



# SANCTIONS AS A TOOL FOR ASSET RECOVERY: MOZAMBIQUE

CIFAR RESEARCH PAPER

## KEY MESSAGES

- The Government of Mozambique and the international partners have been struggling to locate and repatriate the assets stolen in the Hidden-Debt scandal in 2016 which brought the country to economic collapse.
- Internal anti-corruption efforts appear to be responding to investigations taking place outside the country. An indictment in the US moved the Mozambican government to start proceedings in the Hidden-Debt scandal after a long period of inaction.
- From a long-term perspective, strengthening national law enforcement and a more independent judiciary is key for building Mozambique's ability to prevent and deal with large cases of cross-border corruption effectively.
- Sanctions by international partners, including secondary sanctions on international business entities implicated in domestic corruption scandals, may be useful in sending a clear message that impunity cannot be tolerated and exerting pressure for long-term reform.
- The anti-corruption objective which any current sanctions related to Mozambique should support is to block the repayment and nullify the fraudulently acquired state loans.

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# ASSET RECOVERY AND ANTI-CORRUPTION FRAMEWORK

## CORRUPTION OVERVIEW

The President of Mozambique, Filipe Jacinto Nyusi, promised in his inauguration speech in 2014 to tackle corruption as a priority. Despite the combative rhetoric, available data shows endemic and systemic corruption taking place, ranging from petty bribery to grand corruption schemes affecting the private sector, the executive, and the judiciary. The cost of fraud reached a staggering value of around USD 5 billion in the period between 2002-2014.<sup>1</sup> The 2019 edition of the Corruption Perception Index (CPI) ranked Mozambique with a score 26 out of a maximum 100 points, which marks slight progress compared to previous years.<sup>2</sup>

The Mo Ibrahim Index ranks Mozambique amongst the top three countries with the highest deterioration of Transparency & Accountability since 2015, when major corruption scandals broke out.<sup>3</sup> The sub-indicator 'Sanctions for Abuse of Office' is ranked lowest due to a lack of compliance and selective application of corruption sanctions in the public sector.<sup>4</sup> Equally, Worldwide Governance Indicators (WGI) score Mozambique poorly on Voice and Accountability and Government Effectiveness. The pervasive lack of accountability 'culture' within public institutions is characterised by the absence of pro-active data disclosure and reluctance to cooperate with international partners and non-governmental organisations.<sup>5</sup>

**MOZAMBIQUE'S ECONOMY HAD GROWN AT AN AVERAGE ANNUAL RATE OF 6%-8% UP UNTIL 2016 WHEN THE HIDDEN-DEBT SCANDAL DISCLOSED ENORMOUS CORRUPTION BEHIND ILLEGALLY ACQUIRED, MULTI-BILLION DOLLAR STATE LOANS.**

The natural resource-rich economy consequentially dived, with shocks hitting the economy related to exchange rate fluctuation and the downgrading of the country's investment outlook, which resulted in weaker economic growth. Consequently, the progress in lifting half of the population of around 30 million out of poverty stalled.<sup>6</sup>

Mozambique's economic drivers have centred around extractive industries, primarily driven by forestry, coal mining, and discoveries of natural gas reserves.<sup>7</sup> As in several other countries with a sudden natural resource 'curse', revenues from these extractive industries were in part illegally laundered within the country and abroad.<sup>8</sup> The Basel Institute for Governance ranks Mozambique in 2020 at the top of the list of African jurisdictions enabling money laundering, driven by organised drug crime, misappropriation of state funds, and wildlife trafficking.<sup>9</sup>

The Eastern and Southern Africa Anti-Money Laundering Group mutual evaluation report identifies a range of deficiencies in investigation, prosecution, and conviction on money laundering and anti-terrorism financing, including low capacity and lack of operational independence of law enforcement agencies.<sup>10</sup> Financial intelligence suffers from under-reporting and poor quality of filed reports. In 2016, only 536 Suspicious Transaction Reports (STRs) were received, most of them of poor quality, not allowing any actionable follow-up by law enforcement and intelligence agencies.<sup>11</sup> STR data and other AML indicators have been inconsistent in recent years. Vulnerabilities to corruption in particular come from a lack of adequate supervision of Designated Non-Financial Businesses and Professions (DNFBPs), a lack of enforceable requirements for financial

institutions to identify Politically Exposed Persons (PEPs), a lack of transparency of the beneficial ownership of corporate vehicles registered in Mozambique, and insufficient mutual legal assistance and asset forfeiture legislation.<sup>12</sup>

The capacity to investigate, prosecute and convict on corruption charges is also weak. While exact figures are inconsistent and irregular, the Attorney General reported in 2016 that 296 indictments were made, with 138 cases leading to prosecution. This proportion of trials represents only 2% of all criminal charges filed in the reported period.<sup>13</sup> Domestic provisions for corruption sanctions exist but are applied rather selectively. For example, annual asset declarations are compulsory for some public officials and their families holding assets and debt positions within or outside of Mozambique. There have however been no significant charges for breaches.<sup>14</sup> There is a Witness and Protection Act of 2012, but witnesses and whistleblowing protection in corruption cases is weak to non-existent. The idea that crime pays prevails amongst the population.<sup>15</sup>

Mozambique passed a Right to Information Law in 2014, which came into force in January 2016. Compliance is not guaranteed. Especially expenditure and budgetary information as well as law enforcement data is difficult to access by civil society and other stakeholders.<sup>16</sup> There have been numerous cases of requests for information by CSOs that have been denied or ignored.<sup>17</sup> Intimidation and threats against journalists are common. Being still very dependent on Overseas Development Assistance (ODA), the government is susceptible and reactive to unfavourable reporting in foreign media.<sup>18</sup>

Despite thousands of registered CSOs, only around 15 organisations are working on governance and anti-corruption issues. The most important is the Centre for Public Integrity (CIP), the Institute of Social and

Economic Studies (IESE), the Mozambican Debt Group (GMD), and the Rural Observatory (OMR). Some CSOs focus on analysis and research; some provide crucial input into the drafting of anti-corruption legal provisions. Others consider focusing on litigation, but have not yet done so.<sup>19</sup> Domestic CSOs working on governance issues have relative operational freedom but face administrative obstacles, threats and, in limited incidences, violence. CIVICUS ranks the civil society space as 'obstructed',<sup>20</sup> while Freedom House ranks Mozambique as 'partly free'.<sup>21</sup>

**IN 2016, AN OUTSPOKEN ACTIVIST WHO ACCUSED THE GOVERNMENT OF CORRUPTION IN THE HIDDEN-DEBT SCANDAL WAS SHOT AND REQUIRED HOSPITALIZATION FOR SERIOUS INJURIES.<sup>22</sup>**

In late 2019, the executive director of a leading anti-corruption NGO and his family were publicly threatened and had to go into hiding.<sup>23</sup> Prosecutors, judges and public servants working on corruption-related issues have been kidnapped and murdered in recent years.<sup>24</sup> An emerging terror group and Islamic State affiliate in Mozambique has been escalating attacks against foreign investment in the oil-rich provinces and has threatened the international community and civil society with kidnappings and violence. Terrorism financing is enabled by money laundering, primarily through DNFBPs.<sup>25</sup>

There are currently no international sanctions in force against Mozambique. Formally, the Bank of Mozambique requests all institutions to check sanctions lists of the Security Council. There are individual sanctions in place against individuals and entities. Mozambique does not impose any sanctions against foreign targets.



## ASSET RECOVERY OVERVIEW

Despite a number of challenges, Mozambique has made some progress in recent years in developing a legal and institutional anti-corruption framework, especially regarding asset recovery. The Central Office for Fighting Corruption/ Gabinete Central de Combate à Corrupção (GCCC), has been reformed and newly established within the Office of the Attorney General (Procuradoria-Geral da República, PGR) to investigate corruption-related crimes. Other essential institutions tackling money laundering, asset recovery and financial crimes are the Ministry of State Administration and Public Service, the Central Ethics Commission, the Financial Intelligence Unit of Mozambique (GFiM), and the Central Bank of Mozambique. The GCCC has bilateral cooperation agreements with counterparts from the UK, several Portuguese-speaking countries, and neighbouring countries. Mozambique has been a member of the, rather inactive, Asset Recovery Inter-Agency Network of Southern Africa (ARINSA) since 2017.

### THE HIDDEN-DEBT SCANDAL IN 2016 WAS A DEFINING MOMENT FOR THE ANTI-CORRUPTION EFFORT.

The government, development partners and some CSOs turned their attention to asset recovery in contrast to corruption investigations and prosecutions considered politically sensitive and ineffectual. Reforms included the passage of the 2019 Mutual Legal Assistance Law, which empowers the Minister of Justice to decide on extradition requests and coordinate asset recovery efforts through a dedicated office for asset recovery. The legislation gives the judiciary the power to extradite people sought by other countries' justice authorities and suspected of having committed crimes.<sup>26</sup>

There are provisional measures regarding the seizure and confiscation of goods within Mozambique's jurisdiction scattered over several legal provisions. Law enforcement struggles with identification, localisation and forfeiture of the proceeds of corruption internationally and within Mozambique. In rare cases of convictions, no asset confiscations follow. Natural and legal persons may initiate civil proceedings if they possess legal personality, including foreign states as long as they hire a national lawyer. However, there is no evidence that this situation has occurred as of 2019.<sup>27</sup>

Mozambique does not have extensive experience concerning international cooperation in criminal matters. There have been no significant cooperation agreements signed related to confiscation and asset recovery. The national courts must validate foreign court decisions in criminal matters, including confiscation. Mozambique does not allow direct enforcement of foreign confiscation orders.<sup>28</sup> Non-conviction-based confiscations are not allowed in Mozambique, even for the purposes of mutual legal assistance. Seizure and freezing can only be ordered based on a request from a foreign country. There is no evidence that this has happened so far. Confiscated goods, assets or amounts of money become the property of the State.<sup>29</sup> There is no experience or any attempt to compensate the victims of corruption. Some CSOs consider litigation in asset recovery cases, but they lack the necessary know-how and confidence.<sup>30</sup>

# TRANSNATIONAL CORRUPTION CASES AND EXTRATERRITORIAL SANCTIONS: MOZAMBIQUE'S EXPERIENCE

It is unusual that a single corruption case brings a country to economic collapse. Precisely that though happened in the Hidden-Debt scandal in 2016, when Mozambique defaulted on its sovereign debt after the country had failed to report around USD 2.2 billion, approximately 10% of the country's GDP, worth of state loans backed by Credit Suisse and the Russian VTB bank. The loans were ostensibly intended to acquire fishing vessels, military equipment and other state infrastructure, but went mostly into 'kickbacks' to the government's elite and international financial providers.<sup>31</sup>

An audit revealed that at least USD 500 million out of the state-backed loan is unaccounted to date. Another USD 713 million was diverted through over-invoicing. Some USD 200 million went on commissions paid to international financial providers, some clearly in bribes.<sup>32</sup> This case of global corruption network spans several jurisdictions, including France, Lebanon, the Netherlands, Switzerland, the United Kingdom, and the United States.

As a consequence, 14 leading development partners suspended direct budget support in 2016, worth 12% of public spending.<sup>33</sup> Audits and investigations revealed identities of entities and individuals widely believed to be primarily responsible for the damage. The Government of Mozambique and the international partners have since been struggling to locate and repatriate the stolen assets.<sup>34</sup>

Only an indictment in the US moved the government to start proceedings, when after a long period of inaction, the Attorney General finally indicted 18 people in late

2018 "on charges of abuse of power, abuse of trust, swindling and money laundering".<sup>35</sup> In 2019, the former Head of Intelligence, the son of the former President Guebuza, along with four others, were arrested.<sup>36</sup> In the US indictment, three Credit Suisse employees in London, including the Managing Director and two other senior bank staff, the former Mozambican Finance Minister Manuel Chang, the head of economic intelligence at the government's state intelligence and security service António do Rosário, Teófilo Nhangumele from the Office of the President of Mozambique, Lebanese national Jean Boustani, and Najib Allam were charged as lead conspirators.<sup>37</sup>

The tracing of the stolen assets has been exceptionally difficult as all implicated parties have refused to cooperate. The London-based branch of Credit Suisse and the Russian VTB declined to publically reveal any information about their due diligence in this case. The Mozambique Ministry of Defence and Security Services (SISE, Serviço de Informacões e Segurança do Estado), declined to provide any information. It is worth noting that the current President Nyusi was the Minister of Defence between 2008 and 2016. As a consequence, only a fraction of the assets from the hidden-debt scandal have so far been traced. Only fifteen buildings and six luxury cars allegedly bought with fraudulent money have been seized and 31 bank accounts frozen.<sup>38</sup> Switzerland has recently opened a criminal probe into 'persons unknown' in the Credit Suisse and the VTB over their role, based on the Mutual Legal Assistance request sent by Mozambique.<sup>39</sup> The government, along with civil society, argue that the loans are 'odious' and should not be repaid under any

circumstances as they were clearly obtained with corrupt intent.<sup>40</sup>

## INTERNATIONAL SANCTIONS ON INDIVIDUALS AND ENTITIES IN MOZAMBIQUE

Alongside the Hidden-Debt case revelations, there have been numerous reports that the government aids North Korea in avoiding international sanctions through the lucrative fishing business and illegal and possibly corrupt contracts worth at least USD 6 million through companies with unclear ownership. Some of the deals have been allegedly channelled through companies owned by the Mozambique Ministry of Defence, which is also implicated in the Hidden-Debt scheme.<sup>41</sup> Some assets may have ended up in North Korea through fake or inflated contracts for military equipment in clear breach of the UN Security Council sanctions.<sup>42</sup> In this connection, the UK government imposed sanctions and froze the assets of North Korean-based Mansudae Overseas Projects construction company, which is active in Mozambique.<sup>43</sup>

Other international corruption cases are of much lesser significance from the domestic and global perspective. In 2018, there was an increase in the number of corruption investigations involving high-level government officials. The former Transport Minister, Paulo Zucula, was detained and is under investigation on suspicion of taking bribes from the Brazilian construction company Odebrecht in connection with the construction of the international airport in the northern city of Nacala. Odebrecht admitted in 2016 paying bribes in Mozambique against charges brought by the United States, Brazilian and Swiss authorities. The case was settled in the US without any compensation paid to Mozambique.<sup>44</sup>

International sanctions are imposed on some individuals related to organised drug crime activities. Under the Foreign Narcotics Kingpin Designation Act, the US treasury in 2010 added to its sanctions list entities owned by the drug dealer Mohamed Bachir and three business entities linked to him.<sup>45</sup> Some global environmental organisations urged the US Government to impose international trade sanctions against Mozambique for failing to prevent the illegal trade in wildlife, fueled by the corruption of local law enforcement and environmental agencies.<sup>46</sup> No sanctions have been imposed so far.

Despite the efforts of the government to boost anti-corruption institutions, the legal framework, the capacity to locate and repatriate assets within Mozambique and in foreign jurisdictions, and despite significant technical and financial assistance from international partners in recent years, the initiative has not yet yielded substantial results. Civil society has been increasingly well organised in advocating for investigations into the Hidden-Debt case, in particular to trace at least some of the stolen assets. Together with international partners, they have supported the government through the establishment of legal and institutional tools to recover stolen

assets. The draft Asset Loss and Recovery Law currently debated in the Parliament is a concrete example of this three-party collaboration. CSO-initiated analytical reports outlining the damage to state assets and introducing potential asset recovery strategies are another example of a broader cooperation of stakeholders.<sup>47</sup>

# IMPACT OF INTERNATIONAL SANCTIONS IN MOZAMBIQUE'S ANTI-CORRUPTION CONTEXT

The Hidden-Debt scandal fits into the intent of the US Global Magnitsky Act, and its versions in UK, Canada, Estonia, Lithuania, as well as EU misappropriation sanctions and the Swiss sanctions regime, among others. 'Acts of significant corruption' have been committed beyond a reasonable doubt in a case that brought down once a relatively prosperous economy. This single corruption case ruined the country's economic rating and also the trust of development partners providing significant financial and technical assistance. After the scandal went public in 2016, the Managing Director of the IMF, Christine Lagarde, echoed the sentiment of the international community in stating that the government 'clearly concealed corruption'.<sup>48</sup> The following section considers whether international targeted sanctions against individuals and entities could aid in fighting corruption and advancing asset recovery in Mozambique.

## POTENTIAL STRENGTHS AND OPPORTUNITIES OF INTERNATIONAL SANCTIONS

**Sanctions could prompt the government to enable the investigation of suspects and the tracing of the stolen assets**

It is evident that Mozambique does not have sufficient technical experience and, perhaps political space, to investigate grand corruption charges and track criminally acquired assets thoroughly. US and Swiss investigations in recent years enabled the only breakthroughs in the corruption investigations into the disastrous USD 2.2 billion state loan acquisition. It was only after the US indictments that the government

detained the main culprits of the corrupt scheme.

Assuming that a significant portion of the stolen assets are still within Mozambique, such a move may prompt Mozambique law enforcement to track this loot and confiscate them to the potential benefit of the victims of corruption, in this case, the entire nation. It is also an opinion of the practitioners on the ground that 'some sort of international action' is necessary to move this case domestically towards the recovery of at least some assets.<sup>49</sup> Since the Ministry of Interior and Defence and the Secret Services are implicated in parts of the \$2.2 billion loan misappropriation, sanctions might force state authorities to cooperate, at least through sharing some records of this enormous corruption case.

**Sanctions may provide the only option for targeting some of the presumed culprits effectively outside of Mozambique's jurisdiction**

Swiss authorities continue investigating Credit Suisse, while the Russian VTB lodged on 23 December 2019 a lawsuit in Britain's High Court against the Mozambique state and public company Mozambique Asset Management for failing to repay and restructure the debt. The involvement of VTB also shows the geopolitical dimension of this case, as the bank is the second-largest financial institution in Russia and its majority shareholder is the Russian State. The bank has been accused of facilitating fraudulent transactions and loans without minimum transparency across the African continent to project Russian influence in Africa.<sup>50</sup> Andrew Pearce, a former Credit Suisse banker who



pleaded guilty to wire fraud in the Hidden-Debt scandal, accused a VTB executive in charge of the deal, Mr Makram Abboud, of receiving USD 2 million in kickbacks to facilitate the loan.<sup>51</sup> It is worth noting that VTB Bank was added to the US Sectoral Sanctions Identifications List in 2014. VTB Bank and its subsidiaries were also added to the European Union, Canada and Australian sanctions list because of the annexation of Crimea by Russia in 2014.<sup>52</sup>

### Sanctions may send an essential political message in support of nullifying the government's fraudulently acquired debt

Imposing international sanctions on those implicated in facilitating the loans would add to building the case that the repayment of the staggering USD 2.2bn worth of loans plus interest should be nullified.<sup>53</sup> Extensive and, in some cases, proven corrupt intent on the side of government officials, international financial providers and implicated private entities is rather apparent. The government and local non-governmental organisations argue that international sanctions should be calibrated to strengthen this effort.

### International sanctions may present a rare opportunity to target the Mozambique elite implicated in the hidden-debt scandal

The ruling party Frelimo (Frente de Libertação de Moçambique) is famous for rewarding party-loyalists with jobs and other privileges.<sup>54</sup> It is highly unlikely that the political economy would allow the tackling of the inner party circle partly responsible for massive corruption in the natural resource industries and also involved in the Hidden-Debt scandal. The case of the unpublished forensic audit of the Hidden-Debt scandal conducted by the international auditor Kroll and sponsored by development partners illustrates the dilemmas faced by the ruling elite. The Kroll report documented in detail the massive corruption at the highest state positions in the Hidden-Debt scandal but was

effectively blocked from being published despite early promises to disclose the full findings. After much pressure by civil society and international partners, only the redacted executive summary was later disclosed. Eventually, the whole report was leaked.<sup>55</sup>

### Sanctions on international companies implicated in the grand corruption in the country may raise due diligence standards

'Western' financial providers have been crucial in facilitating the Hidden-Debt transactions. Brazilian Odebrecht was convicted of fraud in infrastructure projects. Portuguese, Italian, South African and Chinese construction companies are all very active in the country. The elite has always relied on foreign capital and services and profited from bribery extraction from these companies.<sup>56</sup> Some domestic companies are linked to the public or party officials and some of these companies are named as suspects in aiding the thriving drug business.<sup>57</sup> US Department of Justice has already sanctioned several companies linked to the drug trade.<sup>58</sup> If used effectively, Magnitsky-style sanctions present the opportunity to raise due diligence standards and proactive corporate risk measures in business operations in Mozambique. Other sanctions may be considered concerning companies implicated in the booming organised drug crime and wildlife trafficking of which Mozambique is an important hub in southern Africa.

### When coupled with technical assistance to law enforcement and cooperation with CSOs, international sanctions could mobilise public opinion behind the urgency to create a robust asset recovery infrastructure

There is an ongoing concern that the proposed legal framework on recovering of assets and money laundering will be 'watered down' before it is enacted.<sup>59</sup> There is continuing research and advocacy work on the assessment of the corruption

damage to Mozambique as a result of the Hidden-Debt scandal.<sup>60</sup> This assessment would gain much more political and public attention if timed well with international pressure through targeted international sanctions. The precedent established by the US indictments and Swiss investigations prove that these actions have a direct impact on the government's response, as such pressure is a source of national embarrassment and concern that international partners will stop or scale back financial and technical assistance.<sup>61</sup>

### POTENTIAL WEAKNESSES AND THREATS OF INTERNATIONAL SANCTIONS

**In the absence of new evidence, it is unclear how the imposition of targeted sanctions could aid the process of investigation and prosecution of corrupt individuals and the recovery of stolen assets**

The massive hidden-debt scandal is being investigated in at least five jurisdictions (Mozambique, the UK, the US, Switzerland and South Africa). Some detentions have been made and bankers in the UK branch of Swiss Credit Suisse have pled guilty. The 'game-changer' would be new evidence, which would allow further prosecution and, above all, tracing of the hundreds of millions of dollars' worth of assets. The crucial evidence may have to be delivered within Mozambique, from institutions such as the Ministry of Defence and the Ministry of Interior. Sanctions are unlikely to achieve this objective given the fact that the current President of Mozambique, Filipe Nyusi, was the Minister of Defence at the time of the controversial contracts. Furthermore, as witnessed globally and in other parts of the African continent, international sanctions for corruption charges may be controversial in Mozambique, if no new evidence is presented that would lead to convictions and the recovery of assets.

### **International sanctions could facilitate asset flight**

The imposition of sanctions could also impede the tracing of assets, including unrelated cases where persons or entities under potential threat may put their corrupt proceeds into jurisdictions which are not cooperative and not responsive to mutual legal assistance requests and law enforcement cooperation.

### **One of the potential dangers of international sanctions is the direct impact on domestic civil society**

CSOs that are leading the anti-corruption campaign are dependent on foreign funding and diplomatic support from development partners. Civil society has been instrumental in analysing, researching and keeping the momentum in the Hidden-Debt scandal and some other smaller corruption cases. Some organisations, notably the Centro de Integridade Publica, have been very vocal in calling for a comprehensive asset recovery strategy for the stolen wealth and for avoiding the repayment of the debt to international creditors, who are themselves accused of corruption in this case. This exposure makes these CSOs vulnerable to any potential backlash resulting from international sanctions placed on individuals or entities linked to the government or the powerful elite.

### **Government-CSO-donor cooperation may be threatened**

This cooperation has proven crucial in formulating new asset recovery legislation, such as the proposed Asset Loss and Recovery Law. The law was submitted to the Assembly of the Republic in June 2020 with substantial contribution to the drafting process by the Forum de Monitoria do Orcamento/Budget Monitoring Forum (FMO), comprising of 22 civil society organisations. The Attorney General,

Beatriz Buchili, also announced the hiring of international experts to “help [...] identify, seize and value [stolen] assets”.<sup>62</sup> It is uncertain how international sanctions would affect this close cooperation.<sup>63</sup>

## CONCLUSIONS

Despite significant external pressure faced by the government after the hidden-debt scandal, Mozambique's law enforcement and the political elite do not seem at the moment to be in a position to progress in grand corruption cases. Domestic anti-corruption efforts seem to be reactive to indictments and investigations taking place outside the country. Furthermore, meaningful progress in locating stolen assets is stalled at home and abroad, despite widespread suspicion that substantial volume of the corrupt proceeds is still within Mozambique.<sup>64</sup> There appears to be some progress in setting up an asset recovery legal, policy and institutional infrastructure with a substantial contribution of international experts and domestic civil society organisations. However, it may take a long time before this effort will result in significant convictions and recovery of assets, which could compensate at least some damage incurred by the nation for the foreseeable future.

International partners, especially Western allies who provide substantial diplomatic support and financial and technical assistance vital to the economy and public service delivery, retain significant leverage over the government. Sanctions, including secondary sanctions on international business entities implicated in domestic corruption scandals, may be useful, at least in sending a clear message that impunity at the scale of looting that has taken place in Mozambique cannot be tolerated. In this context, Magnitsky-style, 'smart' sanctions<sup>65</sup> may present some advantages and opportunities, especially concerning the hidden-debt scandal. Non-governmental experts particularly argue that external pressure, including sanctions, is crucial for long-term reform of a system that is not up to the task to challenge current power-preserving interests effectively.<sup>66</sup>

From a long-term perspective, the strengthening of domestic law enforcement and a more independent judiciary is certainly more sustainable for the ability of Mozambique to prevent and deal with grand corruption cases effectively. However, the immediate and much bigger anti-corruption objective is to block the repayment and nullify the fraudulently acquired state loans and sanctions could support this effort. Any potential sanctions should also be responsive so that when there is a positive development, they can be scaled back to incentivise behavioural change and support reform processes. CSOs should be the 'eyes on the ground' and monitor the impact of sanctions.<sup>67</sup>

The application of international sanctions, even in a targeted and limited scope against carefully selected individuals or entities, could though also carry substantial weaknesses and risks. For example, the cooperation between the anti-corruption agencies, the parliament, civil society and international partners, noticeably in the asset recovery effort, can easily be jeopardised if sanctions antagonise the political leadership. Even in cases where sanctions would lead to the confiscation of assets abroad, their repatriation to Mozambique and subsequent compensation for damage to the victims of grand corruption are unrealistic in the near future.<sup>68</sup>

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