What to monitor in a year of Covid-19 pandemic and war in Mozambique

- Analysis of the Economic and Social Conjuncture and Governance Perspectives for 2021
Title: What to Monitor in a Year of Covid-19 Pandemic and War in Mozambique - Economic and Social Situation Analysis and Perspectives on Governance for 2021

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Introduction

The year 2020 was atypical globally, marked by the Covid-19 pandemic that erupted in 2019 in China, but spread and gained strength the following year, putting all the countries of the world in deep economic and social crisis. In Mozambique, in addition to the Covid-19, last year was marked by the intensification of the war in Cabo Delgado, which had been going on for three years, but it was in 2020 that it reached large proportions, generating more than half a million displaced persons and a humanitarian crisis of which there is no memory since the end of the civil war in 1992.

In this context, Mozambique’s economy contracted by 1.09% in annual terms in the third quarter of 2020, a figure 2.3 percent lower than in the same period of 2019. Although the economy contracted in the third quarter, the situation represents an improvement compared to the second quarter, when there was an annual contraction of -3.25%.

The year of 2021 will certainly be marked by these events that go back to 2021. But it will certainly be a different year from last year. What, then, can be expected from 2021? This document is a contribution from the Center for Public Integrity (CIP) to help understand the current context and the governance challenges expected in the year that has just begun.

The analysis focuses on the traditional areas of CIP Work, namely Extractive Industry, Public Finance, Public Private Partnerships (PPP), with a special focus on Infrastructure, Public Procurement and Anti-Corruption, Control Institutions and Regulatory Framework. Covid-19, the war in Cabo Delgado, hidden debts and endemic corruption in public administration are cross-cutting issues that will affect all sectors of governance in 2021, and are therefore at the center of the analysis.

Result of bibliographic research and literature review, the document is structured in two parts. The first part presents the current context of the Mozambican economy in the context of Covid-19, highlighting the performance until the third quarter of 2020, in the real, fiscal and monetary sectors. The second part presents the outlook for 2021, highlighting what is important to monitor in terms of economic governance, public procurement and infrastructure management, the evolution of the war in Cabo Delgado, the legal proceedings for hidden debts in various countries around the world and the area of Anti-Corruption and Control Institutions and Regulatory Framework.

A summary table of perspectives for some areas of governance in 2021 is presented at the end.
1. IMPACT OF COVID-19 AND GOVERNMENT POLICY MEASURES ON THE ECONOMY

1.1 REAL SECTOR

1.1.1 Gross Domestic Product (GDP)

After contracting annual growth by 3.25% in the second quarter, the Mozambican economy recorded a slight improvement, while maintaining a negative performance of 1.09% in the third quarter of 2020 when compared with the third quarter of 2019 (year-on-year). (see graph below)

According to INE data, this contraction in GDP growth stems from the combination of negative performance in various branches of activity, particularly hotels and restaurants, which fell by 31.4%, mining and quarrying with a reduction of 16.2%, fishing 2.83%, financial services and transport and communication with 1.89% and 1.18% respectively. (INE, 2020).

The negative performance in the third quarter of 2020 reflects the negative performance in terms of consumption with a focus on reducing turnover and investment.

In terms of turnover, the restaurant sector fell 62.8% compared to 2019 and 17.6% compared to the second quarter of 2020 and in the trade and services sector it fell 13.2% compared to 2019 and recorded a slight improvement of 0.12% compared to the second quarter of 2020.

There was also a reduction in fuel imports with negative implications for the transport and manufacturing sectors.

In terms of investments, there was a contraction in activities with emphasis on the decrease in the import of equipment by 34.3% compared to 2019 and a reduction in the import of vehicles by 27.6% and a reduction in the sales volume of domestic cement by 10.7%.
A slight recovery in external demand made it possible to reduce the balance of payments deficit by $92 million, from $545 million in the second quarter to $453 million in the third quarter. Imports and exports fell by about 24% compared to the same period in 2019, however, there was an improvement in exports compared to the second quarter which allowed for a smaller contraction in the extractive sector. The highlight here is the increase in energy exports (by 25 million dollars), coal (by 16 million dollars) and aluminium bars (by 8 million dollars).

The export of heavy sands fell by almost half compared to the previous quarter (45%). Contrary to the sectors mentioned above, the sectors of Agriculture and Electricity, gas and water, had a positive performance in the third quarter, with growth of 3.2% and 4.1%, respectively.

In the fourth quarter of 2020, CIP expects a slight recovery from the third quarter due to the relaxation of much of the restrictive measures imposed by the COVID-19 pandemic. However, this relaxation will certainly compromise the performance of economic activity in the first quarter of 2021 given the increasing number of positive cases and deaths by COVID-19.

Chart 2: Quarterly GDP by Branches of Activity: Percentage changes in volume (homologous period)

Source: INE, 2020

### 1.1. 2 Inflation

Year-on-year inflation as measured by the Consumer Price Index (CPI) increased from 2.69% in June to 2.98% in September 2020. Meanwhile, year-on-year average inflation has consolidated its upward trend over the past 6 months, standing at 3.00% in September after 2.78% in May 2020 and 2.81% in June, thus capturing the acceleration in the prices of food and beverage components, particularly cereals, fruits and vegetables, whose impact on the CPI was greater than the impact of administrative measures, mainly on liquid fuels.

The acceleration of inflation in the third quarter is justified by the lower supply of products at the domestic level associated with restrictions on trade imposed to ensure compliance with the rules against COVID-19. This poses increasing challenges to citizens facing restrictions in the labor market, who see their purchasing power reduced.

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1 Bank of Mozambique, 2020
1.1.3 Employment

The measures adopted by the Government to address the effects of COVID-19 did not have the desired impact, particularly on employment. More up-to-date public data from the Ministry of Labor and Social Security (MITESS) show that by June 2020 employment had fallen by 29.3% and 75.9%, respectively, compared to the previous period. The growth in employment for women had a negative variation of 33.3% in the second quarter, compared to the previous period. This disadvantageous trend for women in the labor market leads one to believe that gender inequality may have been exacerbated, and therefore there is a need for more and more public policies to support vulnerable groups.

1.2 TAX SECTOR

1.2.1 Transparency

By the third quarter of 2020, the Government was implementing an approved budget that had underestimated the impact of COVID-19 to such an extent that the Budget Execution Report (BER) from January to September could not be a consultation document for scrutiny of government actions to address COVID-19.

This inoperativeness of the BER is a negative aspect in terms of budgetary transparency and is associated with the late submission of the amending budget 2020 which only occurred in November of that year.
1.2.2 State Revenue

The implementation of the State Budget from January to September 2020 reports a mobilization of resources equivalent to 72.6% of the annual target. In particular, corporate income taxes were executed at 63.5%; foreign trade taxes at only 57.7%, and specific consumption taxes on domestic production and imported products at only 47.2% and 42%, respectively (see graph below), which can be justified by the restrictions imposed by the countries as part of the measures to contain the spread of COVID-19. However, it is important to emphasize that the goal of revenue collection defined in the Amending Budget at least 110.3%\(^2\) was met. As can be seen in Graph 4 below.

*Chart 4: Level of State Revenue Execution (in millions of meticais)*

![Chart 4: Level of State Revenue Execution (in millions of meticais)](source: MEF, BER January-September 2020)

1.2.3 Public Expenditure

The total expenditure during January to September 2020 was 68.2% of the annual budget. The level of execution of operating expenditure reached the equivalent of 70.9% of the annual budget, and the investment reached the equivalent of 57.7% of the programmed. A questionable fact observed in the execution of public spending\(^3\), is that the execution of defense spending remained unchanged at 95.5%, the same level recorded in the report from January to June. This calls into question the transparency of the government in its accountability, especially in the current period of conflict in Cabo Delgado and the central zone of the country.

The Agriculture, forestry, fishing and hunting sector recorded a low level of expenditure execution of only 45.8%, yet this sector continued to contribute positively to GDP from January to September.

The level of spending, both overall and in the economic and social sectors, was higher in 2020 compared to the same period in 2019, this can be explained by the need for spending imposed by the pandemic, as well as by the development of armed conflicts in the country. However, CIP questions the fact that the water (and sanitation) item is not presented, which makes it difficult to monitor the funds allocated to this sector.

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3 See Table 28: Summary of Expenditure According to Functional Classification, Compared to Budget Allocation
1.2.4 Public Debt Deficit Financing and Amortization

With regard to deficit financing, it should be noted that the level of disbursement of financing via the Single Treasury Account (CUT) overlaps those made outside the CUT, with 92.7% and 44.8% respectively. This may be an indicator that the scenario of lack of trust on the part of the partners driven by the need to support the country to cope with COVID-19 may be reversing. However, the fact that this scenario is not accompanied by an effort by the GoM to improve levels of transparency makes a complete analysis difficult.

In terms of domestic public debt amortization, the highlight goes to treasury bonds that had an exponential increase of about 370% compared to the same period of the previous year, exacerbating the fiscal risks arising from the high use of domestic debt as an alternative to cover the fiscal deficit. On the external debt side, the bilateral debt consumed about 12.5 billion meticais from the state coffers an increase of 25% when compared with the homologous period.

*Chart 5: External debt amortization*

<table>
<thead>
<tr>
<th>Dívida Externa (Milhões de Meticais)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral</td>
</tr>
<tr>
<td>Multilateral</td>
</tr>
<tr>
<td>Jan-Set 2019</td>
</tr>
<tr>
<td>Jan-Set 2020</td>
</tr>
</tbody>
</table>

*Chart 6: Internal debt amortization*

<table>
<thead>
<tr>
<th>Dívida Interna (Milhões de Meticais)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obrigações do Tesouro</td>
</tr>
<tr>
<td>Financiamento Bancário</td>
</tr>
<tr>
<td>Reestruturação e Consolidação</td>
</tr>
<tr>
<td>Jan-Set 2019</td>
</tr>
<tr>
<td>Jan-Set 2020</td>
</tr>
</tbody>
</table>

Source: MEF, January-September 2020

1.3 MONETARY SECTOR

To minimize the impacts of the COVID-19 pandemic in Mozambique, the Central Bank adopted expansionist measures, including a reduction in the monetary policy interest rate (the MIMO rate - Mozambique’s Interbank Market) from 12.75% in August 2019 to 11.25% in April 2020 (first month of the EE; reduction of 150 basis points) in June and from 11.25% to 10.25% (reduction of 100 basis points) in September 2020. On the other hand, the WB and the Mozambican Banking Association (AMB) reduced the Prime Rate from 18.00% in January, 18.40% in April, to 15.90% in September, a level which remained constant until December 2020. (Chart 7).
Analyzing the data available in the WB and AMB communiqués concerning the monthly fixing of the Prime Rate in the first month of EE, this rate was high compared to the previous period, but from the second month of EE onwards there were increasing reductions amounting to 2.5 percentage points between April and September. These reductions are rather timid, considering the current climate in which the country is involved.

Even reduced to the level of 15.90% in practice, this rate, for borrowers, still represents a very high cost, since in the process of granting credit, a spread is added to the Prime Rate which the banks define, often eliminating the effect of the Prime Rate reduction, due to the high level at which the spread is fixed in relation to the perception of client quality.

A text published by CIP in December 2020 showed that the national financial system is highly concentrated, for example, until December 2019, the three main commercial banks (Millennium BIM, Banco Comercial de Investimentos and Standard Bank) controlled around 70.7% of total deposits, 60.4% of credit to the economy and 66.7% of total assets of the national financial system.

This analysis drew attention to the fact that despite the existence of the Ministerial Diploma No. 23/2018 of February 2 approving the regulation on the management of state bank accounts, the process of domiciliation of state funds with commercial banks seems not to be based on public tender and most public institutions have autonomy in choosing banks to domiciliate their accounts.

Consequently, the state’s financial operations for raising tax revenues and other deposits are mostly domiciled in the main commercial banks. This raising of funds gives these banks an exceptional advantage in managing profits with funds practically at no cost to them, which leads one to believe that there can be a privileged relationship between the main commercial banks and the Mozambican state.

One aspect highlighted in this analysis is that the lack of such transparent procedures in the domiciliation of state funds creates a space for corruption in the financial system, since many commercial banks have attracted deposits through bribes to the decision makers of public institutions. This practice, which is rooted in the Mozambican financial system, influences the cost of granting loans because these bribes are charged to the final consumer.

In addition, this analysis explains that another bottleneck that benefits only the commercial banks of the square is in the phase of raising state resources that allows banks to use state funds to purchase Treasury bills issued by the same state entering a vicious circle that generates significant profitability and zero risk for the financial institutions best positioned in the market.

The analysis concludes that the factors mentioned above, when combined, weaken the Bank of Mozambique’s monetary policy transmission mechanism, indicating the need to introduce mechanisms aimed at stimulating competitiveness by reducing the concentration of state
resources in certain commercial banks. These mechanisms will also contribute to the reduction of credit risk.

In this sense, it is urgent that, given this situation, transparent procedures be implemented. For example, through public tenders for the allocation of state funds in the banking system and thus permit healthy competitiveness among banks. It is important that there is a level playing field to ensure that the beneficiaries of state deposits are not only the banks but also the borrowers. Using low-cost funds should result in access to credit in commercial banking with a more beneficial interest rate structure for borrowers, which is not currently the case.

1.4 EXTRACTIVE INDUSTRY

In 2020, the extractive industry globally and in Mozambique in particular was severely affected by the covid-19 pandemic, which led companies in the sector to take measures to mitigate the negative impacts caused by the pandemic.

The poor performance of the extractive sector was a determining factor in the negative performance of GDP in 2020.

The following events contributed to the poor performance of the extractive sector in 2020:

i) Drop in the price of oil on the international market with effects on projects and gas in Mozambique;  
ii) Natural gas, the most important mineral resource in the global production structure, has suffered large reductions in production due to the restrictions of economic activities in South Africa, the main and only export market;  
iii) Total, the operator of Area 1, announced cuts of about 1/5 in investment expenses and reduction in operating costs for 2020 at a global level, with investments and priority projects remaining, including the Golfinho/Atum (Mozambique LNG) project;  
iv) Mozambique Rovuma Venture (MRV), leader of the Rovuma LNG project, announced the postponement of the project’s Final Investment Decision (FID) to an as yet undefined date. This postponement, which foresees an investment of about 25 billion US dollars and the production of 15 million tons of natural gas per year (mtpa), is mainly due to cuts in capital spending by 30% and in operating expenses by 15% of the respective parent companies;  
v) Total temporarily suspended its activities in Afunji in 2020 for 3 months and again in January 2021, due to the Covid-19 pandemic and attacks in Cabo Delgado;  
vi) The Pande/Temane Natural Gas Production Project, led by Sasol, whose current production is less than 190 MGJ/a (including the gas used in operations), required precautionary measures to protect workers. In fact, Sasol interrupted part of its activities, maintaining the continuation of its critical operations, fully observing the mitigation measures of COVID-19 decreed by the Government;  
vii) Interruption of drilling and completion activities for the South Coral Project for eight months. January 2021 saw the resumption of these activities;  
viii) The Light Oil Production project, also led by Sasol, suspended drilling, repair and abandonment of wells, and should resume as soon as the pandemic situation has improved.  
ix) The major external coal consumers (China and India) since the beginning of the pandemic have been closed, which has led companies to produce based on orders. According to PES (2021) it is expected that the operation of the coal miners in 2021 will continue to be conditioned due to the effects of COVID-19 and in view of this reality, the production of coking coal in 2021 is planned for 9,385,600 tons and 6,685,200 tons of thermal coal, representing a growth of 93.5% and 120 % respectively; and

The ruby mining company, Montepuez Ruby Mining paralyzed activities for a period of three (3) months (April to June) from 2020, which affected all production forecasts for this ore. By 2021, ruby production is expected to reach levels of 1,750,000 carats, as operations will take place in both primary and secondary deposits.

Although these events also have a negative effect on the 2021 performance, projections for the extractive industry indicate a 1.5% improvement in growth compared to the 2020 forecast. However, this forecast could be undermined by the high degree of uncertainty at the beginning of the year.

The sector’s growth perspective is based on the level of investments expected for 2021, mainly with regard to the Mozambique LNG projects in area 1, where Total has completed the financing of more than US$16 billion that guarantee the investment of the natural gas project in area 1 and Coral Sul FLNG in area 4 that is in the final straight to start production in 2022.

It should be noted that these activities will take place in a context where restrictive measures vis-à-vis Covid-19 tend to worsen and especially the attacks in Cabo Delgado intensify, which constitutes an explicit risk and high degree of uncertainty.

**PERSPECTIVES FOR 2021**

### 2.1 Economic Outlook

With the relaxation of restrictive measures under COVID-19 and the gradual reopening of economic activity from the third quarter of 2020 onwards at a global level in general, and at a domestic level in particular, there was a slight gradual recovery of the economy (the impact of COVID 19 on annual GDP growth was lower in the third quarter, around -1.09%, compared to the II, of -3.25) with more optimistic prospects for 2021.

For 2021, the prospects for economic recovery remain, albeit slow, due to the strengthening of restrictive measures in place until March 7, in response to the new wave of mass infections in Mozambique, as well as the new wave of contamination by COVID-19, coupled with the discovery of new variants in South Africa, China, England, the United States of America, Japan, Brazil, with greater potential for transmission and reinfection led to a new imposition of restrictive measures at global and domestic levels.

Thus, the global recovery expected in 2021 will be even less than previously expected, with the reduction of demand and supply and the movement of people and goods, even before the administration of the vaccine against Covid-19.

Nevertheless, some recovery is expected in the second half of the year, stimulated by the implementation of gas exploration projects in the Rovuma basin and the trend towards recovery of external demand, in the face of the discovery of several vaccines of Covid-19 (WB, 2020).

In this context, greater pressure is expected on public spending, especially in the health, education, social protection and defense sectors, on the one hand to confront the pandemic and, on the other, to combat the insurgencies in Cabo Delgado and the center of the country with social support for the affected populations. The possible occurrence of floods and inundations constitute another risk of pressure on public finances, which could harm production in 2021.

Despite these situations, expectations of success in controlling COVID-19, with the start of massive production of vaccines, lead to prospects of a faster recovery of global demand in the second half of 2021, with an impact on the prices of some commodities.

For example, according to the Bank of Mozambique (2020), the price of Brent oil has registered accumulated gains of 13.9%, being quoted at USD 52.60/barrel on December 10, 2020. These gains are expected to influence the price of natural gas and this trend will continue in the first months of 2021.
The upward trend was also observed in the prices of some export products from Mozambique, such as aluminum (7.4%) and coal (1.0%). And according to IMF projections (2021) the price of coal will continue to grow in 2021. (see the chart below).

**Chart 8: Evolution of coal price (USD per metric ton))**

Forecasts of rising coal and natural gas prices may be behind hopes for the mining industry as one of the main factors in Mozambique’s economic recovery in 2021, as predicted by the authorities. However, it should be mentioned that this recovery is likely to be slower than predicted due to the emergence of new variants of Covid-19 which has been changing the stance of policy makers, imposing greater restrictions on the movement of people and goods worldwide and domestically combined with the prevalence of armed conflict in Cabo Delgado as well as the occurrence of cyclones that have been affecting the northern and central areas of the country.

### 2.2 Public Procurement

#### 2.2.1 Risk of Corruption in the hiring of Healthcare Professionals

Public procurement is one of the areas to which special attention should be paid in 2021, given the current context of the outbreak of the new corona virus and armed conflicts in the Centre and especially in Cabo Delgado. Aspects related to the transparency of procurement processes are relegated to the background. In normal periods (not crisis), public procurement has been used by civil servants for the expropriation of the state through the detour of resources intended for the acquisition of public goods and services.\(^5\)

The outbreak of the new corona virus led the government to adopt an exceptional measure of public procurement, the direct adjustment, to the detriment of the public tender. With the declaration of the state of emergency, the Government established that for the purchase of goods and services “urgently needed to prevent and combat the Covid-19 pandemic” the exceptional public procurement regime should be applied.\(^6\) This situation created the opportunity for the Government to acquire, through direct adjustment, goods and services at prices considered above average and whose relationship with the prevention and combat of the pandemic is questionable.\(^7\)

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6 Cfr. Art. número 1 do 41 do Decreto 51/2020, de 1 de Julho, que aprova as medidas administrativas para prevenção e contenção da propagação da pandemia da Covid-19 a vigorar durante o Estado de Emergência;
With the end of the state of emergency and the declaration of a public calamity, the priority recourse to the exceptional public procurement regime ceased. The abandonment of this regime introduced by the COVID-19 emergency is justified because the pandemic was no longer an element of surprise. It is possible to plan the acquisitions to face the pandemic with reasonable time for the public tender, the public procurement rule regime.

However, there is a risk that the government and or some public servants will take advantage of the COVID-19 pandemic to manipulate public procurement, either by resorting to the exceptional public procurement regime or by inventing and inflating procurement needs, appealing to the calamitous situation of COVID-19.

In this context, the procurement of the Health sector, at central and provincial levels, and institutions under the supervision of the Central Medical Stores (CMAM) must be carefully monitored by civil society, the press, and the supervision of organs and institutions of the State, such as the Assembly of the Republic, Administrative Court, General Inspection of Finance. Throughout this year, CIP will scrutinize, with special attention, the procurement of the Health sector. This work has been carried out since 2015 and this year, due to the current situation, more attention is required to identify, prevent and expose bad practices.

### 2.2.2 Risk of Overbilling in Defense and Security Sector Contracts

The armed attacks by the Renamo Military Junta in the Central region and especially the war against the insurgents in Cabo Delgado are contributing to a rapid increase in defense spending. From 2017 to 2020, defense spending increased by about 80%, from 8.304.10 billion in 2017 to 14.957.30 billion by September 2020. There is no disaggregated data to find out what was spent on hiring, but in the context of war, there is always an increase in spending on logistics. In the past, hiring for Defense and Security was used as a blunt scheme for state resources. The case of the hidden debts, which damaged the state by about $2.1 billion, is an example of how public servants use the secrecy required in hiring from the Defense and Security sectors to expropriate the state.

### 2.3 Infrastructures

#### 2.3.1 Introduction of National Road Tolls with potential to generate social tensions

The Government will install more than two dozen tolls throughout the country for the collection of road user charges from motorists, in an initiative called the “Self-Sustained Road Maintenance Program”, approved by the Government in the last quarter of last year. The collection will begin in two phases. The first phase will be in the first quarter of this year and the second phase will be in the second quarter of 2022. The Government justifies the introduction of the Program on the grounds that “there is a need to ensure the participation of users in financing road maintenance.

The tolls will have a uniform cost of 50 thousand meticais for class 1 vehicles - the majority used by citizens for private purposes - regardless of the distance travelled. Residents of rural areas crossed by toll roads will have a special monthly fee of 300 meticais, the same to be paid by semi-collective transporters. However, in urban areas residents will not benefit from the same fee, they will pay the same amount.

The tolls were introduced without a comprehensive public consultation of affected communities, which can be a source of potential social tension, with residents of the areas concerned refusing to pay the tolls.

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8 Decreto n. 79/2020, de 4 de Setembro, que Declara a Situação de Calamidade Pública e Ativa o Alerta Vermelho.
10 Decreto n. 104/2020, of 11 December, which approves the toll rates on Roads that are part of the Self-Supporting Roads Maintenance Program.
Possible refusal to pay tolls would not be the first case in Mozambique and in current governance. In 2015, the population of some districts in Tete province refused to pay tolls located on the Zambezi roads, a private concession of about 700 km of road network in Tete province and two bridges over the Zambezi River (Samora Machel and Kassuende)\(^\text{11}\).

There is also the risk of influence peddling in the process of granting toll roads for private management, benefiting political and economic elites and thus distorting the real objective of the Self-Sustaining Road Maintenance Program, by turning it into a source of income for elites.

The case of Zambezi Roads is a pragmatic example of how the installation of tolls on roads is a viable business for the elites. The concession of 700 km of road network, for a period of 30 years, has as beneficiaries Ascendi Concessões e Transportes, Soares da Costa, both Portuguese companies and on the Mozambican side is a shareholder Infra Engineering Mozambique, a company whose partners are Tobias Dai, former Minister of Defense; Fernando Sumbana, former Minister of Tourism; Raimundo Pachinuapa, former fighter of the National Liberation Struggle and Member of the Political Commission of Frelimo\(^\text{12}\).

The risk of this business model replicating itself in the concession of the road network with tolls being erected throughout the country, as well as the risk of the population refusing to pay some tolls, creating the so-called *shadow tolls*, where users refuse to pay and the operator only accounts for the vehicles that pass the toll and then the bill is charged to the government.

It is important to carry out research and advocacy work to promote the transparency of tolls, both in their concession and in contract management. It is also important to carry out campaigns to raise awareness in the communities about the importance of tolls and also about the need to monitor tolls at local level.

### 2.4 Hidden Debts

#### 2.4.1 Extradition of Manuel Chang and Trials of Hidden Debts in Mozambique and England

Several lawsuits related to hidden debts are pending in several jurisdictions, including Mozambique, South Africa, the United States of America, the United Kingdom and this year it is expected to be decisive for some of them. The extradition process of former Finance Minister Manuel Chang from South Africa since December 2018 is expected to be decided this year. Chang can be extradited to Mozambique or the US. The Mozambican Justice is expected to judge, later this year, the 20 defendants in the hidden debt case, including the former director of the State Information and Security Service (SISE), son and advisors to the former President of the Republic. In England, where there are several civil lawsuits in the English High Court in London, the first trials should be held this year. Table 1 shows the summary of the main lawsuits of the hidden debts in the world to be monitored in 2021.


Table 1. Hidden Debt Lawsuits Around the World to Monitor in 2021

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Parties</th>
<th>Type of Case</th>
<th>Request</th>
<th>Obs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>Mozambican State (PGR) against about 30 national and foreign defendants</td>
<td>Criminal case</td>
<td>The State asks for the conviction of the accused to prison sentences and payment of damages to the State</td>
<td>About $200 million of hidden debts that would have been embezzled from the state through bribes and illicit commissions is involved</td>
</tr>
<tr>
<td>England</td>
<td>Mozambican State against 12 defendants including Credit Suisse and Privinvest</td>
<td>Civil process</td>
<td>Cancellation of the US$622 million guarantee issued by the State to make possible ProIndicus’ debt and payment of compensation for damages caused to Mozambique in relation to the MAM loan of US$535 million</td>
<td>Request accepted by the Court and next hearing scheduled for February 17th</td>
</tr>
<tr>
<td>England</td>
<td>Credit Suisse against ProIndicus and Mozambican State</td>
<td>Civil process</td>
<td>Validity of the guarantee of 622 5 million dollars issued in favor of ProIndicus plus payment of interest and interest on arrears and legal expenses incurred</td>
<td>Request accepted by the court and next hearing scheduled for February 17th</td>
</tr>
<tr>
<td>England</td>
<td>VTB contra Estado moçambicano e MAM</td>
<td>Civil process</td>
<td>Validity of the guarantee issued by the Mozambican State to enable MAM loan of 535 plus indemnity payment and default interest totaling 670 million dollars on the date of request (12/23/19)</td>
<td>Interest to be calculated at the date of the decision</td>
</tr>
<tr>
<td>England</td>
<td>The ProIndicus Institutional Lenders Group against Credit Suisse, Mozambican State and ProIndicus SA</td>
<td>Civil process</td>
<td>Reimbursement of $622 million of loans taken out by ProIndicus in 2013</td>
<td>Petition not yet accepted by the Court, however, very likely to be accepted</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Privinvest contra Moçambique</td>
<td>Arbitration</td>
<td>Indemnity of $200 million for breach of contract for supply of equipment and services</td>
<td>Stage of the process unknown</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Swiss state versus unknown</td>
<td>Criminal case</td>
<td>Still no order. Probably conviction for misconduct in conducting business and compensation to injured parties</td>
<td>Potential positive effects for Mozambique</td>
</tr>
<tr>
<td>USA</td>
<td>USA against 8 defendants, including 3 Mozambicans</td>
<td>Criminal case</td>
<td>Request for prison sentences and compensation to the injured parties, namely the state and American investors.</td>
<td>Judgment occurred. Jean Boustani acquitted. Waiting for other defendants, including Manuel Chang.</td>
</tr>
<tr>
<td>South Africa</td>
<td>USA against Manuel Chang</td>
<td>Criminal case</td>
<td>Request for Extradition of Manuel Chang to the USA</td>
<td>The decision taken by the South African court authorizes the extradition of Manuel Chang to both the US and Mozambique. The execution of the decision is dependent on the South African Minister of Justice.</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Financial Regulator against TMF, a Dutch company who helped hire Ematum’s debt</td>
<td>Administrative</td>
<td>Penalty for misconduct</td>
<td>Potential source of information for asset recovery for Mozambique</td>
</tr>
</tbody>
</table>

Source: CIP Compilation
2.5 War in Cabo Delgado

2.5.1 Reduction in the number of internally displaced persons and improvement of resettlement conditions

The year 2020 was the worst since the beginning of the attacks in Cabo Delgado. More than half of the approximately 2500 deaths caused by the Cabo Delgado war occurred this year. The number of IDPs grew by more than 2700%, caused by the conflict, generating a humanitarian crisis in the new resettlement areas, with cases of human rights abuses of the victims of the conflict\textsuperscript{13}.

For the year 2020, as the Government strengthens the fighting capacity of the Defense and Security Forces, with more training and equipment, as well as knowledge of the terrain and the enemy, it is expected that the 2020 trend will be reversed and armed attacks will be reduced. With the reduction in attacks, it will reduce the number of internally displaced persons seeking refuge in safer areas within the province and in neighboring provinces.

At the same time, resettlement conditions for IDPs are expected to improve with the transfer of IDPs from the current transitional accommodation centers and foster homes to new villages, where they can practice farming and rebuild improved housing.

For this, it is important that the Government maintains the commitment to allocate new land for the housing of the displaced as well as means to start life in the new villages. The support of the partners is also important for reestablishing the lives of the displaced.

Another aspect to be taken into account in Cabo Delgado is the way aid is directed to the people. The World Food Programme (WFP) is already demonstrating a lack of capacity to support the populations victims of the armed conflict and has launched an international appeal to meet their needs in food and other goods\textsuperscript{14}. In cases where such aid exists, it is important to verify whether there is transparency in the process to get it to the populations in need, how the beneficiaries are registered, what kind of control is exercised by the National Institute for Disaster Risk Reduction - INGD, and a series of nuances that the process entails.

Another aspect that has been little addressed is that the Cabo Delgado conflict may be exacerbating environmental problems in the province, if we consider that environmental protection issues are or may be being neglected or proper controls are not being carried out at province level. It is important that the competent services of Agriculture and Wildlife carry out, on a regular basis, inspection activities on how the flora and fauna resources are being exploited. In this regard, it should be mentioned that this year’s motto regarding the opening of the Judicial Year was focused on environmental protection, in the component of the uncontrolled exploitation of natural resources\textsuperscript{15}.


\textsuperscript{15} Notícias Newspaper, 2 February 2021, Edition n.° 31. 211 – Cover.
2.6 Anticorruption and Control Institutions and Regulatory Framework

2.6.1 Risk of increased corruption and adoption of legislation that violates fundamental rights

Potential agents of corruption and related crimes seek to act with greater freedom in times of crisis, when the bodies controlling and reprimanding this phenomenon are focused on mitigating the consequences or the danger arising from a global threat of a health nature, as is currently the COVID-19. In this context, it is important that the actions of the above-mentioned bodies are aimed at reducing to a minimum the possibilities of taking advantage of the economic situation in question.

Therefore, it is necessary to monitor the actions of the bodies responsible for the control, supervision, audit, prevention and reprehension of corruption in order to adjust their action plans to the context being observed. These institutions are the Administrative Court (TA), the Central Office for Combating Corruption (GCCC) and the General Inspection of Finance (IGF). The above-mentioned bodies should regularly produce and share reports on their activities during the period in question.

In practical terms, what is observed is that, at least publicly, the activities being carried out by these control and repression bodies are not shared on a regular basis, which raises doubts as to whether they are in fact effectively fulfilling their mandates with a view to reducing the chances of corruption cases occurring in the public sphere, which presupposes the existence of preventive mechanisms.

Another relevant aspect to be taken into account in this period of crisis caused by the Covid-19 pandemic is related to the need to monitor the actions of the Assembly of the Republic (AR). In this respect, the HR approved a new regime of preventive imprisonment, extending its duration. In this respect, several segments of society criticized the AR’s procedure, which was not based on inclusion criteria. In this case, no comments were previously requested from relevant institutions of civil society and others of public utility, such as the Bar Association (OAM). Therefore, the OAM protested the alleged unconstitutionality of the aforementioned amendments, and the government fought back through the Minister of Justice, Constitutional and Religious Affairs, Helena Kida, to the contrary, stating that the new periods of pre-trial detention are not illegal and were not approved to deal with the case of the pre-trial detainees in the “hidden debts” case16

The situation described above leads to the need to monitor the legislative activity of the RA and other public bodies that produce laws in the broad sense, since the public calamity situation in which the country finds itself can propitiate the production of legislation that violates the fundamental rights of citizens.

There is also the need to monitor/supervise the application of Law No. 10/2020 of 24 August (Disaster Risk Management and Reduction Law) that the Government has used to implement measures to control the spread of Covid-19. It is necessary to verify whether, in fact, this law serves the effects of mitigation of the effects of the pandemic and whether, on the basis of it, the Government is not violating the rights of citizens, without neglecting the fundamental issue of protecting the lives of citizens.

2.6.2 Lack of regulation of the Education and Health sectors will harm the citizen

As far as the social sectors are concerned, it should be noted that there were those who did not adjust properly to the Covid-19 pandemic. These include the sectors of education, health where deficiencies in approach or implementation of measures to control contagions with the new coronavirus resulted in failure.

As far as the education sector is concerned, at the level of the private sector, the discussion of the matter related to the payment of school fees was notorious, in a situation in which the government was not prepared to regulate the matter in question, leaving it to a negotiation

between the educational institutions and the parents and guardians. The regulation of tuition fees, as the health crisis at Covid 19 is not over and its end cannot be predicted, as is happening this year, with the increase in the number of infections that can condition the return to school attendance, which will certainly revive the debate about the payment of tuition fees. On the other hand, the government has not yet presented how it will manage the sector in this matter, given that the problem of tuition fees is only postponed, but not closed.

Therefore, it is up to the Government to take a position in the absence of a specific regulatory body for the sector, which it must do, with some urgency, to try, at least this year, to anticipate a conflict that may return the society. The creation of a regulatory body would help to solve this situation in a solid way, for the future. However, at present, the Government should seek to mitigate this social problem, and, through the Ministry of Education, should take over the regulation of the private education sector, drawing up the respective guidelines and mandatory obedience commands for operators in the sector.

As for the health sector, problems have also arisen that have demonstrated its weakness. A hasty attempt was made to address the health problems of schools through direct adjustments. There is also a disparity in prices for admission to private sector medical clinics. The government should supervise private clinics to avoid taking advantage of the pandemic to inflate prices for admission of patients with Covid 19, as well as on services provided and prices of medical equipment and pharmaceutical products.

There must also be greater rigor in the control of medical products and articles, in order to avoid that they, when destined to the National Health System (NHS), are not diverted to the private sector, which as we have mentioned, practices exorbitant prices and that are not within the reach of the common citizens, who are the majority of the population in the country and who are the most vulnerable to be affected by Covid - 19, given the various difficulties they must face, particularly with regard to lack of means of transport, hygiene, among others. That is, it is necessary to guarantee security at the level of the public health sector so that there is no lack of material conditions to treat patients.

In the case of the health sector, and especially the private sector, there should already be a regulator in place, as it has already been formally created by law, but it is not yet in operation, which could help if it were independent or sufficiently autonomous to overcome or control many problems that have been emerging in the sector since the outbreak of the Covid - 19 pandemic.

Therefore, the Covid-19 pandemic ended up generating a social problem that is defined as “... A situation or condition that, from the perspective of certain groups within a society, does not work as it should”. This is the best definition that the Covid - 19 pandemic brought us to the education and health sectors. The truth is that these sectors showed a poor performance.

It is difficult to identify a sector that has been able to withstand the crisis of the Covid - 19 pandemic, or that has not suffered the shock of it. Almost all sectors were affected directly or indirectly. It should be noted that the National Health System, although with the problems pointed out, tried to adapt to the context of the pandemic. This sector, despite the threats of collapse, continues to resist, seeking alternative solutions. However, warnings are already being issued for this possibility if the numbers of those infected continue to grow.

The public transportation sector has become the visible face of public sector inefficiency in dealing with the COVID-19 pandemic. The government has failed to introduce structural reforms in the sector to reduce the levels of contagion that may be occurring in public transportation on a daily basis when the population is transported through the Chapa-100 fleas and crowded buses.

The measures introduced have had no effect, and in a large metropolis like Maputo, with a huge concentration of people, the inefficiency of public transport becomes a focus of contagion of the disease. The high levels of contagion in the city and province of Maputo, may be directly related to the way thousands of people are transported daily, without any respect for the minimum conditions of protection required to mitigate the spread of COVID-19.

If structural reforms are not introduced in this sector, it is very likely that levels of contagion will continue to rise, with a considerable part of the population being transported through public transportation companies. Therefore, negative impacts on the economy can be expected.

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17 https://www.noticiasaominuto.com/mundo/1479634/governo-de-mocambique-recomenda-dialogo-a-pais-e-escolas-sobre-propinas
18 Cfr. Law n° 12/2017, of 8 September
19 https://www.infopedia.pt/$problemas-sociais
Other sectors that have managed to adapt to the pandemic crisis are basically those of economic-financial service delivery. Here we can highlight banking, e-commerce, as far as the private sector is concerned. At the public sector level, it is only practically now that some services are trying to introduce non-presential services and trying to decentralize them, as is the case with the National Institute of Land Transport (INATTER), with the introduction of electronic markings and the expansion of services to vehicle inspection posts, given that there were large crowds of people in their facilities. However, these measures should be expanded to other areas of activity at State level in order to reduce infections.

With regard to the armed conflict in Cabo Delgado, it should be noted that there is a need to continue to monitor and report on human rights violations and to expose these situations.

Table 2. Summary of perspectives for some areas of governance in 2021

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Perspectives (1st semester)</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>Slow recovery in the first 6 months with higher weight in the first quarter followed by faster recovery in the second half of 2021.</td>
<td>Emergence of new variants of COVID-19 with effect in limiting the movement of people and goods. To emphasize that the new variants were discovered in countries that are part of the group of the biggest commercial partners of Mozambique (South Africa, Japan and England). Administration of the vaccine against Covid-19 with probability of relaxation of the measures of containment of the virus.</td>
</tr>
<tr>
<td>Inflation</td>
<td>Increase of the general price level</td>
<td>Reduction of supply due to the lower circulation of people and goods imposed by the worsening of the measures in the context of covid-19</td>
</tr>
<tr>
<td>Extractive Industry</td>
<td>Sector growth in a context of uncertainties</td>
<td>The sector growth perspective is based on the level of investments expected for 2021, mainly for Mozambique LNG projects in area 1 South Coral FLNG in area 4. The latter in the final straight to start production in 2022. It should be noted that these activities will take place in a context where restrictive measures vis-à-vis Covid-19 tend to worsen and mainly the attacks in Cabo Delgado intensify, which constitutes an explicit risk and high degree of uncertainty.</td>
</tr>
<tr>
<td>Investments</td>
<td>Increased volume of investments in a context of uncertainty</td>
<td>- After 8 months of interruption due to the international situation imposed by the COVID-19 pandemic, ENI and partners announced the resumption, in January 2021, of activities to implement the South Coral project in area 4 of the Rovuma Basin. - Total Mozambique completed the financing of more than US$16 billion that guarantees the investment of the natural gas project in area 1. However, 2021 starts in a context of slowdown of Total’s activities as a reflection of the disruptions caused by Covid-19.</td>
</tr>
<tr>
<td>Exports and Imports</td>
<td>Increase in imports and exports</td>
<td>On the one hand, imports may increase with the increase of investments in the extractive sector basically in fixed capital in response to the resumption of activities of the Coral South project in area 4. On the other hand, an increase in exports due to the forecast of favorable prices for coal and aluminum.</td>
</tr>
<tr>
<td>Public Finance</td>
<td>Pressure on public finances remains.</td>
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<td>------------------------</td>
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<tr>
<td></td>
<td>Expenditures related to defense and security and social support to populations affected by military instability in the central and northern areas of the country, as well as possible expenditures resulting from the effects of climate shocks and logistics for the administration of the vaccine against COVID-19, increase concerns about the fiscal stance for 2021. The state is expected to continue to rely on domestic deficit financing in the face of the challenges faced by most cooperation partners in the pandemic.</td>
<td></td>
</tr>
<tr>
<td>Recipes</td>
<td>Increase in revenue</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax collection is expected to increase in 2021 compared to the previous period’s forecast, however, marked by the slowdown expected for the first 6 months of the year. This factor can be justified by the expectations of an increase in economic activity for this year.</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>Reduction of Public Expenditure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A reduction in public spending is expected, particularly in the investment component (a very worrying factor in the country’s situation and in the current context of a pandemic). This may exacerbate the precariousness of the infrastructure of the social sectors, jeopardizing compliance with policies to combat poverty.</td>
<td></td>
</tr>
<tr>
<td>Public Debt</td>
<td>Increase of debt burden</td>
<td></td>
</tr>
<tr>
<td></td>
<td>An increase in debt burden is expected, especially internal debt, which may aggravate tax risks.</td>
<td></td>
</tr>
<tr>
<td>Anticorruption</td>
<td>Risk of increase in corruption and related crimes at the time of Covid-19</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Potential agents of corruption and related crimes seek to act with greater freedom in times of crisis, when the organs of control and reprehension of this phenomenon are focused on mitigating the consequences or the danger arising from a global threat of a health nature, as is currently the Covid-19</td>
<td></td>
</tr>
<tr>
<td>Approval and Application of the Law</td>
<td>Risk of approval and/or application of the Law violating fundamental rights</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The public calamity situation in which the country finds itself may lead to the production and/or alteration of legislation that violates the fundamental rights of citizens, with little consultation and public debate caused by an alleged urgency to face the calamity situation. Likewise, the application of Law No. 10/2020 of 24 August (Disaster Management and Risk Reduction Law) that the Government has used to implement measures aimed at controlling the spread of Covid-19 may serve as a pretext for the Government to violate citizens’ rights instead of ensuring the protection of citizens’ lives.</td>
<td></td>
</tr>
<tr>
<td>Education Regulation</td>
<td>Risk of conflict between private schools and parents due to lack of regulation of fees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The lack of regulation of fees in private schools in the context of the Covid-19 health crisis is not over and neither can its end be predicted, which may condition the return to school attendance, will certainly revive the debate about the payment of fees. On the other hand, the government has not yet presented how it will manage the sector in this matter, given that the problem of tuition fees is only postponed, but not closed.</td>
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<tr>
<td></td>
<td>There is a risk of the resurgence and even worsening of the conflict between parents and guardians and the private school boards given the disagreement over the discounts on fees for students attending distance learning classes.</td>
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</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Risk Analysis</td>
</tr>
<tr>
<td>---------</td>
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</tr>
<tr>
<td><strong>Health Regulation</strong></td>
<td>Risk of price escalation in private hospitals and detour of hospital items from the public sector</td>
<td>Given the increased demand for health services in the context of the pandemic, there is a risk that private sector medical clinics will take advantage of the opportunity to inflate prices for the admission of patients with Covid 19, as well as on the services provided and the prices of medical equipment and pharmaceutical products. There is also a risk that medical products and articles destined for the National Health System (SNS) are diverted to the private sector.</td>
</tr>
<tr>
<td><strong>Public Procurement</strong></td>
<td>Increase of direct adjustments and risks of corruption in public procurement in the Health sector</td>
<td>The exponential growth of covid-19 infections will require the Government to urgently hire goods and services to be used to prevent and combat the pandemic. The hiring of the Health sector is already characterized by excess of direct adjustments, influence trafficking and the existence of captive suppliers. The current context will exacerbate these problems, which pose a risk of corruption.</td>
</tr>
<tr>
<td><strong>Infrastructures</strong></td>
<td>Increased secrecy and overcharging in the hiring of Defense and Security sectors</td>
<td>The continuation of the war in Cabo Delgado will require the Government to acquire means and services to cope with the logistics of the war. As the Government has a tradition of secrecy in the acquisition of defense and security sectors as well as overbilling, there is a risk that these will increase with the justification that this is a matter of defense and security, under State secrecy and exempt from public scrutiny.</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>Risk of social conflicts due to the introduction of the Self-Supporting Road Maintenance Program</td>
<td>The Government will implement in the first semester of 2021 the Self-Supporting Road Maintenance Program, which focuses on collecting toll fees from motorists on more than two dozen tolls to be installed throughout the country. The installation of tolls in the context of the social and economic crisis caused by the covid-19 pandemic and conflicts in Cabo Delgado and the central region of the country and without proper public consultation there is a high risk of generating social upheaval by opposing the collection of toll rates in communities.</td>
</tr>
<tr>
<td><strong>Hidden Debts</strong></td>
<td>Important decisions on hidden debts</td>
<td>It is expected that the courts in which the proceedings concerning the hidden debts are taking place, namely South Africa, Mozambique and the Kingdom, will judge and decide on cases of hidden debts, including the extradition of Manuel Chang from South Africa to Mozambique or the United States; the trial of the 20 defendants of the hidden debts in Mozambique and; the trial of the civil proceedings initiated by Mozambique against Privinvest and its subsidiaries, CreditSuisse and its agencies and former employees.</td>
</tr>
<tr>
<td><strong>War Displacements in Cabo Delgado</strong></td>
<td>Containment of attacks, reduction of displaced persons and improvement of resettlement of displaced persons</td>
<td>With the training of new military and police officers specialized in counter-terrorism, acquisition of equipment and knowledge of the terrain and insurgency strategies, they are expected to reduce the levels of insurgent attacks in Cabo Delgado, both in terms of frequency as well as size, and thus reduce the flow of IDPs seeking safer areas south of Cabo Delgado province and in neighboring provinces. With the construction of new villages for IDPs in the southern districts of the province, it is expected that they will improve the living conditions of the IDPs who currently live in shelters (more than 90%) and in transitional centers created for IDPs. To this end, it will be important for the government to commit itself to the allocation of land and means for the settlement of the displaced in safe regions.</td>
</tr>
<tr>
<td><strong>HEALTH</strong></td>
<td>More financing for the sector</td>
<td>It is planned to allocate 15% of total expenditure in the sector, ensuring the commitments the country has made. This sector, as well as education and agriculture and social protection, will be taken as a priority, being sectors capable of reducing social inequalities through the development of basic social infrastructures, guaranteeing the full functioning of institutions, and the increase of agricultural productivity, without neglecting the actions to combat and prevent COVID-19.</td>
</tr>
</tbody>
</table>

**Source:** compilation of authors
**DOCUMENTS CONSULTED**


Legislation consulted

Law No 12/2017, of September 8, Law on drugs, vaccines and other biological products for human use and revokes Law No 4/98, of January 14.

Decree 51/2020, of July 1st, approving the administrative measures to prevent and contain the spread of the Covid-19 pandemic to be in force during the State of Emergency;

Decree n. 104/2020, of November 11, which approves the toll rates on Roads that are part of the Self-Supporting Roads Maintenance Program.

Decree n. 79/2020, of September 4th, that Declares the Situation of Public Calamity and Activates Red Alert.
Parceiros:

Swiss Agency for Development and Cooperation SDC

UKaid from the British people

OXFAM

Norwegian Embassy

Reino dos Países Baixos

agir

Suécia

Sverige

OSISA Open Society Initiative for Southern Africa