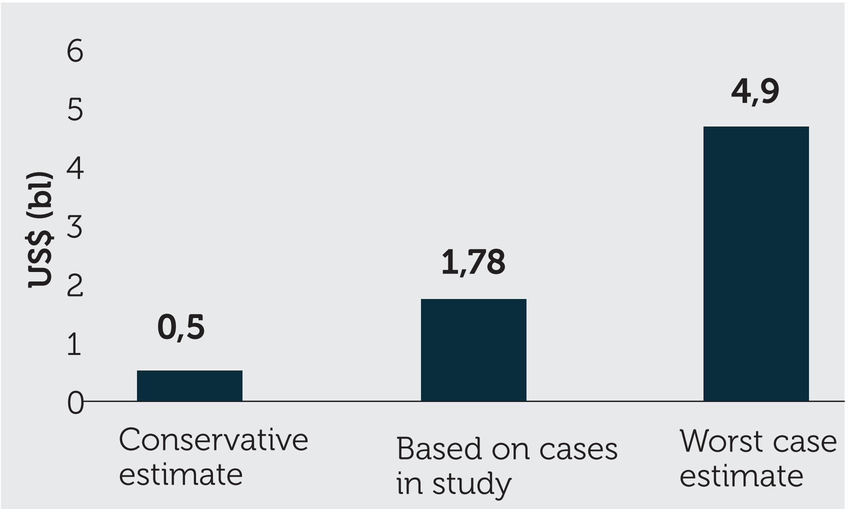
AVERAGE ANNUAL COST OF CORRUPTION (2004 - 2014)



The Impacts of Corruption

Aside from the direct costs (monetary values) of corruption, there are a number of additional secondary impacts on revenue and the economy. This includes an estimated **loss of about 11.6% of tax revenue**, and the **loss of over 17% of the value added** to the Mozambican economy[1]. Furthermore, corruption produces far-reaching, indirect effects on the provision of public services, on poverty and social welfare as a whole. Corruption damages and undermines development.
The impact on the **private sector**, is also considerable. Here corruption results in additional costs, fosters a lack of competitiveness and crowds out local companies – especially small and medium sized enterprises (SMEs) in favour of the public sector and State-Owned Enterprises (SOE). Corruption also deters foreign direct investment with major investors, that are subject to national and international anti-corruption codes having to think twice before partnering up with national firms, private and public. This in turn risks 'clean investors' being crowded out by less scrupulous investors in

[1] Both are based on average tax revenue/value added for the three years 2012 to 2014.

a vicious cycle. Corruption determines the kind of partners that Mozambique attracts and works with.

Corruption also challenges the good name and **reputation** of Mozambique, and has the potential to determine the country's fate and place on the world stage. This may affect foreign policy and international relations as well as national security and the safety of citizens. The more Mozambique conforms to **the image of a corrupt state**, and an enabler of trafficking and illicit financial flows, the greater the challenges will become for Mozambican political leaders to convince the world otherwise. According to the 2015 Basel Anti-Money Laundering (AML) Index, Mozambique is amongst the top ten highest risk bracket globally. The AML Index specifically mentions high rates of perceived corruption, lack of judicial strength and lack of public and financial transparency as key factors that enable money laundering and terrorist financing. Corruption determines what kind of country Mozambique is and wants to be, and what kind of partnerships it will be able to form.

Finally, Corruption also has the potential to upset **domestic politics** by raising questions about the ability of the ruling Frelimo party to manage public assets and resources for the national and public benefit. The political legitimacy and survival of ruling parties depends on economic prosperity and inclusive and broad-based development.

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Recommendations

The CIP-CMI report contains a list of sector specific recommendations based on the research findings. Key areas of reform and suggested action include, amongst others:

- Roll-out of the electronic customs management system in order to close loopholes in **customs**
- Publication and (forensic) audit of the accounts of selected **SOEs** (e.g. EMATUM) and public private partnerships (PPPs)
- Extend the "proof of life" campaign throughout the whole **civil service** to purge "ghost workers"
- Strengthen the **anti-corruption coordinating office** (GCCC)
- Promote business incubators for domestic SMEs and promote **good corporate governance.**

TOP 10 HIGH RISK COUNTRIES ON THE BASEL ANTI MONEY LAUNDERING (AML) INDEX:
Iran
Afghanistan
Tajikistan
Guinea-Bissau
Mali
Cambodia
Mozambique
Uganda
Swaziland
Myanmar

Source: Basel Institute of Governance

Partners

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