

Country Focus Report 2023

MOZAMBIQUE

Mobilizing Private Sector Financing for Climate and Green Growth



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Green Growth



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African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org

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The preparation of the report was led and coordinated by Ferdinand Bakoup, Acting Director, Country Economics Department, with a core team consisting of Herve Lohoues, Lead Economist for Central Africa and Acting Division Manager, Country Economics Division 2 (Southern Africa, East Africa, and Nigeria), George Kararach, Lead Economist for Southern Africa, Mr. Rômulo Corrêa, Senior Country Economist for Mozambique, with technical and operational support from Ms. Joemy Raivoso, Junior Economics and Strategy Consultant for Mozambique, Ms. Ana Carolina Dall’Agnol, Junior Economic Project Consultant for Mozambique, and Tricia Effe Baidoo, Team Assistant, Country Economics Department (ECCE).

Peer review comments were received from Mr. Ghazi Ben Ahmed, Consultant of the Director General for Southern Africa Region Front Office, led by Leila Mokaddem, Director General, Southern Africa region, and Mr. Cesar Augusto Mba Abogo, Country Manager, Mozambique, Mr. Julian Slotman, Consultant, of the Macroeconomics Policy, Forecasting and Research Department led by Abdoulaye Coulibaly, Director, Officer-in-Charge, Anthony Simpasa and Jaoui Fadel, Division Managers of the Macroeconomics Policy and Debt Sustainability Division and Microeconomic and Institutional Impact Assessment Division respectively, Mr. Julius Tieguhong, Chief Forestry Officer and Mr. Charles Nyirahuku, Chief Gas Policy Officer of the African Natural Resources and Investment Centre led by Vanessa Ushie, Acting Director, and Fred Kambanda, Division Manager, Renewables, Musole Mwila Musumali, Principal Climate Change & Green Growth Officer, of Climate Change and Green Growth Division led by Anthony Nyong, Director.

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS	3
LIST OF FIGURES	5
LIST OF TABLES	5
LST OF ANNEXES	5
LIST OF ACRONYMS AND ABBREVIATIONS	6
KEY MESSAGES	7
I. INTRODUCTION	9
II. MOZAMBIQUE'S ECONOMIC PERFORMANCE AND OUTLOOK	11
2.1. Recent Macroeconomic Developments	11
2.2. Outlook and Risks	13
III. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN MOZAMBIQUE	15
3.1 The imperative for green growth and the role of private sector financing	15
3.2 Private sector finance flows, gaps and needs for green growth and climate action in Mozambique	18
3.2.1 Current flows of finance	18
3.2.2 Private sector finance needs for the future	20
3.2.3 Emerging innovative private sector financing mechanisms for green growth and climate action	21
3.3 Opportunities and barriers for mobilizing private sector finance for green growth and climate action	22
3.3.1 Opportunities for private sector investments	22
3.3.2 Barriers to private sector investments	24
3.3.3 Pathways to mobilizing private sector finance for green growth and climate action in Mozambique	27
IV. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH	29
4.1 The Evolution of Natural Capital	29
4.2 Opportunities for Enhancing the Contribution of Natural Capital in Mozambique	29
4.2.1. Non-Renewable Resources	30
4.2.2. Renewable Resources	32
V. CONCLUSION AND POLICY RECOMMENDATIONS	35
5.1 Conclusion	35
5.2 Policy Recommendations relating to macroeconomic performance and outlook	35
5.3 Policy recommendations for private sector financing for climate change and green growth	36
5.3.1 National Government	36
5.3.2 Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs)	38
5.3.3 Domestic and international private sector	38
5.3.4 Developed country governments	39
5.3 Policy Recommendations for increasing the contribution of natural capital to climate finance and green growth	39
5.3.1 Natural Resources Rents	40
ANNEX 1	41
ANNEX 2	42

LIST OF FIGURES

Figure 1	Mozambique's GGI 2010-2021
Figure 2	Mozambique's GGI in comparison with other African countries
Figure 3	Components of Mozambique's GGI, based on country-level of the AEO 2023
Figure 4	Upfront private investment opportunities to adapt to droughts and floods in Mozambique between 2021 and 2040 (% of GDP)
Figure 5	Mozambique's estimated climate financing needs in 2020-30 (in billion USD)
Figure 6	Private climate finance gap in USD million (2020-2030)
Figure 7	Public Climate Finance per Capita (USD), based on country-level data from the AEO 2023
Figure 8	Private Climate Finance, based on country-level data from the AEO 2023
Figure 9	Renewable natural capital composition (constant 2018 USD), millions
Figure 10	Non-renewable natural capital composition (constant 2018 USD), millions

LIST OF TABLES

Table 1	Macroeconomic Indicators
Table 2	Innovative instruments used to mobilize private sector finance in Mozambique
Table 3	Mozambique Natural Capital composition in USD millions (1995-2018)

LIST OF ANNEXES

Annex 1	Changes in the value of natural capital for African countries, 1995–2018
Annex 2	Selected Indicators

LIST OF ACRONYMS AND ABBREVIATIONS

AEO	African Economic Outlook
BM	Bank of Mozambique
BNI	National Investment Bank
CAD	current account deficit
CFR	Country Focus Report
CIF	Climate Investment Funds
DFIs	Development Finance Institutions
ECF	Extended Credit Facility (IMF)
ENDE	Mozambique National Economic Development Plan
FNDS	National Fund for Sustainable Development
GCF	Green Climate Fund
GCRI	Global Climate Risk Index
GDP	gross domestic product
GGI	Green Growth Index
GHG	greenhouse gas
GoM	Government of Mozambique
FDI	Foreign direct investment
IMF	International Monetary Fund
IUU	illegal, unreported, and unregulated
LIC	low-income country
LNG	liquefied natural gas
MDBs	Multilateral Development Banks
MEF	Ministry of Economy and Finance
MIMO	Mozambique Monetary Policy Interest Rate
NCA	Natural Capital Accounting
NCCAMS	Mozambique National Climate Change Adaptation and Mitigation Strategy
NDC	Nationally Determined Contribution
OECD	Organization for Economic Co-operation and Development
PAE	Package for Economic Acceleration (Government of Mozambique)
PQG	Mozambique Five-Year Government Plan
PIM	public investment management
PPCR	Pilot Program for Climate Resilience
PPP	public-private partnership
REO	Regional Economic Outlook
SAPP	Southern African Power Pool
SAPZ	Special Agriculture Processing Zones
SISTAFE	State Financial Administration Law
SMEs	small and medium-sized enterprises
UN	United Nations
USD	United States Dollar

MOZAMBIQUE

KEY MESSAGES

Mozambique needs to mobilize significantly more private financing for climate change and green growth.

Mozambique is politically committed and engaged to advance green growth and climate action. Mozambique's National Economic Development Plan (ENDE) for the period 2015-2035 and the five-year government plans (PQG) for the period 2020-2024 emphasize the development of a climate-resilient economy with investments in renewable energy, sustainable forest management, climate-resilient agriculture, and climate-resilient infrastructure. It has also made good progress on streamlining its Nationally Determined Contributions (NDC) within the main strategic economic and sector development of Mozambique, all of which highlight the important role of the private sector in generating the finance needed to meet set goals. This has also been accompanied by comparatively good performance on green growth. Mozambique's role as the African Union Natural Disaster Management Champion, its active engagement at the United Nations Security Council on climate-related issues, and the creation of a Climate Finance Unit demonstrate Mozambique's multifaceted efforts in addressing climate change. Through these initiatives, Mozambique showcases its commitment to climate action, disaster resilience, and sustainable development, both at the regional and global levels.

However, this political commitment needs to be translated into action through coordinated cross-sectoral policies that can enable the mobilisation of additional private sector finance. That means that Mozambique must apply measures that ease the overall investment environment, but also deliberately create a framework for the private sector expansion in green industries. Implementation also requires the development of green skills and addressing the existing capacity gaps that limit the development of commercially-viable green growth and climate change projects for private sector investments.

Key barriers preventing the mobilisation of private sector finance at scale to meet Mozambique's green growth and climate action goals relate to its high levels of external debt and high financing costs, the low levels of skills and capacities amongst institutions to develop and implement commercially-viable green growth and climate action projects for private sector investments, particularly for non-extractive sectors, and the limited integration among sectors at the national level to ensure equitable distribution of private sector finance.

Innovative green finance instruments provide an opportunity for Mozambique to further stimulate domestic and international private sector finance for green growth and climate action. When it comes to climate finance environment needs, Mozambique could focus on climate risk-mitigating and risk-sharing financial instruments, and also launch new financial instruments. Discussions for the launch of new financial instruments are ongoing.

The private sector financing opportunities for green growth and climate change in Mozambique are immense, and unlocking these opportunities will need concerted action by multiple stakeholders.

- The Government of Mozambique should ensure integrated approaches that include a cross-cutting policy to facilitate the implementation of green growth and climate action frameworks, converging business environment, skills and financing policies. They should also operationalize the Climate Finance Unit which will be essential to improve Mozambique's capacity to catalyse more funds and coordinate their use in different sector objectives.
- Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) should use innovative financing instruments that de-risk private sector investments in Mozambique, particularly in non-energy sectors such as water and health infrastructure, which are critical for Mozambique's green growth ambitions.

- Domestic and international private sector actors should engage more proactively with the government to propose and design PPPs that focus on the sustainable management of natural resources.
- Developed country governments should work with MDBs and DFIs to ensure that these institutions have sufficient capital to implement risk-agnostic measures to finance green growth and climate action in Mozambique, as well as work for innovative instruments such as climate-swaps.

Natural capital for climate finance and green growth

Renewable natural capital plays a major role in Mozambique. Natural capital per capita has grown over the last quarter century, despite fast population growth rates. That shows the potential Mozambique has to sustainably use its endowments to stimulate its own development. This success does not preclude the country from taking action in the years ahead to prevent loss of forest ecosystems and marine biodiversity as well as harnessing the returns from these systems in a sustainable manner. More can also be done to exploit clean energy resources.

The role of non-renewable assets is critical in Mozambique, particularly liquefied natural gas (LNG). Mozambique uses it to pursue universal electricity access for its population by managing a just energy transition, exploring its LNG as a transitional resource while driving towards net zero by 2050. That will make financially viable the required investments in transmission lines to form the basis of an integrated electric system in Mozambique, that will further enable the connectivity of the sizable renewable hydro, wind and solar to the rest of the system, including the Southern African Power Pool (SAPP).

For cropland and pastureland more goods and services can be generated in value terms by investing in new technologies, updating land rights schemes, as well as extending the value chains, specially through Special Agriculture Processing Zones (SAPZ).

The country has also made significant progress in collecting rents from its natural resources, with oil and coal rents to gross domestic product (GDP) increasing. However, the low level of mineral rents to GDP raises a potential need for Mozambique to assess its taxation and collection system for the sector, a measure that has recently being prioritized by the government. Despite its volatility, forest provides the largest contribution in terms of rents of natural resources to the GDP, totalling 60% on average in the previous decade. Continuous monitoring of natural resource rents is crucial to identify trends, challenges, and opportunities.

I. INTRODUCTION

This Country Focus Report (CFR) for Mozambique reviews the role of the private sector in financing climate change and green growth. It explores the scope for harnessing natural capital to finance adaptation and mitigation to climate change and to promote green growth. It aims to replicate at country level the analyses carried out at the continental level in the African Development Bank's main African Economic Outlook (AEO) report. The AEO report provides analysis on the state of socio-economic challenges and progresses made in Africa as well as short-to-medium term forecasts on the evolution of key macroeconomic indicators for all 54 African countries. Over the years, the AEO has become a reference source for those interested in Africa's development, including country, regional, continental, and global policymakers, researchers, investors, and development partners. In addition to the main AEO report, the AfDB also produces the Regional Economic Outlook (REO) reports and the Country Focus Reports (CFRs). REO reports and CFRs aim to replicate in the five regions of the African continent (Central Africa, East Africa, North Africa, Southern Africa, and West Africa) and in the 54 African countries, respectively, the analyses carried out at the continental level in the AEO report. The REOs' and CFRs' detailed analysis at the regional and country levels, policy implications and strategic solutions enable the AfDB to better inform the design of development policies and future projects and programs at the regional and country operational levels in Africa.

This CFR is structured as follows. Section 2 discusses Mozambique's recent macroeconomic performance and outlook. Section 3 discusses the private sector financing for climate and green growth in Kenya. Section 4 discusses the role of natural capital for climate finance and green growth in Mozambique. Section 5 draws some policy recommendations for the Government, the donors' community, the domestic and international private sector and developed country governments.

II. MOZAMBIQUE'S ECONOMIC PERFORMANCE AND OUTLOOK

2.1 RECENT MACROECONOMIC DEVELOPMENTS

GDP Growth: In the last decade Mozambique's economy grew on average by 3.9%, a significant slowdown compared to the previous decade, from 2003-2013, where it grew on average by 7.4%. Nonetheless, Mozambique's real GDP grew from 2.3% in 2021 to 3.8% in 2022, consolidating an ongoing recovery process from recent shocks such as the pandemic, conflict in the North, and global geopolitical tensions. The agriculture, health and social action, transport and logistics sectors were the fastest growing from 2018 to 2021, with an average growth of 3.4%, 4.7% and 3.5%, pushed by an increase in the use of inputs and public expenditures. The tourism sector was the main headwind to growth, sharply impacted by the pandemic and

climate shocks with an average contraction of -1.7% in the period. From the demand-side, GDP growth in the last five years was mainly driven by private consumption, reaching 65% of GDP in 2021, although gross capital formation's share in GDP increased to 58%, led by extractives. Net exports remained negative, following an inverse path to gross capital formation, linked to megaproject imports.

Monetary policy and inflation: Growth was followed by higher inflation, rising from 5.7% in 2021 to 10.3% in 2022, mostly pushed by fuel and food prices increases, breaching the less-than-two-digit inflation target. The Bank of Mozambique (BM) reduced its reference monetary policy interest rate (MIMO) during the first year of the pandemic, to 10.25% year-on-year, the lowest since February 2016.

Table 1- Macroeconomic indicators

	2020	2021	2022(e)	2023(p)	2024(p)
Real GDP Growth	-1.2	2.3	3.8	4.8	8.3
Real GDP per capita growth	-4.1	-0.6	1.0	2.0	5.5
CPI inflation	3.1	5.7	10.3	9.5	7.0
Budget balance % GDP	-5.3	-4.8	-3.7	-4.0	-3.6
Current account balance % GDP	-27.3	-23.6	-39.1	-14.0	-35.9

Source: Data from domestic authorities; estimates (e) and prediction (p) based on authors' calculations.

It has been promoting a monetary tightening cycle since January 2021, moved by the price pressures from COVID-19 disruptions that were combined with further pressures from climate shocks and recent global supply

chain disruptions that caused geopolitical tensions, consequently increasing the MIMO rate from 15.25% to 17.25% in August 2022. The exchange rate remained stable during the period.

Fiscal balance: The Government of Mozambique's (GoM) fiscal policy has been prudent in recent years despite the increasing humanitarian, military and social expenditure pressures. The fiscal balance has improved from a deficit of -4.8% of GDP in 2021 to an estimated -3.7% in 2022, pushed by higher revenues from faster economic growth. The deficit is projected to slightly increase in 2023, to -4.0% of GDP, before declining to -3.6% in 2024. This reduction of the deficit is mainly related to strong fiscal revenues from an overall growing economy, particularly the extractive sector, and from measures to enhance tax collection. That should offset the modest declines in taxes on agricultural, energy and other inputs targeted at supporting economic diversification, announced within the framework of the Package for Economic Acceleration (PAE) to reduce pressures from the on-going wage bill reform in the years following its implementation. The dialogue with development partners, the Government's reformist agenda, and the agreement with the IMF's Extended Credit Facility (ECF) have been positive steps over the last year, that while helping to stabilize the GoM's fiscal accounts in the short term, they also contributed to improving economic governance and public financial management systems in the country and may provide support in tapping other non-concessional funds in the medium term.

Public Debt: Debt as a percentage of GDP also fell marginally from 106.4% in 2021 to 102.6% in 2022, despite new borrowing coming from more expensive domestic finance. This results from economic growth pushed by liquefied natural gas (LNG) and its derived revenues, and from continued fiscal prudence, with GoM keeping spending levels moderate whilst maintaining strong revenue performance. However, annual debt servicing costs to the budget are amongst the highest in the world (12.9% of GDP in 2022), and debt levels are still well above regional peers, hence fiscal prudence is partially coming at the cost of public investment on key sectors, and having negative impacts on development, particularly for the poor. Real exchange rate and real interest rate

were the main drivers of public debt growth in the past five years. Domestic borrowing, despite being more expensive, has increased since undisclosed debts were found, reflecting a more restrictive access to international bondholder markets for Mozambique. The ECF's first report highlights that the country did not contract non-concessional external debt as well as there was no accumulation of public and publicly-guaranteed arrears, leading the present value of new external debt to zero against the indicative target of USD 89 million.

External Sector: The current account deficit (CAD) widened to -39.1% of the GDP in 2022, from -23.6% in 2021, given a one-off LNG offshore platform import, estimated at 25% of the country's GDP. The external position is expected to remain volatile given one-off equipment imports from mega-projects, compared to the small export base until 2025, when capital investments reduce as the projects mature and LNG exports start to revert this trend, with total exports surpassing imports only by 2026. Foreign direct investment (FDI) remains the main source of financing along with private external debt from LNG projects. International reserves declined to 4.6 months in April 2022 and then to 3.3 months in March 2023 (excluding mega-projects), due to the large level of imports.

Financial Sector: The financial sector has remained relatively stable in the first half of 2022, with an increase in its solvency ratio from 26.6% in June 2021 to 27.3%. The banking sector is well capitalized and liquid, however, notably concentrated with 72% of the banking system assets being controlled by three institutions. Non-performing loans reduced from 12.6% in June 2020 (first months of the pandemic) to 10.6% in December 2021, above the 5% benchmark. However, only 40% of urban adults have access to a bank account, compared to 10% in rural areas. Additionally, Mozambique's Financial Inclusion Index reduced to 12.76 points in 2021 from 13.39 in 2020 and 14.54 in 2019 as a result of the reduction in the number of access points as well as the retraction in the GDP caused by the COVID-19 pandemic.

Poverty and social indicators: Poverty rate estimates pointed to an increase to 68.2% in 2019/2020, well above the 46.1% rate lastly reported in 2014, showing a sharp reversal of previous decades of gains from fighting poverty in the country. Mozambique's Human Development Index rank fell by four positions from 2020, to 185th in 2021 (of 191 countries). Social protection coverage in Mozambique, however remains very limited, with only 13.4% of the population covered by at least one social benefit (excluding health) and with only 10.1% of vulnerable persons being covered by social assistance. Merely 4.9% of the labour force is covered by a pension scheme as active contributors, which is partly attributed to the large share of informal workers in the country.

2.2 OUTLOOK AND RISKS

GDP growth is poised to rise to 4.8% and 8.3% in 2023 and 2024, respectively, pushed by extractives and agriculture, leading to 3 percentage points faster GDP per capita growth from 2.0% to 5.5% in 2023 and 2024, respectively. Inflation is expected to reduce to 9.5% in 2023, and return to target in 2024, reaching 7.0%. The fiscal balance is expected to slightly deteriorate in 2023, impacted by the wage bill, before reducing to -3.6% of the GDP in 2024. The present value of debt-to-exports

ratio is expected to decline, albeit staying above the 140% threshold until 2023, due to LNG exports. Debt service-to-exports ratio is expected to fall below the threshold in 2024 until 2029. The CAD is projected to decrease to -14.0% in 2023 and then again sharply increase to -35.9% in 2024, given LNG projects imports.

Opportunities for Mozambique derives from the LNG investments and its tax revenues, investments in the agriculture productivity and natural capital-based sectors. Moreover, growth in landlocked neighbouring economies that use Mozambique as a logistic corridor may provide further economic growth opportunities, derived from increased cargo flow from these countries. The main risks to the economy include climate shocks, macroeconomic imbalances derived from sizable import-export operations from the extractive sector, and the insurgency in northern Mozambique, that could delay or conceivably prevent LNG projects from completing, with ramifications for the sustainability of the country's debt in the medium-term. In fact, despite being one of the lowest greenhouse gases (GHG) emissions contributors, Mozambique is one of the 10 countries most affected by climate change, according to the Global Climate Risk Index (GCRI).

III. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN MOZAMBIQUE

3.1. THE IMPERATIVE FOR GREEN GROWTH AND THE ROLE OF PRIVATE SECTOR FINANCING

Mozambique is one of the most vulnerable countries in the world to the impacts of climate change and natural disasters. The GCRI pointed that Mozambique was the most affected country in 2019 by climatic shocks, despite only contributing up to 0.22 tons of CO₂ emissions per capita (in 2021), equivalent to only 0.05% of the world's total emissions in comparison to 14.86 tons of CO₂ contributed by the US, equivalent to 3.2% of the world's total emissionsⁱ. According to the United Nations (UN), an increase of 1.0°C to 2.8°C by 2060, would have severe impacts on Mozambique's infrastructure as well as result in environmental degradation, and loss of biodiversity and ecosystems (erosion and saltwater intrusion) which would affect the mining, tourism and agriculture sectors.ⁱⁱ Together this poses a major challenge to the fight against poverty and raises the country's dependency on international support. In fact, Mozambique has already observed clear changes in its temperature and rainfall pattern, sea level rises, and higher frequency and intensity of extreme climatic events such as droughts, floods, and cyclones. With a population heavily reliant on subsistence rain-fed agriculture who mostly live in natural shocks-prone areas, and a high level of poverty (62.9% below the international poverty line in 2020), floods, tropical cyclones, and droughts have disrupted the livelihoods of millions and raised Mozambique's economic vulnerability.ⁱⁱⁱ

Potential opportunities for Mozambique to transition to green growth and climate-proof its economy requires promoting broader-based diversification of the economy, using Mozambique's comparative advantages of natural resource wealth such as water supplies, land, and biodiversity. Mozambique also has a young demographic profile, with 80% of the population below the age of 35, which means that the country possesses a significant demographic dividend that can be tapped into through targeted investments in education, skills development, and job creation, further bolstering the prospects for sustainable economic transformation and resilience to climate change.^{iv} The main challenge to realize a green growth transition for Mozambique is to ensure the exploration of its large LNG reserves estimated at over 180 trillion cubic feet, and its related fiscal revenues, is as sustainably developed as possible. For Mozambique to realize its ambition of universal access to power by 2030, it aims to use gas on a transitional basis. Doing that would financially justify constructing transmission lines that integrate the national electricity system, while creating infrastructure to enable the addition of renewables such as hydro, wind and solar to the energy mix. Mozambique will keep building on its long-term experience with renewables (78% of the on-grid system is hydropower backed). Beyond the direct electricity implications, and to avoid falling into a "natural resource curse", Mozambique should take advantage of its LNG development by promoting linkages between agriculture, fisheries and industries with the extractives sector, promoting economic

diversification. Mozambique will also need to create the right saving and investment frameworks to deploy public revenues, as the latter is expected to triple by 2030, that equip its human capital towards such transition.

Mozambique has demonstrated strong political commitment to green growth and made considerable progress in outlining its green growth and climate action priorities.

Accelerating growth rates while climate-proofing the economy is a major priority for Mozambique, which is a low-income country. Mozambique has set a long-term goal to attain middle-income status by 2035, with the National Economic Development Strategy (ENDE) 2015-2035 and the five-year government plan (PQG) 2020-2024 serving as the strategic framework for helping to achieve this objective. These strategies emphasize the need to build a climate-resilient economy, focusing on the agriculture, energy, and infrastructure sectors, among others. This includes investing in renewable energy, sustainable forest management, and climate-resilient agriculture, and promoting the use of climate-resilient building materials and infrastructure.

The GoM has been implementing several

policies and programs aimed at mitigating and adapting to climate change, with a focus in promoting green growth. Mozambique set a target of reducing emissions from 76Mton CO_{2,eq.} to 99Mton CO_{2,eq.} at the COP26 summit, with adaptation actions remaining the highest priority to ensure a long-term path towards green growth. The Mozambique National Climate Change Adaptation and Mitigation Strategy (NCCAMS) 2013-2025, is the most comprehensive instrument to address climate change, articulating the Nationally Determined Contributions submission (NDC). The Mozambican NDC specifies the implementation of investments in natural gas in parallel with investments in renewables as a strategy for mitigation action. At sectoral level, relevant policy instruments include the National Adaptation Plan for the Health Sector, the Strategy for Reducing Emissions Resulting from Deforestation and Forest Degradation (2016 -2030) and the Strategy for New and Renewable Energy Development 2011–2025. Local adaptation plans have also been developed at sub-national level.

Mozambique is also investing in climate data and analysis to better understand the risks and opportunities associated with climate change. This will enable the country to make informed

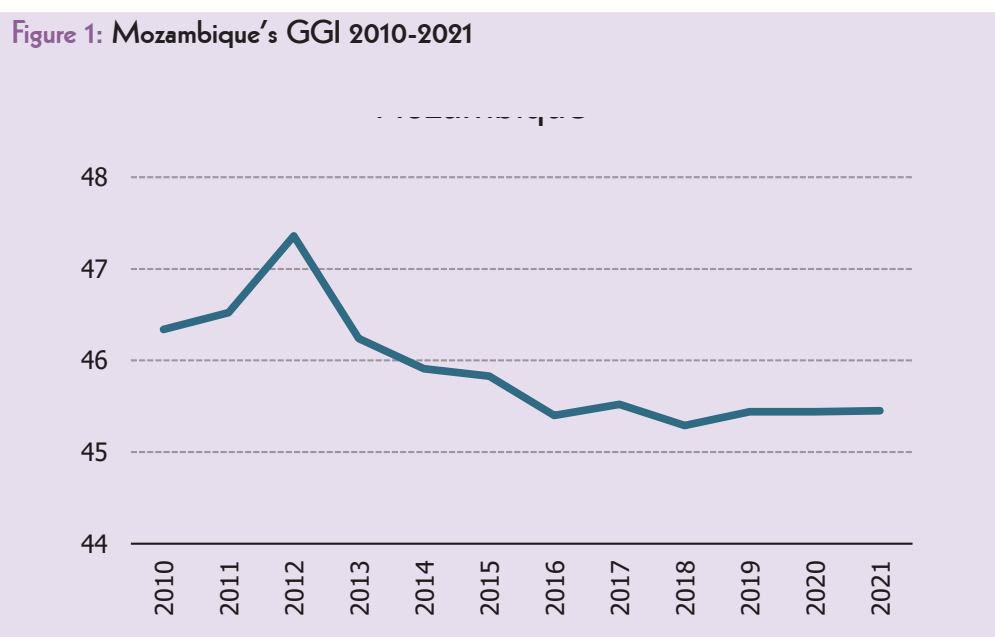
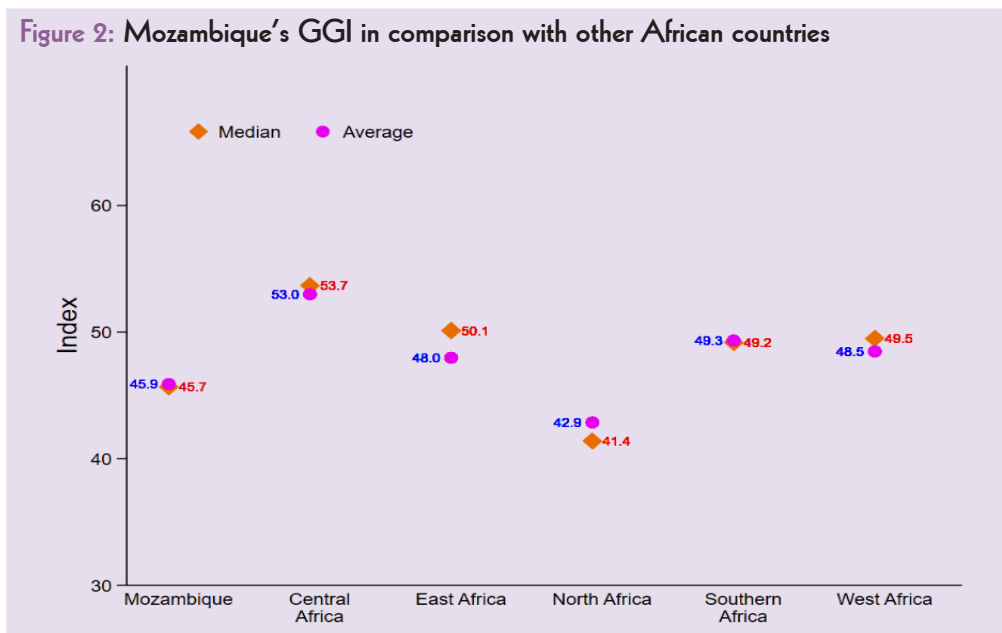


Figure 2: Mozambique's GGI in comparison with other African countries



decisions and develop evidence-based policies and regulations that support climate-resilient development. Mozambique is taking additional steps to bolster its climate resilience by enhancing its disaster risk management and emergency response systems. This involves measures such as upgrading early warning systems, enhancing coordination between various government agencies, and allocating resources towards the development of disaster response infrastructure and capacity building. To support its commitment to climate action, Mozambique has established a dedicated Climate Finance Unit. This unit focuses on mobilizing and managing financial resources to support climate-related projects and initiatives. By having a dedicated team, Mozambique aims to streamline the process of accessing climate finance, strengthen coordination among stakeholders, and ensure effective implementation of climate projects across sectors.

Mozambique's political commitment towards green growth and climate action is widely acknowledged, as evidenced by its prominent role as the African Union Natural Disaster Management Champion. This designation reflects Mozambique's leadership and expertise in managing natural disasters and their climate-related impacts. According to the African Union Commission, as a champion Mozambique

actively collaborates with other African nations to develop and implement strategies for disaster risk reduction and climate resilience.

In addition to its regional leadership, Mozambique has raised its voice on climate issues at the United Nations Security Council. In recent deliberations, Mozambique has highlighted the urgent need to address climate change as a global security threat as the adverse impacts of climate change, including extreme weather events and sea-level rise, exacerbate existing vulnerabilities and can lead to conflicts over resources, displacement, and social instability.

Mozambique's Green Growth Index score has been reducing over the past 10 years, and it performs below the African mean.

Mozambique's mean Green Growth Index (GGI) has been reducing over the past 10 years. While it initially increased from 46.3 in 2010 to 47.3 in 2012, it has gradually decreased since 2013 to 45.5 in 2021 (see figure 1). Mozambique performs below the African mean index score of 48.6 in 2021, and below its immediate neighbours in the past 10 years (figure 2). Mozambique's GGI score is mainly driven by high performance on GHG emission reduction (GE), environmental quality (EQ), gender balance

(GB) and waste and material use efficiency (ME) (figure 3). Mozambique however underperforms in relation to green trade and green innovation.

For Mozambique to achieve its green growth and climate action ambitions, private sector support will need to be mobilized at scale.

Despite Mozambique’s strong commitment to green growth, financing these efforts has been challenging. The country has limited access to competitive borrowing rates, mostly relying on international financial institutions, due to its sovereign debt being assessed as in “high risk of debt distress”. Its own resources are also constrained given that fiscal space is limited by annual debt servicing costs (amongst the highest in the world - 12.9% of GDP in 2022), and a wage bill that consumes another 13.0% of the GDP, swallowing almost all public revenues (28.9% of GDP in 2022). Additionally, studies show that Mozambique will require more than 19% of its GDP for adaptation of post-effects from floods and droughts (figure 4).

Given this financial gap, private investments in sectors that are essential for green growth, particularly in low-carbon energy, smart

agriculture, climate-resilient infrastructure, and insurance schemes are critical.

While private sector investments in Mozambique have been observed, their focus has predominantly been on sectors that do not directly support green growth, such as extractive industries. Therefore, there is a pressing need to redirect and expand private sector investments to address the increasing demand for sustainable initiatives and contribute to green growth objectives.

3.2. PRIVATE SECTOR FINANCE FLOWS, GAPS AND NEEDS FOR GREEN GROWTH AND CLIMATE ACTION IN MOZAMBIQUE

3.2.1. Current flows of finance

Mozambique receives a large portion of its climate finance from bilateral and multilateral institutions

Mozambique received a total of USD 16.5 billion in development finance between 2011-2018, out of which USD 10.7 billion (65.3%) was provided as grants, while USD 4.92 billion was offered as loans.^v Out of these funds, USD 800 million were directed to the energy sector

Figure 3: Components of Mozambique’s GGI, based on country-level analysis of the AEO 2023

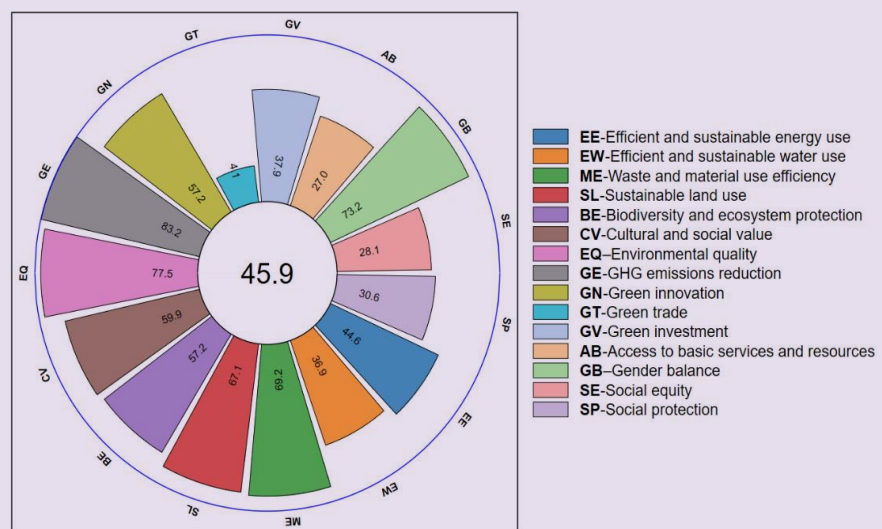
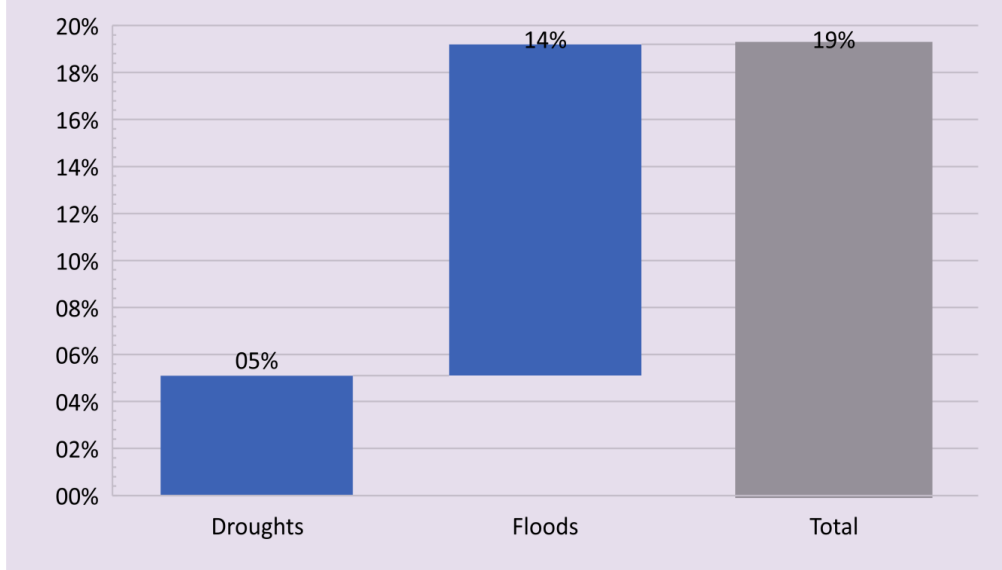


Figure 4. Upfront private investment opportunities to adapt to droughts and floods in Mozambique between 2021 and 2040 (% of GDP)



Source: Bari and Dessus (2022)

either through grants (21.0%) or loans (53.7%).

^{vi}Between 2017 and 2018, loans directed to environmental protection, agriculture, forestry, and fishing were estimated at USD 57 million.^{vii}

Total climate finance flows to Mozambique have also more than doubled over the past two decades. The amount of development finance that was committed to climate change adaptation and mitigation rose from 0.60% between 2002-2010 to 7.76% between 2011-2018.^{viii}

Compared to the Southern Africa Development Community member nations, Mozambique's gross domestic product to private credit ratio is relatively low.

Despite efforts from the GoM to include NDC goals, the current financial flows from the private sector are insufficient to meet Mozambique's climate and green growth needs. This is largely due to low credit levels for the private sector. With a private sector credit allocation of 14.35%, well below the global benchmark of 50%, investment opportunities for the private sector are limited which hinders the potential to increase financing for climate resilience.^{ix}

The majority of private sector financing in Mozambique is directed to extractives industries such as mining, oil, and gas.

In 2021, foreign direct investment flows in Mozambique have increased by 68.1%, compared to the USD 3,034.6 million (21.6% of GDP) that was achieved in 2020.^x With respect to sector distribution, 64.5% of the foreign direct investment flows were directed to the extractive industries (USD 3,292.6 million), followed by 32.8% for the warehousing, transport and communications sectors (USD 1,672.4), while the agriculture, electricity, gas, water, and real estate sectors received 2.7% of the investments (USD 136.7 million).^{xi}

Indeed, private sector financing can contribute to a just energy transition by promoting sustainable energy development while also creating economic opportunities for Mozambique's population. The AfDB is co-financing the construction of the 563km Temane Transmission Line through the disbursement of USD 33 million in grants to the project. The project has a capacity of 40 MW and is expected to reduce Mozambique's reliance on fossil fuels while contributing to job creation

and economic growth. Moreover, the AfDB is the senior lender to the transformative Area 1 natural gas extraction project in the Rovuma Basin, the largest foreign direct investment in Africa on record.

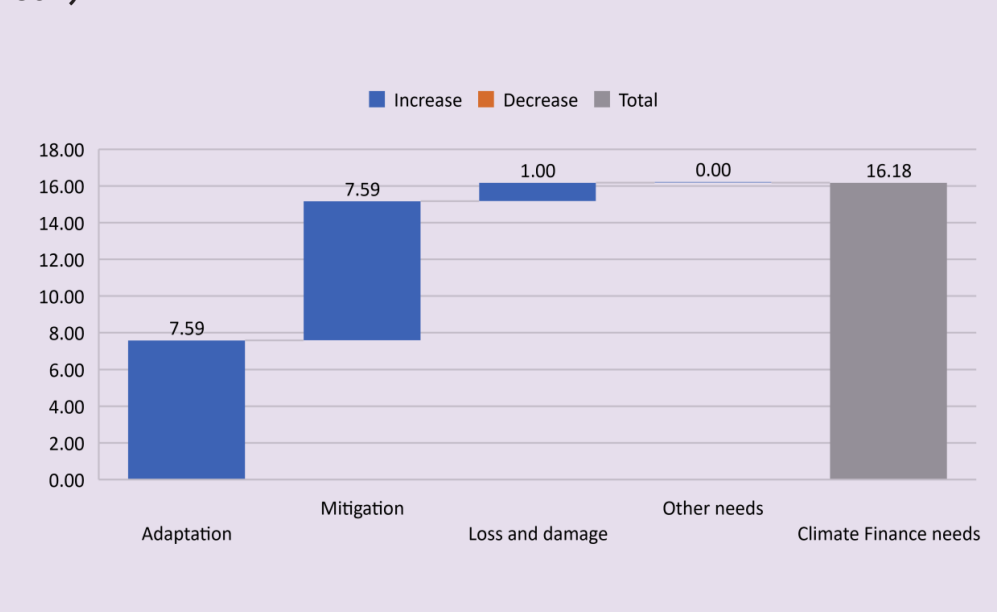
3.2.2 Private sector finance needs for the future

According to the NDC report launched by Mozambique at the COP26 in 2021, the total cost of implementing the NDC for the period of 2020-2025 were estimated to be USD 7.6 billion.^{xii} However, based on the AEO 2023, the Africa NDC Hub, the Integral Consult data, and the OECD data, Mozambique's financing needs aggregate to USD 16.18 billion over the period between 2020-2030 (see figure 5). Nonetheless, Mozambique's updated NDC 1 represents a significant advancement in its climate action, expanding adaptation commitments via the Public Investment Management (PIM) Climate Smart assessment system coordinated by the Ministry of Economy and Finance (MEF), supported by the World Bank and NDC Partnership. Integration of this climate change into the PIM assessment system aligns with

Electronic State Financial Administration System guidelines, increasing the transparency and efficiency of public spending through pre-assessment and approval of projects based on social, economic, and climate impact.^{xiii}

Mozambique's updated NDC outlines a path for Mozambique to achieve sustainable development between 2020-2025. The plan focuses on low-carbon and climate-resilient investments, which can be supported by private sector financing.^{xiv} The Pilot Program for Climate Resilience (PPCR) and other climate finance programs and tools, such as the Climate Investment Fund (CIF) and the Green Climate Fund (GCF), have been essential in providing concessional or highly concessional funds from international development partners to finance Mozambique's climate aspirations. Mozambique's Designated National Authority for the GCF has established an advisory committee representing different public and private institutions and sectors of activities, which can help facilitate private sector engagement in climate finance projects. However, with the majority of the PPCR projects nearing completion, there is a pressing need for

Figure 5. Mozambique's estimated climate financing needs in 2020-30 (in billion USD)



Note: Other needs include technical and technological needs as well as Monitoring, Reporting, and Verification (MRV) needs. Source: Staff computations based on AEO (2023), Africa NDC Hub, Integral Consult data, OECD data, and the Updated NDC of Mozambique in November 2021.

scaling up these initiatives and attracting more private sector financing.^{xv}

Given recent trends in global private climate finance flows to Mozambique, the private sector is likely to contribute to 50% of the climate financing needs of the country. For a 50% contribution to climate finance by the private sector, which is a moderate scenario, private sector financing would need to grow by USD 105.4 million annually. A 75% contribution to the climate financing gap, which is an ambitious scenario would see private sector finance grow by USD 239.5 million annually (see figure 6).

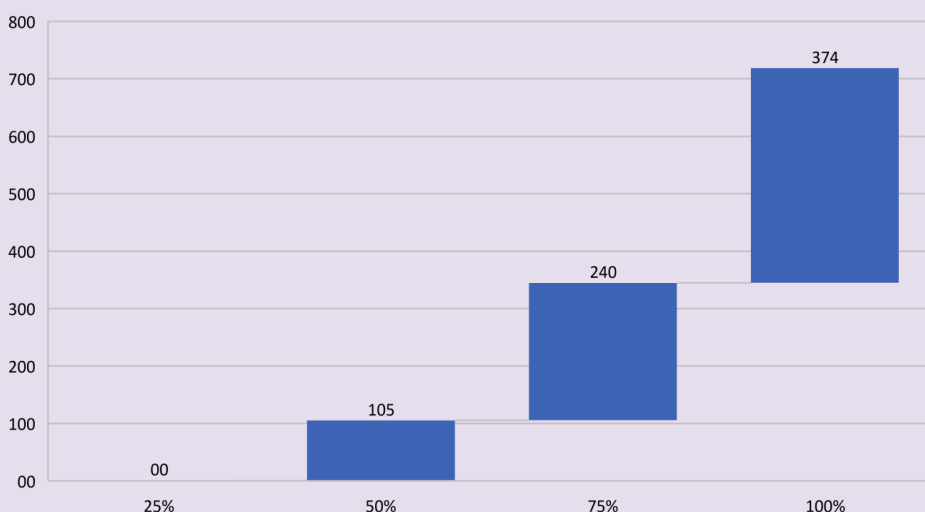
3.2.3 Emerging innovative private sector financing mechanisms for green growth and climate action

Mozambique is a moderately low resilient country,^{xvi} which makes it more likely to receive small amounts of climate finance relative to its population size. In a context where global climate finance architecture leans toward prioritizing risk considerations over development imperatives, it is a priority for Mozambique to have access to innovative financing mechanisms for green growth and

climate action. As Mozambique implements its National Climate Change Adaptation and Mitigation Strategy (NCCAMS) 2013-2025, it has begun to develop a climate finance strategy that aims to fast-track mobilization of funding to fill Mozambique's large existing financing gap.

However, the adoption and implementation of green and sustainable finance instruments, such as sustainable bonds, social bonds, and carbon markets, remain significantly limited in Mozambique, despite ongoing discussions and plans to enhance their broader application. Similarly, blended financing instruments face obstacles due to the absence of conducive frameworks and insufficient technical capacity for blending finance. Moreover, the private equity and venture capital sectors witness minimal utilization, primarily due to the shallow domestic financial markets that restrict investment sources to international investors. Nonetheless, Mozambique's potential for effectively employing these instruments is bolstered by several factors. The country has already received notable climate funds and has implemented innovative environmental and climate change programs. Constructive policy dialogues and a government commitment to

Figure 6. Private climate finance gap in USD million (2020-2030)



financing climate action further contribute to an enabling environment. Additionally, robust public finance management systems and regulatory frameworks that foster innovation provide a solid foundation for the successful deployment of these instruments. Furthermore, the global upsurge in carbon pricing aligns with Mozambique's substantial potential for emission reductions, also enhancing the viability of utilizing these financing mechanisms.

Mozambique could focus on climate risk-mitigating and risk-sharing financial instruments, while also exploring the launch of new financial instruments to address its climate financing needs. Discussions for the launch of new financial instruments are underway, including the first debt swap. Table 2 provides a summary of the emerging innovative private sector financing instruments for green growth and climate action in Mozambique.

3.3 OPPORTUNITIES AND BARRIERS FOR MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION

3.3.1. Opportunities for private sector investments

Mozambique's mobilization of private sector finance is smaller than its peers

The AEO 2023 shows that Mozambique mobilizes small-scale private sector finance compared to other countries in Southern Africa (figure 7). However, in sharp contrast to nations sharing similar levels of private sector finance allocation, Mozambique's public finance per capita of USD 35.8 highlights the country's highly effective utilization of public finance.

Opportunities for private sector investments in green growth and climate action in Mozambique cut across Mozambique's economy.

Mozambique presents many opportunities for private sector investment in various sectors, cutting across the energy, transport, agriculture, water, and education industries.

First, the energy sector could bring significant green growth investments to Mozambique's economy. Mozambique's blossoming LNG sector, as well as hydro and solar potential will likely bring transformational growth to Mozambique, particularly where it aims to expand electrification from 35% (2020) to 64% (2024) to 100% until 2030. Not only is LNG an alternative source of energy leading energy transition efforts, it could also bring significant opportunities for local content, and for replacing wood for cooking gas, as a more efficient and less pollutant heating source.¹ Combined with its hydro potential, specifically, in the Cahora Bassa and Mphanda Nkuwa renewable hydropower projects, Mozambique has the potential to become a key player in the regional power market.

Moreover, investing in the urban planning of large urban centres in Mozambique (for instance, the cities of Maputo, Beira, and Nampula) also offers significant opportunities for developing quality transport for individuals and businesses, as well as connecting domestic markets. In particular, the private sector is invited to consider building climate-resilient transport solutions, considering Mozambican cities' vulnerability to the effects of climate change.

Investments in sectors such as agro-processing, agroforestry, and industries that do not rely on smokestacks for productive uses consist of important opportunities for green growth and climate action in Mozambique. The private sector could take advantage of Mozambique's comparative advantage, given its abundance of labour, forestry and land resources.

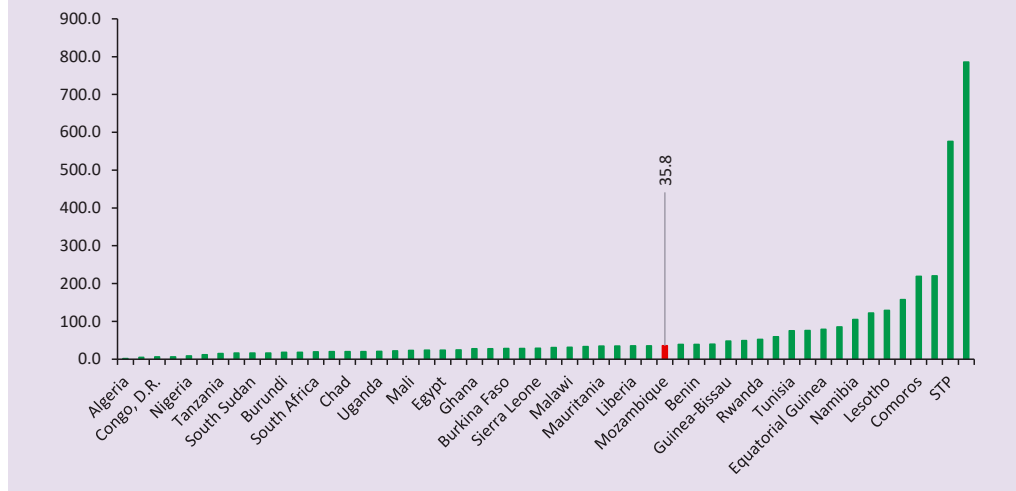
Investments in renewable energy are also essential to reduce Mozambique's dependence on fossil fuels and contribute to Mozambique's

¹ In particular, according to Measure No. 8 of the Government's Package for Economic Acceleration, 10% of the natural resource tax revenues will be allocated to development plans of the province where extraction activity in question takes place. The measures are available at: https://pae.gov.mz/?page_id=1331&lang=en

Table 2. Innovative instruments used to mobilize private sector finance in Mozambique

Type of instruments	Green and sustainable finance e.g. sustainable bonds, sustainability-linked loans/bonds, social bonds	Blended financing instruments e.g. guarantees, first loss	Private equity and venture capital	Carbon markets
Current performance	Very limited use, although there are ongoing discussions and plans aiming to expand the use of different sustainable finance mechanisms for mobilizing private sector finance.	Very limited use.	Very limited use.	Very limited use.
Contextual challenges to scaling up in Mozambique	Great dependence on concessional or highly concessional funds from international development partners to finance Mozambique's climate aspirations, particularly given its tight fiscal position and situation of debt distress. -The private sector is often burdened by unfavourable or inflexible debt structures. -Small-scale investments enjoy little incentives, particularly in access to finance.	supporting frameworks for the use of blended finance instruments across some sectors. -The limited technical capacity for blending of finance, particularly at the sub-national level in Mozambique.	-Shallow domestic financial markets that limit sources of investments to only international investors.	-Integrity of credits from a few Mozambican projects has particularly come under scrutiny, which is likely to slow down the development of new projects -Most demand for carbon credits is from international sources, with very limited consumption locally that could further expand the market.
Key factors enabling successful use of in-instrument	-Great potential, as Mozambique is the seventh largest recipient of climate funds in sub-Saharan Africa. -Innovative programs and funds specifically related to the environment and climate change have been implemented at ministerial level, e.g. a management and tracking system for government funds. -Fluid and supportive policy dialogue between government and development partners. -Relative openness of government to adopting international and best practices.	-A government commitment to financing climate action using public sector domestic finance. -Presence of strong public finance management systems e.g. tracking public finance allocation and spending.	Presence of regulatory frameworks that encourage innovation.	-Increased carbon pricing globally, which provides a positive market signal for current investments in carbon reduction. -The high potential for emission reductions and emission removals in Mozambique. -Strong experience in Africa in the development of carbon projects, mainly developed from the execution of Kyoto Protocol Clean Development Mechanism projects.

Figure 7. Public Climate Finance per Capita (USD), based on country-level data from the AEO 2023



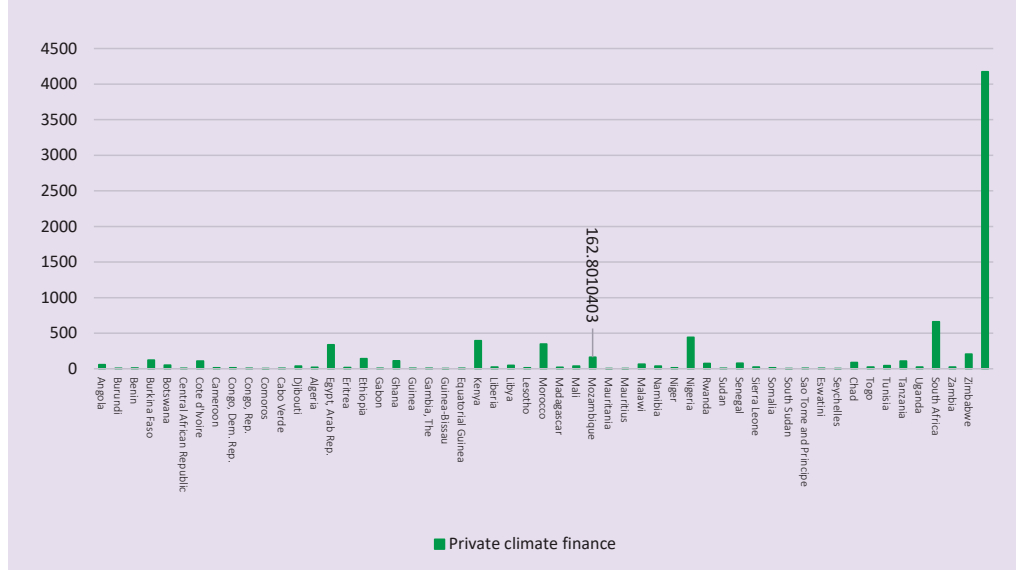
green growth agenda. With a target of achieving 65% of energy from renewable resources by 2030^{xvii}, with projects such as the Mphanda Nkuwa hydropower project, which could generate 1,500 MW of electricity, and is estimated to cost USD 4.5 billion, will provide future opportunities for private sector financing.^{xviii} The development of solar and wind energy projects through private sector financing also involves significant costs, but the long-term benefits of reduced carbon emissions and increased energy access are substantial. The

NDC highlights the potential for private sector investment in developing agro-processing industries to add value to Mozambique’s agricultural products while simultaneously reducing emissions.

3.3.2. Barriers to private sector investments

Climatic pressure is a cross-cutting theme in Mozambique. Indeed, Mozambique’s vulnerabilities to climate shocks are intensified

Figure 8. Private Climate Finance, based on country-level data from the AEO 2023



by regional, social, and economic inequalities. In this context, the private sector faces significant challenges when investing in climate change mitigation and resilience. The aspects delineated below should be considered while developing strategies for investing and should inform policy recommendations.

- *Limited access to competitive lending rates in international and domestic markets*

The private sector in Mozambique may have limited market power and financial muscle when negotiating with financiers and is often burdened by unfavourable or inflexible debt structures. Mozambique's access to international creditors is extremely limited and the cost of capital in the country is considered high. This is evident in the notable increase of MIMO rate, which has risen to 17.25% year-on-year since August 2022. When added to spreads and sector risks, capital costs become prohibitive to a large chunk of Mozambican companies. In fact, over 75% of small and medium-sized enterprises (SMEs) are considered too risky or ineligible². The restricted access to credit is further exacerbated by the limited market power and financial leverage of Mozambique's private sector during negotiations with financiers. Compounded by the burden of unfavourable debt structures, the country is classified as being in a position of "high risk of debt distress". Private investors may also be undercapitalized and lack scale and credit ratings and may therefore see their debt opportunities very limited. Moreover, often businesses are competing for the same financing sources, and are also exposed to unsuitable terms or tenures offered by international and domestic commercial banks.

In light of a potentially reduced likelihood of businesses generating returns on investments, lenders in international and domestic markets may impose higher rates and/or request additional security via collateral guarantees. Moreover, Mozambique's national financial

institutions lack the capacity to access more worldwide climate finance, which could help finance or crowd-in private investments. Finally, instruments such as green, sustainable and social bonds are not being broadly used in the country.

- *Limited awareness of the value of Mozambique's natural capital wealth*

The lack of a standardized methodology for quantifying and valuing natural capital hinders businesses and investors from accurately assessing the environmental impacts and resource dependencies associated with their investments. The lack of reliable data and assessment methods can lead to uncertainty over the long-term availability and sustainability of resources, potentially increasing investment risks. Additionally, the absence of integrated environmental considerations in decision-making processes may result in inadequate resource management practices, which could negatively impact the private sector's operations and profitability.

- *Low levels of skills within Mozambique to meet green growth and climate action needs*

Mozambique lacks adequate green skills across sectors, with existing skills mostly concentrated in the renewable energy sector.

As technology develops and innovative instruments are being created to address climate pressures, Mozambique faces the current challenge of building institutional capacity, human resources, and adequate policy responses in light of green growth and climate action concerns. Driven by Mozambique's significant potential in the energy sector, policy dialogue about green growth and climate action is concentrated in specific ministries, while others are participating less frequently in discussions. In these circumstances, efforts are needed to create a homogeneous knowledge

2 Agence Française de Développement.(AFD) Supporting Mozambican SMEs Investment and Job Creation.

and information system across the public sector to improve Mozambique's regulatory, planning, and implementation capacity.

Skilling and generating jobs, particularly green and productive jobs, is a critical challenge for Mozambique. To keep pace with the country's young and rapidly-growing population, estimated to reach 50 million by 2040, the economy must create 500,000 jobs every year – 20 times the 25,000 formal jobs currently created annually. The private sector, mainly comprised of informal, low-productivity, and small-scale enterprises, cannot currently provide sufficient employment opportunities.

- *Lack of deep integration among sectors and government ministries to enable meaningful coordination on green growth and climate action*

Although Mozambique is building its national green growth and climate change policy framework, there are still gaps in coordination, particularly across different levels of governance. These gaps fail to ensure an integrated approach to the mobilization and use of private sector finance.

In Mozambique, a collaborative network of public and development institutions are actively engaged in various aspects of green growth and climate action on several fronts, such as economic development, food security, disaster management, water and sanitation and public health. Relevant ministries and departments - such as the Ministry of Agriculture and Rural Development, the Ministry of Land and Environment, Mozambique Agriculture Research Institute, Ministry of Economy and Finance, among others - oversee important aspects in the development and implementation of Mozambique's green growth and climate change policy framework. However, gaps in coordination within ministries and departments, as well as between them and development institutions, compromise the adequate employment of resources. Looking carefully at the causes and effects of these gaps could lead

to a more productive use of private finance.

- *Enabling a competitive and dynamic business environment*

Bureaucracy, lack of clarity in regard to applicable rules and regulations, and delays affect the private sector operating in Mozambique.

Aspects such as bureaucracy and lack of capacity in relevant state agencies - which lead to delays and increased costs - disincentivize the private sector from operating in Mozambique. According to the World Bank's 2020 'Doing Business' Report, in Mozambique it takes about 716 days and 8 procedures to execute a contract. Often the private sector needs to rely on its political muscle in order to overcome such red tape obstacles.

By improving its economic governance, Mozambique could enable a competitive and dynamic business environment, therefore incentivizing the private sector to participate. This will also create an important selling message to attract foreign investments, which will open up access to local and regional markets.

When it comes to components of perceived governance, Mozambique has taken important steps to strengthen its public financial management and business environment, in particular after the discovery of undisclosed debts in 2016. However, challenges persist given the low scores attributed to Mozambique in the Ibrahim Index of African Governance and Transparency International's 'Corruption Perception Index'. In fact, setbacks still haunt Mozambique, which is illustrated by its inclusion in the Financial Action Task Force grey list, given its perceived low compliance with illicit financial capital controls standards, including in the banking and financial sectors. Among others, such issues have been deterring private investors to invest in Mozambique and have also jeopardized access to more results-based finance for those who could potentially be interested in investing.

- *Environmental and Social Risks*

On top of Mozambique's climate vulnerabilities and growing population, rapid economic growth in the last five years has dictated strong pressure on environmental, biodiversity and social protection systems, raising risks on land and soil degradation, pollution, and involuntary resettlement. Low capacity in the government to monitor and enforce existing regulations in such issues may hinder potential investors from perceiving Mozambique as a sustainable and green investment destination, particularly when viewed in the amplified lenses of environment-social-governance (ESG)-focused investors.

3.3.3. Pathways to mobilizing private sector finance for green growth and climate action in Mozambique

Mozambique's private sector faces critical gaps in accessing finance, particularly in green growth, low-carbon energy, smart agriculture, climate-resilient infrastructure, and insurance schemes.

The following measures could offer pathways for mobilizing private sector finance for green growth and climate action in Mozambique.

Remodelling Mozambique's national institutions to international governance standards for accessing worldwide climate finance.

Mozambique faces obstacles to effective program implementation, including institutional capacity to implement the legal framework, lack of coordination between administration bodies in performing their statutory functions, and gaps in the integration of different government policies at the implementation stage. In this context, advancing legislative reforms and adopting international banking and financial standards and solutions will be key for habilitating Mozambique's administrative and institutional capacity. As Mozambique designs its climate finance strategy, overhauling its national institutions such as the National Fund for Sustainable Development (FNDS) and the National Investment Bank (BNI) to

international governance standards will allow access to various sources of climate and green finance worldwide, mostly from grants or highly concessional subsidies. Indeed, these institutions can also work with national financial institutions and firms that act as aggregators to foster greener and sustainable value chains in Mozambique. Moreover, reforms should include building the capacity of key institutions and strengthening coordination among different internal bodies.

Foster coordination and diversification efforts.

For Mozambique to scale up its mobilization of climate finance, while allowing it to meet its NDCs' climate change mitigation and adaptation targets, the country should engage in both coordination and diversification efforts. Mozambique should explore cooperation opportunities, especially with emerging economies, that can lead to the adoption of new technologies in energy, agriculture, and sanitation to neutralize or lower mitigation costs. At the same time, it should work together with other climate-vulnerable countries to establish platforms for monitoring developed countries and their Paris Agreement climate finance commitments, and gathering resources directed at adaptation.

Foster a more attractive investment environment for smaller hydro dams, wind, and solar farms.

Providing finance to small-scale renewable energy solutions is crucial to encourage the adoption of lower-cost energy than fossil fuel equivalents. In this sense, shaping a more attractive investment environment for renewable energy solutions can increase energy access to cleaner and more affordable energy solutions. Ultimately, small-scale renewable energy projects can also generate important social benefits, such as productive energy use and the reduction of gender inequalities.^{xix}

For this purpose, thematic debt instruments such as green, social and sustainability bonds

can be viable financial instruments to enable small-scale, low-carbon energy solutions. In addition, aspects of regulation, policy and legislation can be more or less conducive to a friendly business environment.^{xx}

Adopting climate-resilient procurement and budgeting solutions for encouraging sustainable investments.

Mozambique's Medium-Term Fiscal Framework and its Integrated Financial Management System called SISTAFE, present the country's progress towards improving its public financial management systems. Despite enormous development on such frameworks and systems, the country still lacks climate resilience indicators and scoped requirements. That hinders the country's ability to ensure that climate-related projects and expenditures are adequately accounted for and aligned with the country's climate and green growth goals, ultimately limiting its capacity to assess both the adequacy of the amount invested and its effectiveness. For instance, as African countries with high levels of public climate finance per capita are most likely to crowd-in private climate investments^{xxi}, the adoption of climate-resilient budgeting is crucial for encouraging sustainable investments and promoting blended finance whilst alleviating public finances.

For instance, Kenya has established the Climate Change Fund, receiving finance from both domestic and international sources, which supports climate-resilient projects and programs across various sectors. Similarly, Rwanda has implemented a climate-sensitive budget, supporting the government to prioritize sectors that delivers on its adaptation and mitigation efforts, such as agriculture, energy and forestry. These examples further highlight the viability of designing African solutions that Mozambique can pursue that it can use to adopt climate-resilient budgeting practices and integrate climate considerations into procurement systems to effectively manage climate-related investments and ensure alignment with green growth goals.^{xxii}

Expanding use of innovative finance instruments.

Mozambique could review how the adoption of climate debt swaps could work in its context, which may provide an opportunity for tackling both debt and climate issues. Through such instruments, countries that have borrowed from other countries or multilateral development banks could have its debt forgiven, as long as the money is diverted to climate adaptation and resilience projects.

On the other hand, one of the concerns that reliance on climate finance debt instruments raise is the aggravation of debt sustainability. Mozambique's potential reliance on debt instruments - either as loans or debt relief - can risk indebting Mozambique, especially considering the economic shocks it has faced in the past - undisclosed debt development, the COVID-19 pandemic, and geopolitical conflicts. In particular, the viability of non-concessional debt-financed climate projects should be analyzed with care.

Implementing a greener tax code.

Mozambique has been taking important steps in adapting its regulatory and legal framework to incentivize the adoption of greener alternatives. In particular, it has been granting tax reductions to businesses operating in strategic sectors that will lead to greener development as part of its Package for Economic Acceleration.^{xxiii} Two sets of exemptions can be highlighted.

First, tax exemptions on the import of inputs for agriculture and electrification (PAE Measure No. 2) aim: (i) to lower the costs of agricultural inputs to increase the production and competitiveness of agriculture; as well as, (ii) to promote more investment in renewable energies, therefore accelerating their access particularly in rural areas. Second, tax exemptions of corporate income tax are granted to agriculture, aquaculture, and urban transport projects (PAE Measure No. 3), which focus on improving the competitiveness of these sectors, making them more attractive to private investment.

IV. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

4.1. THE EVOLUTION OF NATURAL CAPITAL

The total value of Mozambique's natural capital increased by about 247% between 1995-2018, from US 28.8 million in 1995 to US 99.9 million in 2018. Mozambique's renewable natural capital increased in value by 177 % during this period, from US 28.8 million in 1995 to US 79.7 million in 2018.^{xxiv} This was primarily due to an increase in the value of forests – ecosystem services and to a lesser extent to timber. However, the total value of pastureland and cropland increased from US 8.7 million from 1995, to US 33.0 million in 2018, which together account for over half of Mozambique's renewable natural capital (see table 3 and figure 9).

The total natural resources rents as a percentage of GDP increased from 11.1% in 2010 to 16.0% in 2018, indicating a significant growth in the country's earnings from its natural resources in that period. However, there was a decline in 2019 and 2020, with the values dropping to 12.4% and 11.7%, respectively. Nonetheless, Mozambique has maintained growing contributions to GDP from oil rents, with an increase from 0.1% in 2010 to 0.3% in 2020. Natural gas rents suffered volatility, increasing from 2.9% in 2010 to 4.4% in 2018, before falling to 1.8% in 2020. Mineral rents had a smaller contribution to the GDP over the period, potentially highlighting a need to assess the tax collection instruments available for the sector, in line with the measures proposed by the PAE. Despite its volatility, forest provides the largest contribution in terms of rents of natural resources to the GDP, totalling 60% on average

in the previous decade. Coal rents increased from 0.0% in 2010 to 2.1% in 2020 (see Annex 2).

The value of Mozambique's non-renewable natural capital increased over the same period, by about 76732%, from USD 26 million in 1995 to USD 20.3 billion in 2018. This was largely due to an increase in the value of gas (Figure 10), which rose to USD 11.1 million in 2018.

In addition to these measured forms of natural wealth, there are also non-measured forms, such as the renewable energy potential from solar, wind, and hydro-resources, landscapes, and marine assets, which are reviewed qualitatively. The government estimates that the potential for some energy sources is 4.5 GW in wind, 2.7 GW in solar, and 2 GW biomass, in terms of production capacity. The GoM has also been dedicated to promoting a natural capital and green economy agenda since the signing of the Gaborone Declaration for Sustainability in Africa in 2012, including ongoing initiatives such as the Green Economy Action Plan 2020, and the implementation of a Natural Capital Accounting (NCA) system and accounts.^{xxv}

4.2. OPPORTUNITIES FOR ENHANCING THE CONTRIBUTION OF NATURAL CAPITAL IN MOZAMBIQUE

Mozambique's natural capital offers significant opportunities for sustainable development and poverty reduction. However, unsustainable practices such as slash-and-burn agriculture and unsustainable fishing threaten Mozambique's natural capital.^{xxvi} To

Table 3. Mozambique Natural Capital composition in USD millions (1995-2018)

Mozambique	Total USD Mn. constant 2018			Per Capita, USD constant 2018		
	1995	2018	% Increase	1995	2018	% Increase
Renewable natural resources	28 753	79 627	177%	1 857	2 700	45%
Forests, timber	8 623	30 867	258%	557	1 046	88%
Forests, ecosystem services	9 574	13 194	38%	618	447	-28%
Mangroves	69	453	556%	4	15	244%
Fisheries	1 288	432	-66%	83	15	-82%
Protected areas	485	1 671	245%	31	57	81%
Cropland	6 705	28 680	328%	433	972	125%
Pastureland	2 009	4 330	116%	130	147	13%
Non-renewables	26	20 313	76732%	2	689	40231%
Oil	0	222	..	0	8	..
Natural gas	0	11 053	43133407%	0	375	22641929%
Coal	13	8 874	66863%	1	301	35051%
Metals and minerals	13	163	1140%	1	6	551%
Total	28 779	99 940	247%	1 859	3 388	82%

Source: World Bank - The Changing Wealth of Nations data: <https://www.worldbank.org/en/publication/changing-wealth-of-nations/data>

transform the contribution of natural capital in Mozambique, investment opportunities lie in sustainable agriculture, renewable energy, sustainable forestry management, marine conservation, ecotourism, and climate change adaptation measures. Moreover, non-renewables such as LNG and metals and minerals also present opportunities, particularly in creating links with the domestic economy.

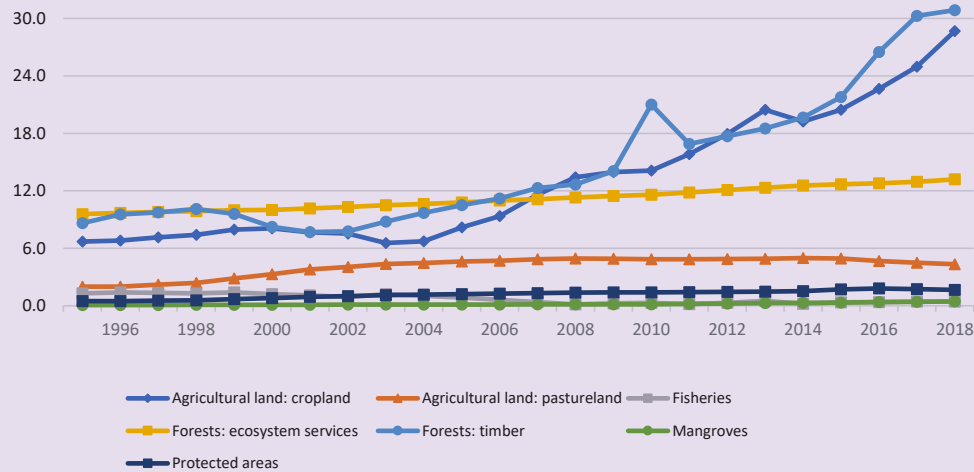
While the costs of these investments may be initially high, they can lead to long-term economic benefits, including job creation and revenue generation for local communities, and biodiversity conservation. Sustainable agriculture can increase agricultural productivity by fostering Special Agro-Processing Zones (SAPZ) for strategic crops.^{xxvii} Marine conservation can support the livelihoods of coastal communities and protect marine biodiversity. Renewable energy can reduce dependence on fossil fuels and provide access to electricity for rural communities. Climate change adaptation measures can reduce the risks posed by extreme weather events and protect the natural capital on which Mozambique's economy depends.

4.2.1. Non-Renewable Resources

Mozambique's natural gas reserves are estimated to be over 180 trillion cubic feet, making it one of the world's largest natural gas reserves. The LNG project in the North of Mozambique, with an estimated cost of USD 20 billion, is a significant opportunity to enhance the contribution of non-renewable natural capital. The LNG project is estimated to generate USD 36 billion in revenue over 25 years, create jobs, triple exports in the next 20 years, leading to an 80% increase in GDP by 2040 compared to 2020.^{xxviii} In the short term, Mozambique's GDP is forecasted to increase to 5.0% and 8.0%, in 2023 and 2024, respectively, due to the exploration of the first global Floating Liquefied Natural Gas (FLNG) Coral South^{xxix}. However, the exploitation of natural gas and other non-renewable resources must be managed sustainably to prevent negative environmental and social impacts.

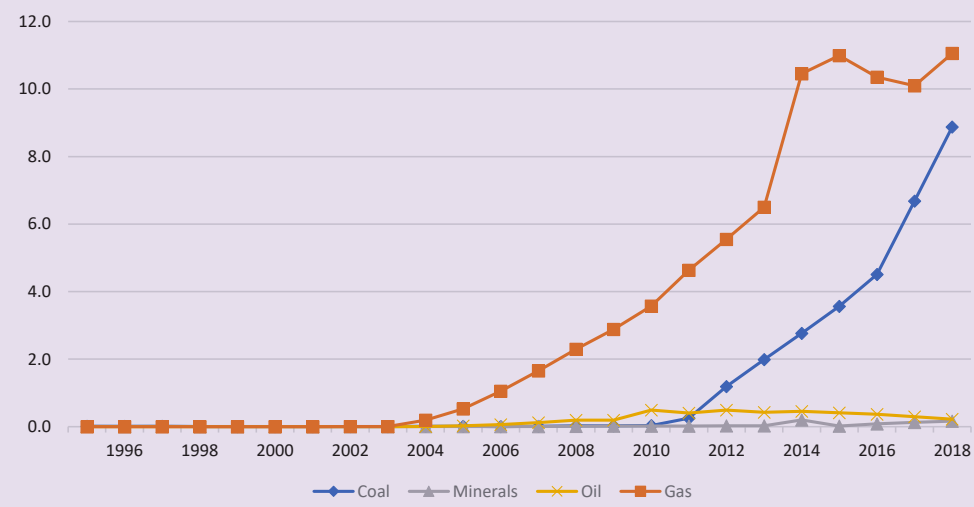
To enhance the contribution of natural gas to the Mozambican economy, there is a need to develop appropriate policies and regulations

Figure 9. Renewable natural capital composition (constant 2018 USD), millions



Source: Author's graph based on the World Bank - The Changing Wealth of Nations data: <https://www.worldbank.org/en/publication/changing-wealth-of-nations/data>

Figure 9. Renewable natural capital composition (constant 2018 USD), millions



Source: Author's graph based on the World Bank - The Changing Wealth of Nations data: <https://www.worldbank.org/en/publication/changing-wealth-of-nations/data>

to promote responsible extraction practices, particularly applying environmental and social safeguards, and ensure the equitable distribution of revenue generated from the exploitation of natural gas. The exploitation of natural gas

has the potential to transform Mozambique's economy and promote economic growth and development. However, with the high risk of "Dutch Disease"³ from the potentially substantial revenues from the LNG project, there is a need

3 A phenomenon reflecting changes in the structure of production in the wake of a favorable shock (such as a large natural resource discovery, a rise in the international price of an exportable commodity, or the presence of sustained aid or capital inflows). Where the natural resources discovered are oil or minerals, a contraction or stagnation of manufacturing and agriculture could accompany the positive effects of the shock, according to the theory. <https://openknowledge.worldbank.org/entities/publication/cbb07431-a7c9-5506-b04f-fc4ffe9c6eb4>

establish a Sovereign Wealth Fund for better management of LNG resources which will ultimately smoothen fiscal cycles caused by the variation of international gas prices and its impacts on domestic tax collection^{xxx}.

4.2.2. Renewable Resources

In the case of renewable resources, Mozambique has significant potential for hydropower, as it has several rivers and waterfalls that can generate electricity. Mozambique has experienced a significant increase in its power supply over the past three decades, with a more than seven-fold rise between 1991 and 2019. This growth was mainly driven by the expansion of Hidroeléctrica de Cahora Bassa hydropower capacity, the operation of independent power producers and thermal power plants since the early 2000s, which together reduced Mozambique's reliance on imports. In 2020, hydropower from Cahora Bassa accounted for 52% of Mozambique's energy mix, while gas-fired plants from independent producers and EDM's Mavuzi and Chicamba hydro and Maputo gas plants made up 35% and 12%, respectively. The government aims to raise total installed capacity from 350MW in 2019 to 875MW in 2024 and increase the population's access to electricity from 34% to 64% during the same period, in response to the projected rapid rise in local energy peak demand from 1850MW in 2018 to 2750MW in 2025 and 6,500MW in 2030.^{xxxi} The development of hydropower can not only meet Mozambique's energy demand but also create employment opportunities and boost the economy.

Mozambique enjoys economic benefits from forests in terms of employment, income and livelihoods in rural areas. World Bank data shows that over the last 20 years (1998 to 2017), the forestry sector contributes on average between 1.24% and 2.40% to the GDP of Mozambique, averaging 1.69% during the period^{xxxii}. The forest sector contributed approximately USD 330 million to the GDP in 2011 and directly employed 22,000 people. Aside from this contribution to GDP, forests and forestry products constitute a significant

source of household income, medicine, shelter and other non-timber forest products. The Miombo woodlands for instance are estimated to contribute around 20% of household cash income and 40% of the household subsistence (non-cash) income.^{xxxiii}

Mozambique's artisanal fisheries caught USD 385 million worth of fish in 2018, and exported USD 68 million worth of fisheries products in 2019, mainly to Europe and Asia. The government's Five-Year Program (2020-2024) aims to develop artisanal and industrial fishing to create jobs and improve living standards. The Marine Policy and Strategy adopted in 2017 outlines action plans across seven pillars, including economic development, infrastructure, and private sector development. Mozambique has significant assets for the development of its fishing sector, including untapped potential for marine aquaculture and high scores in the Illegal, Unreported, and Unregulated (IUU) Fishing Index due to progress in implementing measures to prevent IUU fishing. This is due to progress in implementing measures to prevent IUU fishing which has contributed to the prevention of overexploitation of fish stocks while generating fair revenues for local communities. However, the sector faces threats from climate change, including extreme weather events and offshore hydrocarbon development.^{xxxiv}

The agriculture sector received about 7.1% of the overall state budget, equivalent to 2.4% of the country's GDP in 2021. However, it still encounters substantial fluctuations in productivity. The provision of extension services is limited, and climate shocks regularly impact crops. The imperative is to convert Mozambique's rain-fed agriculture into a sustainable and economically-viable venture, particularly for smallholder farmers, as well as in advancing value-chain development. To achieve this, it is crucial to nurture SAPZ dedicated to strategic crops, such as the Pemba-Lichinga Integrated Development Corridor SAPZ, to improve the investment environment for agricultural ventures, and prioritize investments in the sector's climate resilience. Notably,

by providing improved inputs and advanced technologies, potential increases in productivity can be accomplished without further expanding land usage.^{xxxv}

To enhance the contribution of renewable resources to Mozambique's economy, policies and regulations should be created that promote the development of renewable energy projects and ensure the equitable distribution of the benefits generated from these projects. These efforts should be aligned with the country's ambitious targets for installed electricity capacity by 2030, including 72% from hydropower (4.539MW), 17% from gas (1.098MW), 6% from solar (405MW), 2% from heavy fuel oil (HFO) (108MW), and 3% from wind (170MW).

To support the growth of renewables in Mozambique, it must improve its infrastructure and expand production capacity for a just carbon transition. The integration of the electric system with transmission lines is crucial, connecting the North, centre, and southern zones of Mozambique to create an integrated SAPP. The focus should be on advancing governance reforms in the sector to attract private sector funding and implementation. Additionally, Mozambique should explore sharing transmission line structures with optic fibre to increase internet connectivity, reducing construction costs and creating additional revenue sources for utility companies. Finally, expanding mobile network access, particularly in rural areas, can foster business opportunities^{xxxvi}.

V. CONCLUSION AND POLICY RECOMMENDATIONS

5.1. CONCLUSION

Mobilizing finance for green growth and climate action in Mozambique to meet the estimated needs will require the private sector to play a major role. Action should be taken to leverage opportunities for private sector investments in the adaptation and mitigation of climate change, while reducing the barriers to private sector investments. This will involve tapping into the emerging innovative private sector financing mechanisms for green growth and climate action.

Natural capital also plays a major role in climate finance in Mozambique, particularly as renewable natural capital corresponds to almost 80% of Mozambique's wealth, as seen in Table 1. The analysis has been based on data collected by the World Bank for major categories of assets but the coverage of different forms of natural capital is incomplete. Further work is needed on estimating the value of renewable energy sources such as sunshine, wind and hydro, as well as that of landscapes and biodiversity.

Natural capital per capita in Mozambique has grown over the last quarter century, despite rapid population growth rates. That shows the potential Mozambique has to sustainably use its endowments to support its own development but it does not mean that it can reduce its vigilance in the years ahead to prevent loss of forest ecosystems and marine biodiversity as well as harnessing the returns from these systems in a sustainable manner. More can also be done to exploit clean energy resources. The role of non-renewable assets is critical in Mozambique, particularly LNG. Mozambique

uses it to pursue universal electricity access for its population by pursuing a just energy transition using its LNG as a transitional resource while simultaneously driving a net zero effect by 2050. That approach will make the required investments in transmission lines to form the basis of an integrated electricity system in Mozambique financially viable, and will further enable the connection of the sizable renewable hydro, wind and solar assets to the rest of the system, including the Southern African Power Pool (SAPP).

For cropland and pastureland, more goods and services can be generated in value terms by investing in new technologies, updating land rights schemes, as well as extending value chains. This may require bringing in foreign partnerships in selected cases. For forests, there are several incentives that can be introduced to reduce loss or damage and to increase the efficiency with which carbon can be captured. These should be pursued vigorously. In addition, accessing international mechanisms to market carbon credits at higher prices will increase unit rents significantly. It is important to do more to stop IUU fishing and to sign access agreements for distant water fleets. For tourism the aim should be to increase total income, with an emphasis on ecotourism.

5.2. POLICY RECOMMENDATIONS RELATING TO MACROECONOMIC PERFORMANCE AND OUTLOOK

Despite the mostly positive outlook for Mozambique's economy, to mitigate risks and enable sustainable growth it is recommended that:

- To free fiscal space for necessary development investments, it is critical that the Government continues implementing its fiscal consolidation reforms, reducing current expenditures (such as the wage bill) and privileging capital ones, and to improve debt sustainability by pursuing the replacement of current expensive domestic debt with less costly and longer-duration debt, with a preference for highly concessional loans and grants, to reduce debt service. Recent climate and green funds may also support the financial needs of the country.
- For the mid term, to complement the framework of the Sovereign Wealth Fund, it is important that the Government implements a set of fiscal rules that makes expenditures more predictable to the different economic actors, particularly the private sector.
- To boost revenues beyond rationalizing the tax system and improving the tax collection functions, it is important to further advance investment climate reforms to attract FDI, boosting public revenues and also supporting recomposing international reserves. Doubling recent efforts on implementing electronic visa schemes and facilitating access to the country may increase the number of tourists to Mozambique, which may in turn increase the influx of reserves to the country.
- Furthering business environment reforms, such as the ones selected by the PAE may foster the diversification of the economy, particularly in sectors that stimulate green growth and sustainable development that would therefore generate decent jobs for the bulk of the population.
- To amplify such reforms, stimulating microcredit frameworks, especially for the young and women entrepreneurs, and building on the increased use of mobile wallets during the pandemic, expanding ICT services provision can develop the country's business fabric.

5.3. POLICY RECOMMENDATIONS FOR PRIVATE SECTOR FINANCING FOR CLIMATE CHANGE AND GREEN GROWTH

5.3.1. National Government

Mobilizing finance for green growth and climate action in Mozambique to meet the estimated needs will require multiple interventions by different sets of stakeholders. Below is a set of recommendations, with indications of whether these should be implemented in the short-term, medium-term, or long-term:

Short-term and medium-term

- Access to competitive lending rates in international and domestic markets: Mozambique should prioritize comprehensive financial sector reforms to improve market competitiveness and efficiency. Strengthening creditworthiness through prudent fiscal policies and effective debt management strategies will enhance the country's credibility and attract favourable lending terms. Additionally, fostering the development of domestic capital markets will provide alternative financing options for the private sector, reducing their reliance on external borrowing. Establishing strategic partnerships with international financial institutions and bilateral partners will bring valuable support, expertise, and resources to enhance Mozambique's financial landscape. Finally, investing in financial literacy programs will empower individuals with the knowledge and skills needed to navigate the lending landscape, negotiate better loan agreements, and make informed financial decisions.
- Develop and implement a National Natural Capital Accounting System: The Mozambican government should develop a system that accounts for natural capital and its contribution to Mozambique's economy. This system should track and measure the use and value of natural

resources and their contribution to the economy, including their role in mitigating climate change. The data generated by this system will help inform policy decisions that promote sustainable management and conservation of natural capital. Implementing a national NCA system would enable informed decision-making, enhance the credibility of green projects, attract more private-sector financing, and align Mozambique with global sustainability standards.

- Targeted training programs: These programs should aim to develop green skills across various sectors, not just limited to renewable energy. Strengthening institutional capacity and human resources is vital to effectively address the challenges of green growth and climate action. Cross-sectoral collaboration and knowledge-sharing should be promoted to ensure a cohesive approach towards achieving sustainable development goals.
- Coordination on green growth and climate action. This can be achieved by improving coordination and communication among relevant ministries and departments involved in green growth and climate action initiatives. Collaborative efforts between government institutions and development organizations will help leverage resources and expertise. Establishing mechanisms for effective coordination and information exchange will ensure the efficient mobilization of private sector finance towards green growth and climate action objectives.
- Streamline bureaucratic processes: Enhancing clarity and transparency in regulations will provide a clear framework for private sector operations and increase investor confidence. Strengthening economic governance and addressing issues related to corruption and illicit financial practices are crucial steps towards improving the business environment. Additionally, investing in capacity-building for relevant state

agencies will expedite processes and reduce delays, also encouraging private sector growth.

- Strengthen the capacity of government institutions to monitor and enforce environmental and social regulations: Implementing measures to address environmental challenges such as land and soil degradation, pollution, and involuntary resettlement is necessary to ensure sustainable development. Promoting sustainable practices and integrating environmental and social considerations into investment decision-making processes will help manage risks and attract responsible investors. By adopting effective environmental and social risk management practices, Mozambique can enhance its reputation as a sustainable and green investment destination.

Long-term

- Invest in sustainable agriculture and forestry: Agriculture and forestry are major contributors to Mozambique's economy, but they also pose significant threats to natural capital. The Government should encourage sustainable practices in these sectors, such as agroforestry and reduced-impact logging, to minimize the negative impact on the environment. Incentives and support to small-scale farmers and to community forestry enterprises to adopt sustainable practices could be explored.
- Develop green skilling programs: Green skills are crucial for promoting sustainable economic growth in Mozambique, particularly to primary industries such as agriculture, fisheries, and forestry, to promote sustainable practices and minimize negative environmental impacts. Improved skills can also create new employment opportunities in emerging green sectors such as renewable energy, eco-tourism, and waste management. The Government can work with

educational institutions, private sector organizations, and civil society groups to design and implement training programs that target specific sectors and skills, including technical, vocational education and training programs, on-the-job training, and capacity-building. Additionally, it can provide incentives for businesses to invest in green skills development, such as tax incentives.

5.3.2. Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs)

As MDBs and DFIs can unlock a significant amount of resources to Mozambique, it would be critical for them to prioritize the following:

- Becoming less risk-averse by further engaging with the Mozambican Government to identify ways to provide affordable capital for green growth and climate change investments.
- Promoting sustainable land use practices: MDBs and DFIs can support the establishment of sustainable land use practices by providing technical assistance, financing, and capacity building to smallholder farmers and other stakeholders in the agriculture sector.
- Developing sustainable forestry practices: Investing in community-based forestry management systems, promoting the use of sustainable wood products, and providing financing for reforestation and forest conservation projects.
- Scaling up renewable energy: Another way to increase the contribution of natural capital to climate finance and green growth in Mozambique is by scaling up renewable energy. Mozambique has vast potential for renewable energy, particularly solar, wind, and hydropower. International Financial Institutions can support the development of renewable energy projects by providing financing, technical assistance, and capacity building to stakeholders in the energy sector.

- Enhancing climate resilience: Investing in climate adaptation projects, such as the construction of climate-resilient infrastructure, promoting the adoption of climate-smart agriculture practices, and piloting climate insurance schemes that protect small farmers' livelihoods. The Bank can also provide technical assistance and capacity building to stakeholders in the agriculture and infrastructure sectors to enhance their capacity to adapt to climate change.
- Using innovative financing instruments that de-risk private sector investments, particularly in non-energy sectors such as water and health infrastructure development.

5.3.3. Domestic and international private sector

The private sector can play a significant role in financing investments in natural capital that contribute to climate change mitigation and adaptation.

- Applying standards, certificates and taxonomy: Implement the right standards and taxonomy for green and climate finance in Mozambique financial products, including the Stock Exchange.
- Create a green finance ecosystem: The private sector should collaborate with national government, MDBs and DFIs and other private sector actors to create a green finance ecosystem that includes green bonds, impact investing, and other financial instruments that incentivize the private sector to invest in natural capital. This ecosystem can also include technical assistance and capacity-building programs to help local financial institutions develop the skills and knowledge needed to evaluate and finance green investments.
- Propose and participate in public-private partnerships (PPPs): PPPs can be an effective way to mobilize private sector investment in natural capital projects. Mozambique should promote PPPs

that focus on sustainable management of natural resources. For example, the Government can partner with private companies to develop ecotourism infrastructure or implement sustainable forestry practices. PPPs can also be used to finance renewable energy projects, which can reduce Mozambique's dependence on fossil fuels and promote green growth.

- Collaborate with national Government, MDBs and DFIs and other private sector actors to identify key risks to investments and propose ways of addressing these investment risks.

5.3.4. Developed country governments.

- As shareholders of MDBs and DFIs, developed country governments can instruct these institutions to be less risk-averse when financing green growth in Mozambique and providing additional capital to these institutions.
- Use more climate-swap instruments to support developing countries to improve their debt and fiscal position while creating capacity and commitments on climate investments from both sides.

5.3 POLICY RECOMMENDATIONS FOR INCREASING THE CONTRIBUTION OF NATURAL CAPITAL TO CLIMATE FINANCE AND GREEN GROWTH

To harness natural capital as a complementary financing option for climate and green growth, the GoM can adopt several policy recommendations. These include:

- Implementing robust ecosystem valuation methodologies: Mozambique should adopt standardized ecosystem valuation methodologies to accurately assess the economic contribution of natural capital. This will provide policymakers and investors with reliable data to make

informed decisions about climate finance and green growth initiatives.

- Strengthening legal frameworks to conserve natural capital: Mozambique should strengthen its legal frameworks to protect and conserve natural capital. This includes enacting and enforcing legislation that safeguards biodiversity, regulates land use practices, and promotes sustainable resource management.
- Encouraging public-private partnerships for sustainable investment: Foster collaboration between the public and private sectors to attract sustainable investments in natural capital. This can be achieved by establishing incentives such as tax breaks, subsidies, and streamlined administrative procedures, which will attract private capital towards green projects, climate-resilient infrastructure, and conservation initiatives.
- Developing nature-based solutions for climate adaptation and mitigation: Invest in nature-based solutions that simultaneously address climate change adaptation and mitigation while promoting economic growth. This may include restoring degraded ecosystems, implementing sustainable agriculture practices, and promoting renewable energy projects that leverage Mozambique's natural resources.
- Strengthening capacity-building and knowledge-sharing: Develop capacity-building programs and knowledge-sharing platforms to educate stakeholders about the value of natural capital and its potential for climate finance and green growth. This can involve training programs for policymakers, awareness campaigns for local communities, and the creation of platforms for sharing best practices and lessons learned.
- Establishing a national green finance framework: Develop a comprehensive green finance framework that incorporates environmental and social considerations into financial decision-

making processes. This framework can include measures such as green bonds, green banking regulations, and environmental risk assessments to ensure that financial institutions actively support investments that contribute to natural capital preservation and sustainable development goals.

- Promote intra-continental cooperation and a shared common understanding of how Africa's natural capital potential can be unlocked using a variety of applied policies across the African continent, including fostering those related to financial markets.
- Strengthen environmental regulations and their enforcement: Mozambique needs to strengthen its environmental regulations, particularly enforcement mechanisms to protect its natural capital. This includes stricter laws on deforestation, illegal wildlife trade, and overfishing, among others. The Government should also invest in capacity-building and training of law enforcement officials at different operational levels, from park rangers to police actors and customs and revenue authorities, to enhance their ability to effectively enforce these regulations.
- Encourage private sector investment in natural capital: The Mozambican Government should keep building to create a conducive business environment that encourages private sector investment in natural capital projects. This encouragement could include tax incentives and other financial mechanisms that make it more attractive for businesses to invest in preserving natural capital.
- Develop a green financing framework: The Government should develop a green financing framework that incentivizes the financing of natural capital projects. This could include the use of green bonds, climate bond swaps and other financial instruments that leverage resources and that provide incentives for private sector investment in natural

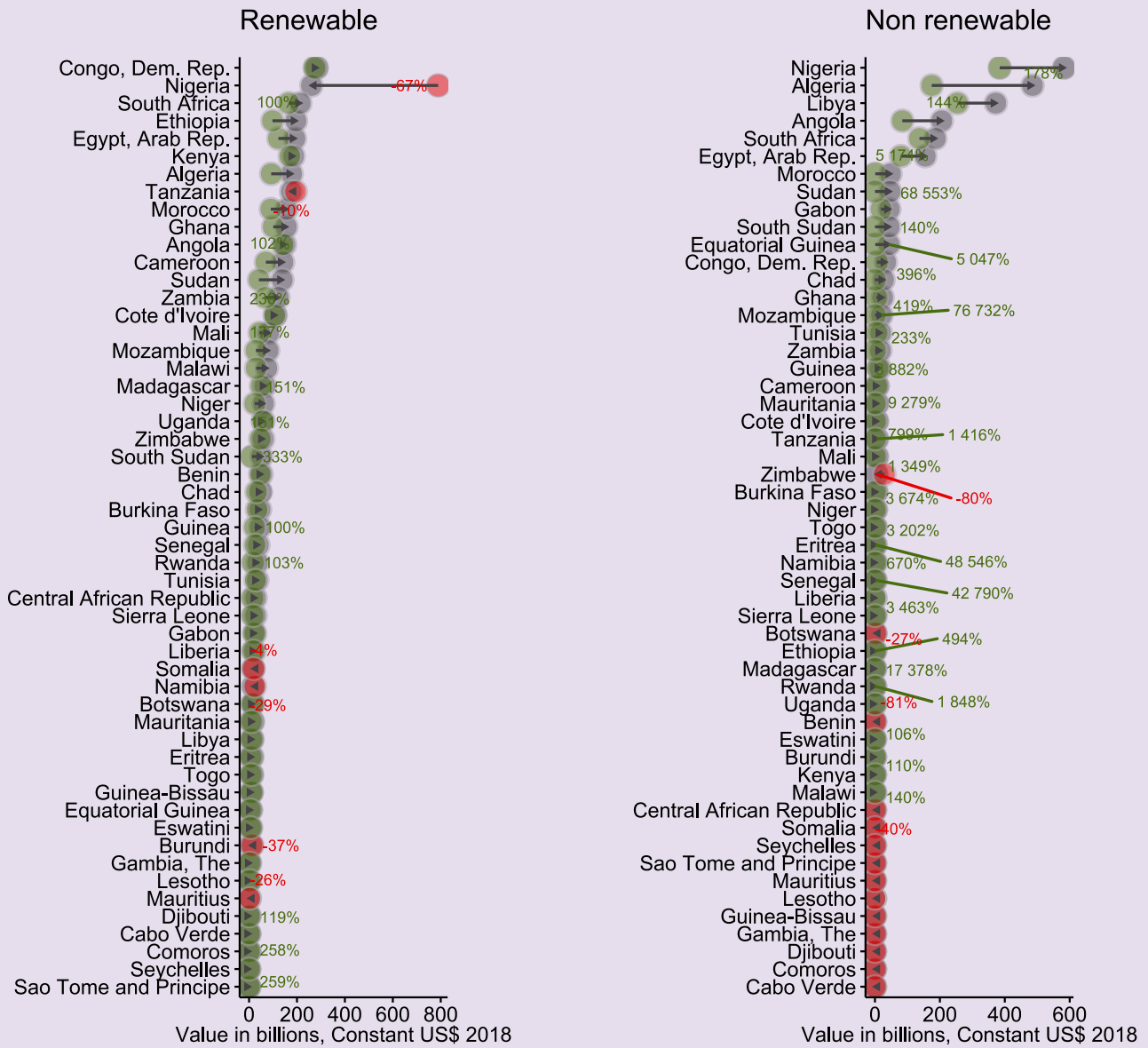
capital. Enabling domestic development financial institutions such as the FNDS and the BNI to access international green and sustainable finance may also crowd-in more international resources to Mozambique.

5.3.1. Natural Resources Rents

- Strengthening mineral resource governance. The Government should keep improving its regulation of mining operations, collect revenues effectively, and ensure robust monitoring mechanisms. This will ensure optimal management of mineral resources, maximizing their potential contributions to the economy.
- Building on lessons learned and improving sustainable forest management. Acknowledging that the forestry sector has been the largest contributor in terms of rents to the Government in the last decade, it is important to keep building on lessons learned to maximize the potential of this activity for sustainable growth and improving livelihoods, particularly in rural areas. This entails combating illegal logging, actively promoting reforestation initiatives, and engaging in responsible forest stewardship to safeguard its valuable resources, mitigate environmental degradation, and foster long-term economic and ecological sustainability.

In conclusion, the Mozambican Government should prioritize the sustainable management and conservation of natural capital to contribute to climate finance and green growth. The implementation of the policy recommendations above can support Mozambique's development while protecting its natural capital and bring economic as well as social benefits to current and future generations.

Annex 1. Changes in the value of natural capital for African countries, 1995–2018



Annex 2: Selected Indicators

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US \$	12,229	17,448	13,535	14,840	14,654	15,397	...	...	...
GNI per Capita	US\$	530	650	460	490	470	480	...	...	...
GDP at Current Prices	Million US \$	10,154	15,951	14,845	15,390	14,157	15,777	22,299	23,346	24,101
GDP at 2010 Constant prices	Million US \$	10,154	14,303	15,937	16,305	16,110	16,485	17,111	17,936	19,431
Real GDP Growth Rate	%	6.7	6.7	3.4	2.3	-1.2	2.3	3.8	4.8	8.3
Real per Capita GDP Growth Rate	%	3.7	3.5	0.4	-0.6	-4.0	-0.5	1.0	2.0	5.3
Value Added: Mining and quarrying	Million US \$	135	803	1,812	1,654	1,346	1,580	2,252	...	...
Value Added: Mining and quarrying	% GDP	1.2	5.0	12.2	10.7	9.5	10.0	10.3	...	...
Value Added: Fishing	Million US \$	182	227	184	205	195	217	293	...	...
Value Added: Fishing	% GDP	1.6	1.4	1.2	1.3	1.4	1.4	1.3	...	...
Prices and Money										
Inflation (CPI)	%	12.7	2.4	3.9	2.8	3.1	5.7	10.3	9.5	7.0
Exchange Rate (Annual Average)	local currency/US\$	33.0	40.0	60.3	62.5	69.5	65.5	64.3	66.3	69.9
Government Finance										
Total Revenue and Grants	% GDP	26.1	26.7	25.4	29.9	27.5	27.7	26.6	27.1	27.0
Total Expenditure and Net Lending	% GDP	30.6	30.8	30.8	29.7	32.8	32.5	30.3	31.1	30.6
Overall Deficit (-) / Surplus (+)	% GDP	-4.5	-4.1	-5.4	0.2	-5.3	-4.8	-3.7	-4.0	-3.6
External Sector										
Terms of Trade Growth	%	-11.7	3.0	-0.2	-1.7	-1.2	1.9	-2.8	12.1	1.8
Current Account Balance	Million US \$	-1,680	-5,968	-4,436	-2,934	-3,869	-3,731	-8,712	-3,259	-8,663
Current Account Balance	% GDP	-16.5	-37.4	-29.9	-19.1	-27.3	-23.6	-39.1	-14.0	-35.9
Debt and Financial Flows										
Debt Service	% exports	6.0	17.5	15.3	16.7	20.7	12.6	9.6	20.2	23.5
External Debt	% GDP	85.8	108.5	160.7	155.8	178.8	160.1	165.5	177.3	198.9
Net Total Financial Flows	Million US \$	2,873	2,275	3,733	2,295	3,532	2,670	...	...	...
Net Official Development Assistance	Million US \$	1,943	1,819	1,824	1,841	2,556	2,254	...	...	...
Net Foreign Direct Investment	Million US \$	2,532	3,867	2,703	2,212	3,035	5,102	...	...	...
Demography										
Total Population	Millions	23.1	26.8	29.4	30.3	31.2	32.1	33.0	33.9	34.9
Population Growth Rate	%	2.8	3.1	3.0	2.9	2.9	2.9	2.8	2.8	2.8
Urban population	% of total	33.4	35.9	37.3	37.9	38.4	39.0	39.6	40.2	40.7
Life Expectancy at Birth	Years	54.2	58.2	60.5	61.2	61.2	59.3	59.6	62.4	62.6
Fertility Rate	births per woman	5.6	5.1	4.9	4.8	4.7	4.6	4.6	4.5	4.4
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	...	...	...	...	...	...
Population living below \$2.15 a day	% of total population	...	...	...	...	...	...	...	...	...
Gini Index	%	...	...	...	...	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	80.5	79.1	78.9	78.8	78.1	78.2	78.5	78.6	...
Labour Force participation (youth)	%	66.3	62.6	61.6	61.2	60.6	60.6	60.9	61.0	...
Unemployment rate (total)	%	3.2	3.4	3.5	3.5	3.8	3.9	3.9	3.9	3.8
Unemployment rate (youth)	%	6.8	7.2	7.3	7.3	8.0	8.0	8.1	8.0	7.9
Natural Resources rents										
Total natural resources rents	% GDP	11.1	13.0	16.0	12.4	11.7	...	...	...	...
Oil rents	% GDP	0.1	0.0	0.1	0.1	0.3	...	...	...	...
Natural gas rents	% GDP	2.9	2.9	4.4	3.1	1.8	...	...	...	...
Mineral rents	% GDP	0.0	0.0	0.0	0.0	0.0	...	...	...	...
Forest rents	% GDP	8.0	8.7	7.0	6.6	7.4	...	...	...	...
Coal rents	% GDP	0.0	1.2	4.5	2.6	2.1	...	...	...	...
Natural Capital Renewable Resources										
Arable land	1000 hectare	5,650.0	5,650.0	5,650.0	5,650.0	5,650.0	...	...	...	...
Agricultural land	1000 hectare	39,665.9	40,698.0	41,413.8	41,413.8	41,413.8	...	...	...	...
Other land	1000 hectare	...	...	...	258.1	480.4	...	...	...	...
Forest land	1000 hectare	38,972.1	37,940.0	37,224.2	36,966.1	36,743.8	...	...	...	...
Planted Forest	1000 hectare	54.6	66.0	70.0	72.1	74.3	...	...	...	...
Annual freshwater withdrawals, total	% of internal resources	1.3	1.5	1.5	1.5	...	...	...	...	...
Total Fisheries Production	metric tons	163,419.0	287,850.0	352,080.1	403,579.5	403,115.5	...	...	...	...
Climate Finance and Green Growth										
Total Climate Finance*	Million US \$	...	...	...	...	1,096.9	...	...	...	...
Green Growth Index**	%	46.3	45.8	45.3	45.4	45.4	45.5	...	...	...

Source : AfDB Statistics Department: African; IMF: World Economic Outlook, April 2023 and International Financial Statistics, April 2023; AfDB Statistics Department: Development Data Portal Database, April 2023. United Nations: OECD, Reporting System Division.

Notes ... Data Not Available (e) Estimations (p) Projections Last Update: June 2023

* Source: Climate Policy Initiative (www.climatepolicyinitiative.org)

**Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance

Endnotes

- i Our World in Data, “Mozambique: CO2 Country Profile”. Available at: <https://ourworldindata.org/co2/country/mozambique>
- ii UNDP Climate Change Country Profiles.
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- iv Mozambique CDN, p.14.
- v Financial Sector Deepening “An Assessment of the Financial Sector and Green Finance Policy Landscape in Mozambique”, 22 November 2022. Available at: <https://eedadvisory.com/wp-content/uploads/2022/08/An-Assessment-of-the-Financial-Sector-and-Green-Finance-Policy-Landscape-in-Mozambique.pdf>.
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