

# The state of the fight against illicit financial flows in the Extractive Industry in Mozambique

- In Mozambique, as in many other developing countries, illicit financial flows (IFFs) pose one of the greatest challenges to ensuring that resources from the extractive industry contribute fairly and effectively to development. These flows represent an undue outflow of capital that could be invested in strategic areas such as poverty reduction, job creation, and the promotion of inclusive and sustainable economic growth.





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**W**hile accurately measuring the scale of IFFs in the Mozambican extractive sector remains a challenge, it is frequently identified as a sector prone to abusive tax practices, from transfer pricing manipulation to base erosion. The government has taken some responsive measures, but the need for a stronger, more transparent, and effective institutional framework to reduce these practices and ensure that the country's mineral wealth benefits society as a whole remains evident. Discussion of this topic, therefore, remains high on the agenda regarding natural resource exploitation and tax justice.

This text presents the main highlights of the con-

ference on illicit financial flows in the extractive industry in Mozambique, held in July by the CDD in partnership with the Tax Justice Network Africa (TJNA). The conference aimed to promote an evidence-based discussion on IFFs in the extractive industry in Mozambique. Based on the results of a study produced on the subject by the CDD, the session analyzed the main sources and dynamics of IFFs in the mining and hydrocarbon sectors, assessing the country's legal, regulatory, and institutional preparedness to address this phenomenon. The session also promoted reflection on policy recommendations to strengthen domestic resource mobilization and strengthen governance in the extractive sector.

## **“IFFs in the extractive sector trigger a vicious cycle of impoverishment” – Michael Sambo**

Introducing the opening remarks, economist and university professor Michael Sambo began by emphasizing the relevance of discussing illicit financial flows in the extractive sector in a country that, in recent years, has seen this sector assume a growing weight in its economy. As one of the premises for the discussion, he made it clear that the problem of illicit flows is not merely technical or economic, but a structural issue that directly affects the state's ability to promote development.

The speaker highlighted that the extractive sector has undergone a remarkable transformation: in 2011, it represented only 1.8% of GDP, but by 2022 it was contributing 10.6%, a growth rate almost six times higher. He emphasized, however, that this dynamism has two sides: “This rapid growth presents both opportunities and challenges for fiscal governance and transparency in Mozambique.” While, on the one hand, the country now relies on coal, natural gas, and rubies as pillars of exports, on the other, it has opened the door to illegal practices and schemes that undermine revenue collection.

Sambo identified four central mechanisms through which illicit financial flows manifest: tax evasion, export underinvoicing, abusive transfer pricing, and corruption. “These mechanisms often occur in combination, creating complex networks of tax evasion and draining resources that could otherwise serve the country,” he warned. He also



noted that, according to estimates from the African Development Bank, Mozambique loses US\$1.3 billion annually due to these practices, an amount that would finance infrastructure and public services such as health and education.

There are numerous examples. Between 2016 and 2018, Tete coal exports through offshore intermediaries were subject to systematic under-invoicing practices. Studies by the Center for Public Integrity revealed sophisticated price ma-

nipulation schemes involving Montepuez rubies, resulting in annual losses of approximately \$200 million to the public treasury. He also cited the hidden debt scandal, not directly linked to mining but illustrative of how gas-related contracts were used to justify illegitimate loans, demonstrating the country's institutional vulnerability. "When resources are diverted through practices such as under-invoicing or abusive transfer pricing, the national tax base is directly affected," he warned, stressing that this reduces the state's ability to finance essential services and perpetuates a cycle of impoverishment.

Despite legal reforms undertaken since 2014, such as the revision of the mining and petroleum laws, the introduction of specific tax regimes, and, more recently, the disclosure requirements for beneficial ownership, the economist highlighted persistent weaknesses. Among them, the deficient institutional capacity for the accurate valuation of exports and oversight of the sector.

Reflecting on international experiences, Sambo highlighted the case of Ghana, which successfully implemented a beneficial ownership registry that significantly increased transparency and could serve as a model for Mozambique, especially after the recent revision of the Commercial Code. He also highlighted Chile's public procurement portal, which makes all sector agreements available online, and citizen audits in Norway, although the latter are difficult to replicate immediately in

the national context. He also highlighted the role of the Extractive Industries Transparency Initiative (EITI), of which Mozambique has been a member since 2009, as a useful but still underutilized platform.

Concluding his speech, Michael Sambo argued that combating illicit financial flows requires a coordinated and multifaceted process. He proposed more robust legislative reforms, including a mineral valuation law, a review of anti-corruption legislation focusing on the extractive sector, and a transfer pricing law aligned with international standards. He also recommended the creation of a multi-stakeholder coordination committee, the training of new specialized auditors, and the use of digital technologies such as e-reporting platforms and automated alert systems. He also emphasized the importance of international cooperation, particularly within the framework of SADC and the African Revenue Administrations Forum (ATAF), to strengthen tax and customs capacities.

For Sambo, illicit financial flows in the extractive sector trigger a vicious cycle of impoverishment, which undermines fiscal sovereignty and increases external dependence. "Only through structural reforms, technical capacity building, and greater political resolve will it be possible to reverse this situation and transform mineral wealth into inclusive development," he stated, challenging Mozambique to move forward with courage and determination in combating this phenomenon.

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## **“The work is being done, but the challenges are also great,” Kátia Murgia – Coordinator of the Extractive Industry Taxation Unit at the Mozambique Tax Authority**

In her speech, Kátia Murgy began by acknowledging the relevance of the topic and emphasized the role of the Tax Authority (AT) within the broader framework of combating illicit financial flows. “The AT has a role in this process, but if the work isn’t done jointly, it won’t work,” she stated, noting that responsibility doesn’t fall solely on the tax administration, but should also involve the Ministry of Mineral Resources, the National Institute of Mines, and the National Petroleum Institute.

He explained that, within the scope of its responsibilities, the AT is responsible for implementing tax and customs policy, preventing and suppressing fraud. To strengthen its actions in this area, a joint team was created, including the Ministry of Finance and the Ministry of Mineral Resources. One of the most significant results of this work, according to Murgy, was the introduction, in August 2023, of the Monthly Bulletin of Mineral Reference Prices. This instrument, approved by ministerial decree, aims to standardize the reference prices used for taxation purposes, combating underinvoicing and ensuring greater tax justice. “The bulletin promotes responsible, fair, and transparent taxation, aligned with international market prices,” he explained, noting that in its first year, the measure resulted in a 200% increase in revenue from the tax on mining production.

The process, however, was not without resistance. “With the introduction of this bulletin, we had many battles with companies. We’re still fighting it today, with lawsuits in court,” he revealed. Still, he reiterated that the AT remains firm in enforcing the established prices, using international sources like Bloomberg to ensure greater accuracy.

The speaker also addressed the challenges related to transfer pricing, which has been regulated since 2017. She acknowledged the current limitations: a lack of reliable comparables, difficulties in valuing certain commodities, a lack of supporting documentation, and complexities associated with intra-group services. In this area, she prioritized revising the current regulation to better accommodate the specificities of the extractive sector. She noted that the AT has invested in training its techni-



cians, in close collaboration with ATAF, and highlighted the holding of annual dialogue forums with companies, where international experts present recommendations that are gradually incorporated.

Regarding future prospects, Murgy highlighted the modernization of IT systems as one of the institution’s strategic pillars. “We want a more robust, integrated, and functional registration and collection system that allows for cross-referencing information not only within the tax administration but also with other government agencies,” he stated. He added that the AT intends to continue expanding and improving the Reference Price Bulletin, incorporating new minerals and adjusting methodologies in consultation with the Chamber of Mines and other stakeholders. He also addressed other issues that, although outside the AT’s direct jurisdiction, such as laboratory testing of mineral quality, emerge as critical factors in curbing tax abuses.

Throughout his speech, Murgy sought to clarify the limits of the institution’s mandate. “The AT is only responsible for collecting taxes. It has no authority over the destination of revenues,” he observed, dismissing responsibility for how the collected resources are subsequently spent by the state. He

also acknowledged the operational limitations imposed by porous borders and the sophistication of smuggling schemes, particularly in the case of gold and rubies, but made a point of emphasizing that AT personnel are present both in the mines and at export points.

Using rubies as an example, he made a clear distinction between smuggling, which is highly vulnerable due to the stones' small size, and formal operations conducted by companies that conduct international auctions under the direct supervision of the AT. "We monitor the auction wherever it takes place and can ensure that the tax is adjusted based

on the value determined," he explained.

Concluding his speech, he acknowledged that significant challenges remain, from disputes with multinationals over reference prices to limitations in monitoring large cross-border transactions. However, he reaffirmed the Tax Authority's determination to strengthen monitoring, risk analysis, and auditing mechanisms to ensure compliance with tax and customs regulations. "The work is being done, but the challenges are also significant. It is up to us to continuously improve and ensure that the country's mineral wealth effectively translates into revenue for the State," he stated.

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## Dependence on Corporate Data, Tax Evasion, Beneficial Ownership Opacity and Institutional Weaknesses: The Major Challenges of Extractive Governance in Mozambique – Fátima Mimbire, Civil Society Coalition for the Extractive Industry

In her speech, Fátima Mimbire, of the Civil Society Coalition for the Extractive Industry, highlighted a critical weakness: the state's dependence on information provided by the companies themselves. "Often, it's the company that declares the quality of the resource. I don't know to what extent we have the capacity to assess and confirm whether the declared quality actually corresponds to what is found," she questioned. For Mimbire, this gap compromises the country's ability to ensure that prices reflect market reality, especially in sectors such as coal and heavy sands.

Another point highlighted was project financing. In addition to under-invoicing or transfer pricing manipulation, Mimbire explained that financing mechanisms also favor illicit flows, especially when using related companies that charge high interest rates that are outside of market standards. "Sometimes, financing is sought from related companies with an interest rate structure that, if it had been obtained within a normal system, would be lower," he noted, arguing that this area deserves greater scrutiny.

The speaker also focused on the issue of beneficial ownership, arguing that Mozambique needs to broaden its analysis beyond the corporate structure. "We only look at who owns the company, but we don't look at the ultimate individual. And that's often where the problem lies," she stated. She emphasized that, internationally, there is already a growing concern about identifying the ultimate beneficiary to prevent the same individuals from using different corporate vehicles and lobbying networks to influence policies and favor private interests.

As an example, she cited the paradigmatic case of the Coral Sul project, in which structures created in tax havens revealed the country's vulnerability. For her, the proliferation of corporate vehicles registered in jurisdictions like Dubai illustrates the risk of the state losing control over ownership and transaction chains. "I don't know to what extent we have control over these types of entities, and whe-



ther there has been a serious risk analysis of them," she stated.

Among the weaknesses highlighted, Mimbire highlighted sales agreements and double taxation agreements as prime opportunities for abusive practices. He recalled the 2017 transaction in which Anadarko sold 25% of its stake to ExxonMobil, a transaction that, due to the double taxation agreement with Italy, caused the Mozambican state to lose approximately \$400 million in potential revenue. "We must take this issue of double taxation agreements seriously, because companies use these facilities to evade taxes both in developed countries and here," he warned.

The activist also mentioned the 2014 decree-law governing gas megaprojects, which, in her view, contains significant gaps. One of them is the permission for dividends and profits to be deposited in offshore accounts, drastically reducing the state's oversight capacity. "Let's imagine we find over-billing and need to correct it. Where are we going to correct it, if the big pie is out there?" she asked, doubting the Bank of Mozambique's true ability to monitor external accounts.

Mimbire also raised concerns about tax evasion in the natural gas sector, highlighting the fragility of the cost certification mechanism. She explained that companies submit cost and recovery plans that, if not certified within five years, are automatically validated. "If a company has inflated R\$1 billion, and that cost is not certified, it is tacitly considered recoverable," she warned, denouncing the institutional vulnerability of the National Petroleum Institute, which ceased to be a regulator and supervisor and took on licensing and promotion functions. She also noted that the High Authority for the Extractive Industry, as provided for by law, was never implemented, which, she said, exacerbates the problem.

According to analyses conducted by civil society, at least \$7 trillion in investments made between 2007 and 2013 have not been certified. "If these

amounts include inflated costs, we will lose significant revenue in the future, and this could jeopardize the long-awaited gas boom," he warned.

Concluding her speech, Mimbire reiterated the importance of strengthening legislation on beneficial ownership and equipping the country with greater financial intelligence capabilities. For her, understanding the individuals behind companies is crucial to preventing referees and players from becoming one and the same, in a dynamic where political decision-makers also become business-people. "If we know who's who in the sector, we can identify the lobbying circuits and cut off the connections that compromise the public interest," she stated, issuing a clear warning: without these measures, Mozambique risks seeing its mineral wealth transformed into yet another lost opportunity.

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