FAIR AND EFFICIENT TAXATION: A WAY TO BREAK THE NATURAL RESOURCE CURSE IN MOZAMBIQUE?

FAIR TAX MONITOR MOZAMBIQUE

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ASSESSING THE FAIRNESS OF MOZAMBIQUE'S TAX SYSTEM AND TAXATION OF EXTRACTIVE INDUSTRIES IN THE COUNTRY

The Fair Tax Monitor (FTM) project was started in 2014. The FTM project was developed by Oxfam Novib and Tax Justice Network Africa (TJNA) in collaboration with partners and Oxfam Country Offices. FTM's overall goal is to strengthen the advocacy activities at the local and global levels. Through the development of local capacity on technical fiscal issues, FTM provides an overview of national tax systems and identifies the main challenges they face. The tool provides reliable evidence for the advocacy and lobbying work of national actors, which strengthens their position and increases their credibility and influencing power.

Furthermore, FTM compares key elements of tax systems and thus complements the activities of Oxfam's global campaigns and TJNA activities realised at the African level. The project's focus is on tax policies and practices, and, by deliberate choice, it pays only limited attention to issues related to public expenditure. The FTM pilot phase in 2015/2016 was implemented in Bangladesh, Pakistan, Uganda and Senegal. Updates have since been made to the guiding framework for research – the Common Research Framework (CRF) in 2018 and 2022 – and FTM research has been implemented multiple countries in Latin America, Africa and Asia. This FTM report for Mozambique is piloting a new thematic research focus on extractive industries. The report is therefore both the first to apply the new additional CRF extractive chapter (Chapter 7 in this report) and, by piloting this thematic focus, is giving invaluable inputs to improving this new thematic research framework.

A fair tax system!

The FTM Working Group has defined a fair tax system as one that:

- is progressive and serves as a mechanism to redistribute income in a gender-responsive way;
- allows for the raising of sufficient revenue to perform governmental functions and provide high-quality essential public services;
- refrains from and eliminates tax exemptions and incentives to the elite (individuals and corporate); and
- tackles causes of illicit capital flight and tax evasion and avoidance by multinational companies and the wealthy.

Research methodology

The findings are derived primarily from a desk review relying on research on the provisions of Mozambique's laws and the way in which they affect the fairness of its tax system.

Limitations of the study

As the study did not undertake primary research, any shortcomings with regard to data are a direct result of inadequacies in existing data, including lack of data on a particular subject, lack of disaggregated data and lack of access to data.

Structure of the report

The report structure generally follows the criteria of the FTM Common Research Framework. It begins with a description of Mozambique's tax system, followed by an assessment of each of the criteria of the CRF, and ends with an in-depth analysis of the fiscal structures and taxation of extractive industries in Mozambique.

EXECUTIVE SUMMARY

Mozambique is rich in natural resources such as coal, gas, and minerals. Despite this, it has one of the lowest human development index (ranking 185th out of 191 countries). Mozambique's has a complex social and economic context, with high levels of inequality and a history of civil war and political instability. Moreover, Mozambique is characterised by limited access to education, healthcare and basic services, and, until now, funding for these public services has not been sufficient, which has had significant negative impacts on the country's population, particularly the most vulnerable people and communities. To fund these public services and assure basic human rights, Mozambique's tax system needs both to raise more revenue and to spend it better.

In this context, Mozambique's extractive sector presents both opportunities and risks. If managed properly, the extractive industry (EI) has the potential to bring significant revenues and benefits to Mozambique and its people. However, there are significant risks and challenges associated with such a growth in EI dependency. Mozambique has already witnessed human-rights violations in connection with displacements of communities, as well as conflicts over who should benefit from resource extraction. Therefore, the shadow of the resource curse already hangs over Mozambique, not least with regard to the economic impacts: the EI is known for its boom-and-bust cycles, leaving countries vulnerable to economic shocks and social instability. Mozambique is already struggling with debt-borrowing against resource deposits before the extraction of these has even started.

This FTM study may be divided into two parts that build on each other. The first part analyses the overall tax system of Mozambique and proposes recommendations for ways in which it may be improved. The second part examines more closely the particularities of raising revenues in a country with a significant EI sector.

Overall Mozambique tax system

This study proposes recommendations for ways in which Mozambique's tax system can be improved, not only to meet the financing gaps for its development, but also to do so in a fair and equitable manner that ensures that the tax burden is shared fairly. According to the FTM scoring methodology, Mozambique's tax system obtained the following scores for the report's general sections:

	Component of Mozambique's tax system	Score
1	Progressive tax system	6.2
2	Sufficient revenues	5.31
3	Tax competition and corporate tax incentives	4.19
4	Effective tax administration	6.23
5	Pro-poor government spending	3.96
6	Accountable public finances	8.04

0 - 2	3 - 4	5 - 6	7 - 8	9 - 10

Unfair **Fair**

The report shows that there is significant room to increase the fairness of the tax system in Mozambique, including by raising more revenue and doing so in a much more progressive way. Despite its challenges, the tax system scores best on the accountability of public finances, while the lowest scores are for the use of tax incentives for corporations and the lack of pro-poor government spending. The relatively low scores for the progressiveness of the tax system and the lack of pro-poor public spending highlights that the tax system of Mozambique is currently not sufficiently geared towards reducing inequality and poverty, which should be a grave concern and cause for immediate political attention.

Mozambique's tax system is on a positive trajectory with respect to the progressiveness of public revenue collection. The last decade shows a clear shift, where direct taxes (such as personal and corporate income tax) represent an increasingly larger share of revenue collection in the country. Between 2012 and 2021, direct taxes increased from 37% to 41% of total revenues, while indirect taxes decreased from 45% to 38%. However, important challenges remain regarding the size of Mozambique's informal economy, and efforts should be taken to expand the base to make high-income individuals and legal entities "hiding" in the informal sector subject to the tax system.

Over the past decade, Mozambique has made significant strides in improving the efficiency of tax administration. The Taxpayer Identification Number (Número Único de Identificação Tributária, NUIT) registration system has managed to register a total of more than 5 million companies and individual taxpayers in this period. With an average tax-to-GDP ratio of 25% over the last decade, Mozambique is performing well above the African average of 16%. There are also no reports of tax administration abuses against taxpayers in Mozambique.

Furthermore, it is positive that local governments in Mozambique have financial autonomy in managing the resources they raise. This autonomy allows them to provide services and undertake local projects, although some challenges do exist on account of limited administrative capacity and low tax morale. In addition, the effectiveness of tax administration is challenged by limited funding, capacity constraints, staff recruitment challenges and structural gaps. The Mozambican Revenue Authority (Autoridade Tributária de Moçambique, AT) operates as an "isolated island", with insufficient collaboration with both other national and international entities.

The accountability for public finances in Mozambique has been improving since the hidden-debt scandal came to light. This may be seen as a way to rebuild trust, regain the confidence of cooperation partners, and strengthen the country's image in the international community. The public accounts are subject to annual audits by the Administrative Court, and the results of these audits are made public through the court's website. Parliament is involved in reviewing and approving the audit reports and the opinions of the auditor general. Private entities, including companies, are required to disclose financial and non-financial information under the Right to Information Law and the Commercial Code, and companies in the extractive sector are subject to additional disclosure requirements. However, enforcement of existing regulations and disclosure requirements is weak, and measures and sanctions related to enforcement of the Right to Information Law are lacking.

While all areas of the tax system have room for improvement and progress is needed in particular to make it more progressive, the most troubling aspects of the tax system are tax competition, corporate tax incentives, and the lack of pro-poor public spending.

Reform of tax incentives in Mozambique represents a large revenue potential. Currently, the tax-incentives regime lacks transparency and presents the risk of incentives being unnecessarily granted to companies without proper scrutiny or oversight. In 2021 Mozambique lost about 40.6 billion meticais (MZN) as a result of tax incentives[1] – a huge amount that represents 15,3% of annual revenues and enough to double the health budget allocation.

Additional revenues from a reform of the tax-incentive system could help improve the current challenge of public revenues failing to finance the provision of adequate public services. Social sectors, notably education, health and social protection, are not sufficiently prioritised and the country suffers from asymmetries in budget allocations between the south and poorer peripheral regions.

The government should also pay more attention to fiscal rules for public debt and increase gender sensitivity, since the tax system does not currently reflect national policy on gender equity, since, for example, the burden of indirect taxes falls disproportionately on women. Together with unjustified tax incentives and

1 Autoridade Tributária de Moçambique. (2022). Anuário Estatístico: Estatísticas Tributárias 2021. https://www.at.gov.mz/por/Media/Files/Anuario-Estatisco-2021

aggressive corporate tax planning strategies, this contributes to the regressivity of the country's tax system, which favours new investors and large corporations while overburdening ordinary citizens and small businesses.

See a summary and selected key recommendations for each chapter in the chapter summaries below. Analyses and more recommendations may be found in the report's main sections.

Taxing Mozambique's natural resource wealth

The first six chapters of this report serve as a basis for this study's focus on the taxation and fiscal governance of Mozambique's EIs.

Currently, the output of this sector represents about 20 times the 2010 output and EI's have more than doubled their contribution to Mozambique's overall GDP over the past two decades. The extractive sector has also attracted significant foreign investment over the past two decades, reaching 70% of total foreign direct investment (FDI) between 2010 and 2018. Given that commodity prices are expected to rise across the board in the coming years, this trend could continue to benefit the Mozambican population, but only if Mozambique's government and relevant key players succeed in creating strong, transparent and accountable governance of the sector.

Mozambique has large gas and mineral reserves in many parts of the country. Coal is one of the most significant resources, with an estimated reserve of over 20 billion tons. Natural gas is the most valuable resource, with estimated reserves of over 277 trillion cubic feet, mostly located in Cabo Delgado province. However, regional instability has caused delays in the start-up of the Mozambique liquefied natural gas (LNG) project, initially scheduled for 2024.

The legal framework for the extractive industry in Mozambique is composed of specific legislation that separately regulates the mining and hydrocarbon sectors. The National Mining Institute (Intituto Nacional de Minas, INAMI) is responsible for the regulation and supervision of exploration in the mining industry, while the National Petroleum Institute (INP) supervises the oil and gas sector.

Mozambique joined the Extractive Industry Transparency Initiative (EITI) in 2009. Under the EITI, companies operating in the extractive sector must disclose payments made to the government, including taxes, royalties and bonuses. One of the main positive impacts of EITI implementation in Mozambique is the reduction in the level of discrepancy between payments made by companies in the gas and mining sector and revenues confirmed by the government.

There remain, however, challenges related to the lack of a culture of information disclosure by companies operating in this sector, with recent studies pointing out that the sector suffers from low levels of transparency. A significant number of companies operating in the extractive sector continue to fail to provide information of public interest, such as fiscal and environmental information and local content programmes. While information on expenditures made under development projects for affected communities and the Social Projects Fund allocated to the INP is publicly accessible[2], the funds allocated are frequently less than the funds actually received, and there is no explanation as to the application of the remaining funds.

In 2022, Mozambique implemented a very positive strengthening of its revenue-sharing mechanism, which now allocates 10% of royalties related to natural resource exploration to the development of the provinces, districts and local communities in which extraction takes place. This is a major step towards greater EI equity and may encourage increased grassroots demands for EI accountability.

Equally important are deficiencies related to the operation of EI multinational corporations. Mozambique suffers significant leakages related to the taxation of extractive resources as a result of illicit financial flows (IFFs) and tax-avoidance strategies by multinational corporations. Mozambique's estimated annual loss on account of IFFs exceeds 2.2% of GDP, exceeding the African average of 0.7%[3]. This shows how vulnerable Mozambique is to both corruption and illicit cross-border activities. Probably the most important are IFFs owing to tax avoidance and evasion by international companies. In this regard, Mozambique's double taxation agreements (DTAs) present an important area for potential progress. It is estimated that Mozambique's DTAs with just two tax havens (Mauritius and the United Arab Emirates) cost Mozambique 315 million USD in withholding taxes on interest and dividend payments in 2021 – equivalent to 7.4% of the country's total tax revenue. Significant revenues could thus be mobilized by cancelling or renegotiating these two (and other) DTAs. Another area for progress against corporate tax avoidance would be to ensure that sufficient audits of the multinational corporations operating in the EIs and other sectors take place, including the detection of transfer mispricing and other aggressive tax-planning practices.

Another major gap is related to the registration of the actual beneficiaries of EI. Mozambique continues to face legal and institutional obstacles in keeping this information up to date and making it accessible. This lack of transparency of beneficial ownership in the extractive industry makes companies in the sector susceptible to being exploited for the purposes of facilitating corruption, money laundering and IFFs.

Mozambique is currently considering the creation of a sovereign fund related to revenues from the extractive sector. Important decisions about its legal structure and regulations, which will have an impact on the country's development over a long period, are yet to be decided by the National Assembly.

2 Through the State Budget's economic and social plan, the budget execution report and the EITI report.

3 TJN (2021). The State of Tax Justice. Tax Justice Network Africa. https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf

In conclusion, the significant progress that has been made in EI governance in Mozambique should not divert attention from the serious deficiencies and gaps that must still be filled to ensure that Mozambique avoids the resource curse and moves closer to an EI regime that benefits everyone in society. Highlights include the recognition of the importance of the Gas Master Plan (GMP), as a crucial role player in the strategic definition of policies, strategies, and guidelines for the exploration and development of the natural gas sector in the country, and take necessary actions to update and align it with the current realities of the hydrocarbon sector.

1

Fully implement GMP and prioritise the promotion of local content and value addition in the EI.
Fully implementing the GMP includes the prioritisation of domestic gas use and the establishment of a regulatory framework for gas infrastructure. This also implies passing the embattled Local Content Law and encouraging companies to use local suppliers and services, promoting local workforce development, and encouraging the establishment of downstream industries. Moreover, the High Authority of the Extractive Industry, which was established by the parliament in 2014 to oversee Petroleum Operations, must be operationalized to strengthen the links between the Extractive Industry and the rest of the Mozambican economy.

2

Demand increased transparency regarding EI, including beneficial ownership.
Mozambique should enhance the transparency of EI. This includes the full comprehensive beneficial ownership transparency, disclosure of revenues and payments made by companies, as well as the establishment of an independent mechanism for the monitoring and reporting of the industry's impact on the environment, communities, and human rights.

3

Assess and reduce tax incentives in Mozambique's extractive industries.
Mozambique does not publish the disaggregated data on the amount of total revenue lost under tax incentives granted to the extractive sector, preventing a proper examination and evaluation of the impact of these incentives on the economy and their fiscal sustainability. It is recommended that the government increase the overall transparency of the extractive sector through the publication of reports focused on the tax incentives granted in the economic sector, as well as a cost-benefit analysis of such public expenditure.

4

Secure proper revenue sharing with affected communities.
The Mozambican government should ensure that the benefits of the extractive industry are equitably distributed among the population, especially in areas in which the industry operates. Mozambique currently has in place an allocation of 10% of natural-resource royalties to the development of provinces, districts and local communities in which extraction takes place. It is essential that the government effectively enforce such allocation, as previous reports have flagged that the resources were not reaching the communities. As part of the new decree currently being drafted to govern a new system of revenue-sharing in Mozambique, the government is urged to establish clear mechanisms for the allocation of funds and promote strong citizen involvement (especially for women and youth, as marginalised groups) to influence the decision-making for how the 10% is used to ensure it delivers genuine improvement that reflects community needs. Finally, it is important to detach the 10% from the regular budget implementation rules so that local governments may consider strategic planning and the pursuit of larger-scale projects that contribute to sustainable development in those regions.

5

The outdated tax treaty network of Mozambique generates huge revenue loses, and treaties with tax-haven jurisdictions should be immediately terminated and/or renegotiated.
It is recommended that Mozambique terminate and/or renegotiate its tax treaties with Mauritius and the United Arab Emirates (UAE), as well as review its other tax treaties. Mozambique should also consider the risk of a further source of tax evasion and tax avoidance in its current negotiations with the Kingdom of the Neth¬er¬lands. The government should urgently tackle current inefficiencies in the revenue-collection process, reassess all existing tax treaties, and crack down on tax-avoidance and -evasion mechanisms used by companies in the EI and other sectors.

CHAPTER SUMMARIES

CHAPTER 1: DISTRIBUTION OF TAX BURDEN AND PROGRESSIVITY

Mozambique's tax system is composed of direct and indirect taxes. In recent years, Mozambique's revenue composition has shifted towards a greater reliance on direct taxes (accounting for 41.2% of total revenue in 2021) than indirect taxes (accounting for 38.3%). This transition to reliance on direct taxes is a positive development towards a less-regressive tax system that focuses on individuals and legal entities with a greater ability to pay. However, Mozambique is still heavily dependent on indirect taxes at the disaggregated level, value-added tax (VAT) in particular, which is the largest revenue source, accounting for 27.5% of total revenue in 2021. Important challenges remain in relation to the size of Mozambique's informal economy and efforts to expand the base of individuals and legal entities subject to the tax system.

It is important to note that Mozambique's reliance on indirect taxes, particularly VAT, can contribute to inequality and have negative, disproportionate impacts on the poorest members of society. This is because VAT is based on the value of goods and services, rather than on people's ability to pay, and therefore disproportionately affects people with lower incomes.

The tax system in Mozambique also includes numerous tax incentives that are incorporated in the corporate income tax (CIT), VAT and Customs Duties Code, as well as the separate Code of Fiscal Benefits. These incentives favour new and large investors, while placing existing and small businesses at a disadvantage. The numerous incentive instruments also reduce the tax base and create opportunities for tax evasion, avoidance and fraud.

Key recommendations:

- Mozambique must reduce its dependence on VAT because of its regressivity, as it still represents the country's largest source of tax revenue.
- The Ministry of Economy and Finance (MEF) should update and strengthen the progressivity of personal income tax (PIT), increasing the limits of the brackets and the tax rate for the highest income group. The current PIT tables have not been updated since 2013, so they are out of step with inflation over the past ten years. Currently, the non-taxable household income is only 18,750.00 MZN (293.70 USD) per month, below the current cost of living in Mozambique, which implies an urgent need to raise the exemption threshold.
- MEF should make the tax system gender sensitive by collecting and analysing gender-disaggregated data. This will help track the gender impact of tax policies and reduce income and gender inequality

CHAPTER 2 – SUFFICIENT REVENUES AND ILLICIT FINANCIAL FLOWS

Official revenue-collection targets and the results achieved, by themselves, do not provide a complete picture of the government's financial health and revenue collection. The Tax Authority should not be complacent about exceeding set targets, but prioritise progressive revenue collection to cover expenditures. This is particularly important, considering that Mozambique faces challenges with regard to revenue sufficiency, as evidenced by negative fiscal balances and the inability to cover expenditures.

The country relies heavily on external funding and grants, raising concerns about dependence on donors. In 2016, with the discovery of the contraction of hidden debts, the international community cut support to Mozambique. Owing to the huge external dependence, this shock was enough to cause the currency to depreciate from 41.19 MZN to 77.58 MZN against the US dollar in just one year. Mozambique also suffers heavily from IFFs, with an estimated annual loss of more than 2.2% of GDP, three times higher than the African average of 0.7%.

With a reduced ability to finance its expenditures, the Government of Mozambique has taken austerity measures, including the suspension of subsidies for bread production, which has resulted in a price increase with a negative impact on the well-being of the most vulnerable people, including women and girls. Mozambique faces worrying gender indicators, including high rates of violence against women and limited access to essential services and education, despite the incorporation of gender issues in the budget process since 2007.

Over the past five years, Mozambique has experienced inconsistent non-tax revenue collection, peaking at 4.4% of GDP in 2018 and declining to 1.1% in 2021. This decline can be attributed to several factors, including the COVID-19 pandemic and the economic recession, which led to reduced economic activity and disrupted supply chains. Inadequate monitoring and evaluation mechanisms have further undermined the management of non-tax revenues, resulting in gaps and inconsistencies in national reporting. This lack of clarity in reporting makes it difficult to determine the effectiveness of non-tax-revenue policies and programmes and to ensure that revenues are used effectively and efficiently.

Key recommendations:

- Mozambique experiences significant tax losses, estimated at about 333.5 million USD (21.8 billion MZN) each year. These losses are largely attributable to aggressive corporate tax planning. In order to tackle the significant tax losses, MEF needs to invest in the full audit of multinational companies (MNCs) operating in Mozambique. By conducting comprehensive audits, the tax administration can closely examine the financial records, transactions and tax-planning strategies employed by MNCs. This will help identify instances of aggressive tax planning and ensure that the revenue owed to the country is collected properly. In addition, the MEF needs to establish a specialised unit or task force dedicated to combat IFFs. This unit should consist of specialists in taxation, finance, law enforcement and intelligence analysis. The unit can collaborate with international organisations such as the United Nations Office on Drugs and Crime (UNODC) or regional bodies such as the Southern African Development Community (SADC) to strengthen cross-border cooperation in combating IFFs.

- The government must establish clear mechanisms to monitor and report non-tax revenues, improve the accuracy and clarity of national budget documents, and accurately capture and aggregate the different types of non-tax revenue. This will allow for a better understanding of revenue-collection efforts, making it easier to assess the effectiveness of non-tax-revenue policies and programmes. Lack of this information increases the risk of revenue leakage, corruption and mismanagement, reducing the effectiveness of non-tax-revenue policies and programmes.
- The government of Mozambique implemented austerity measures during the financial crisis, which had a negative impact on the population through increased prices of essential products. To mitigate these effects, specific social-protection programmes should be implemented to mitigate the impact of the cost of living on the most vulnerable strata of the population.

CHAPTER 3 – TAX COMPETITION AND CORPORATE INCENTIVES

By 2021, Mozambique had lost 40,650 million MZN due to tax incentives[1] – 15,3% of annual revenues (enough to increase the public health budget by more than 100%). Since the benefits of tax incentives are debatable, the Mozambican government should conduct a comprehensive cost–benefit analysis, assessing whether the huge loss of tax revenue is justified by long-term investment, job creation and tax revenues. Such a review should, as a matter of priority, focus on tax incentives and exemptions granted to investors, as there is mounting evidence that such incentives are costly and usually bring few, if any, benefits. In addition, the process for granting tax incentives in Mozambique is problematic, as it is not transparent and there is a risk that incentives are granted to companies without adequate control or supervision. In the extractive sector especially, there is a worrisome lack of transparency.

Mozambique's DTAs are an important area for potential progress. Mozambique's DTAs with just two tax havens, Mauritius and the UAE, are estimated to cost

1 Autoridade Tributária de Moçambique. (2022). Anuário Estatístico: Estatísticas Tributárias 2021. https://www.at.gov.mz/por/Media/Files/Anuario-Estatisco-2021

Mozambique 315 million USD in withholding taxes on interest and dividend payments in 2021 – equivalent to 7.4% of the country's total tax revenue[2].

Mozambique's CIT rate of 32% is higher than the average rate for sub-Saharan Africa (25.9%) and the highest in the SADC region. However, as the country faces significant revenue shortfalls, a reduction in the CIT rate to attract foreign investment and the subsequent drop in governmental revenues would have a negative impact on public policies for services and infrastructure, as well as on the country's ability to repay its already unsustainable debts.

Key recommendations:

- Tax incentives to investors should ideally be granted only if the additional taxes expected in the medium term compensate for the taxes lost in the short term, or if measurable externalities with equivalent effect can be identified. Existing tax incentives granted to investors should undergo regular reviews in order to assess their relevance; those that do not deliver value should be removed.
- The government should establish independent control mechanisms to ensure that tax incentives are provided in a fair and transparent manner. All relevant governmental agencies, such as the MEF and AT, should regularly publish publicly accessible tax expenditure reports, including mandatory publication of information on companies receiving fiscal incentives and the conditions attached to those incentives. In particular, the government should include the breakdown of tax benefits granted to the mining and hydrocarbon sectors.
- The government of Mozambique should review and renegotiate existing DTAs, with special attention to the DTAs with the UAE and Mauritius.
- The government should maintain the CIT rate of 32% and prioritise attracting investment with a stable and transparent tax regime, a favourable political and economic environment, and a comprehensive legislative framework, among other things.

CHAPTER 4: EFFECTIVENESS OF THE TAX ADMINISTRATION

With an average tax-to-GDP ratio of 25% over the past decade, Mozambique is performing well above the African average of 16%[3]. The high tax ratio demonstrates the existence of a legislative framework and the necessary infrastructure for tax collection, forming a concrete platform upon which Mozambique may progressively

2 SOMO. (2023). How Mozambique's tax treaties enable tax evasion. https://www.somo.nl/how-mozambiques-tax-treaties-enable-tax-avoidance/

3 OECD. (2019). Revenue Statistics in Africa 2019: African Union Commission, African Tax Administration Forum and OECD. https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf

grow tax collection in the country.

Meanwhile, the ratio has increased only modestly over the past ten years. Thus, attention is drawn to the fact that the AT repeatedly exceeds official revenue-collection targets, raising the possibility that the government sets unambitious targets presented in nominal values, thereby disguising the effect of inflation and GDP growth.

Over the past ten years, resources allocated to the AT have fallen from 0.025% of the total state budget to a mere 0.019%, while the expansion in taxpayer registration has not been accompanied by a commensurate recruitment of personnel, so that the ratio of taxpayers to AT personnel has reached 143.3 taxpayers for each tax inspector[4]. The AT faces staffing difficulties, which hampers the control of tax compliance, the prevention of tax evasion, avoidance and fraud, and the implementation of tax policies, such as the creation of a specific unit for high-net-worth individuals. Increased staffing could also help to solve the gender imbalance in the AT, where the percentage of men is currently 76% versus 24% women[5].

The AT operates with limited collaboration at the national and international levels. At the national level, there is minimal collaboration with local governments, resulting in local governments' dependence on fiscal transfers owing to weak taxation mechanisms and low tax morale. At the international level, Mozambique is not a signatory to any of the major international instruments designed to promote transparency and cooperation. By joining the Global Forum on Transparency and Exchange of Information (with over 160 member countries), for example, Mozambique would also become part of the Africa Initiative along with the Global Forum's African members, regional and international organisations, and development partners, with the goal of increasing the use of information exchange in Africa and combating tax evasion and avoidance. It is unclear whether Mozambique's refraining from international tax collaboration is due to a lack of political will, a rational cost–benefit assessment, or both.

Key recommendations:

- MEF should prioritise domestic revenue raising by investing in equipping the AT with infrastructure, human resources and expertise so that it can collect more taxes efficiently, especially from those who can best afford to pay these taxes. With more funding, the AT could raise additional revenue and improve the progressivity and equity of the Mozambican tax system in the following ways: (1)

4 Mozambique Revenue Authority. (Several years). Report and Balance of Activities. https://www.at.gov.mz/por/Sobre-a-AT/Relatorio-de-Balanco-das-Actividades-Desenvolvidas-pela-AT

5 Mozambique Revenue Authority. (2018). Report and Balance of Activities Several years). http://www.at.gov.mz/index.php/por/content/download/91804/795018/version/1/file/Relat%C3%B3rio+de+balan%C3%A7o+das+Actividades+Desenvolvidas+pela+AT+em+2017+e+Perspectivas +de+Ac%C3%A7%C3%B5es+para+2018.pdf

increase the number of human resources, reduce the taxpayer-to-official ratio, and reach more taxpayers to improve compliance levels, especially among high-net-worth individuals and high-earning businesses, and (2) provide technical assistance and capacity-building to subnational tax authorities and coordinate efforts to raise public awareness of the importance of tax compliance and the benefits of paying taxes, helping to improve voluntary compliance rates.

- The Mozambican government must demonstrate unwavering political will and unequivocal support to show influential individuals (often with political connections), stakeholders and vested interests that they can oppose efforts to increase progressive taxation of the wealthiest individuals and corporations. Such financial and political support might include (1) creating a dedicated transfer-pricing unit in the AT to strengthen the capacity and political position to tax large MNCs, and (2) creating a specific unit for high-net-worth individuals and formulating and communicating a specific strategy to monitor and evaluate these transactions.
- MEF and AT should ensure gender inclusion and promote the principles of equal opportunity in their HR policies, organisational objectives and recruitment policy.

CHAPTER 5: GOVERNMENT SPENDING

The share of public spending allocated to social sectors such as health, education and social development is below the ideal level, with only one third of the national budget. The country's efforts to pursue policies to reduce poverty and promote social inclusion have so far not been sufficient, as more than half of the population still lives below the poverty line[6].

The hidden-debt scandal triggered an unprecedented crisis in the state's accounts. Owing to the cut in budget assistance by the cooperation partners, it is estimated that public expenditure per person (USD per capita) decreased by about 39% between 2014 and 2019[7] . The austerity measures, which negatively affected public spending for social purposes, were a result not only of the country's economic crisis, but also because part of the public budgets had to be allocated to debt-servicing.

Gender inequality also remains a problem, with underinvestment in essential sectors and services that ease the reproductive and productive burden on women. Moreover, with most people working in the informal economy, only a small percentage of the population is covered by the mandatory contributory pension schemes.

6 IGC. (2020). Poverty eradication in Mozambique: Progress and challenges amid COVID-19. https://www.theigc.org/blogs/progress-poverty-eradication/poverty-eradication-mozambique-progress-and-challenges-amid

7 Center for Public Integrity. (2019). Costs and Consequences of Hidden Debts for Mozambique. https://www.cmi.no/publications/file/8282-custos-e-consequencias-das-dividas-ocultas-para-mocambique.pdf

Mozambique's heavily centralised budget is geared towards financing the administrative machinery of the state, and regional distribution unequally favours the capital region over the northern region, which has the highest poverty rates. The need to spend more and better is challenged by Mozambique's public debt, which by 2021 reached 102% of GDP[8], leading to unsustainable debt-service expenditures and fuelling rapid increases in the cost of living as rising bank interest rates and the depreciation of the national currency drive up prices.

Key recommendations:

- The government of Mozambique should prioritise social-sector spending (to meet international and regional commitments by, for example, allocating at least 15% and 20% of the annual budget to the health and education sectors, respectively), ensure sustainable debt management, strengthen gender mainstreaming, and improve data collection and planning in order to tackle key challenges and promote inclusive development.
- MEF should reorient public spending to accelerate the decentralisation of resources to the local level and reduce regional asymmetries.
- The government of Mozambique must abide strictly by the fiscal rules associated with public-debt contraction and present a plan to reduce the debt to a sustainable trajectory.

The main planning and budgeting instruments of the state, namely the Economic and Social Plan and the State Budget (PESOE), must present a gender analysis of the budgetary options and their impact on the management of, provision of, access to and use of public services. The government should also strengthen the capacity of the Gender Unit to ensure the integration of all genders in the policies, strategies, plans and budgets of different programmes, as well as make the collection of gender-disaggregated data a standard in all ministries and departments of state to effectively plan programme-based projects that redress gender inequalities.

CHAPTER 6: TRANSPARENCY AND ACCOUNTABILITY

Mozambique has in place an extensive legislative framework that guarantees access to information in the hands of the public authorities, based on Article 48 of the Constitution of the Republic. However, access to information in public institutions continues to depend on the will of the agents and employees of the state, which is associated with the problem of the organisation of the public administration itself

8 Ministry of Economy and Finance. (2021). Annual Debt Report: FY 2020. https://www.mef.gov.mz/index.php/todas-publicacoes/instrumentos-de-gestao-economica-e-social/gestao-da-divida-publica/1511-relatorio-anual-da-divida-publica-exercicio-fiscal-2020-1/file?force-download=1

to make the provision of information more flexible. The situation is even more serious at the local level, where reports from communities indicate difficulties in obtaining the requested information, and the responsible authorities do not always make it available.

Regarding the tax system, the relevant governmental institutions publish information on their websites to inform the public about public spending and the tax system, with the MEF publishing information on legislation, strategies and instruments for economic and social management.

The Right to Information Law and the Commercial Code oblige companies to disclose financial and non-financial information. However, enforcement of existing regulations is weak, and there are no promotional measures and sanctions related to the application and enforcement of the Right to Information Law. In general, although company financial statements are reasonably published, the lack of transparency regarding the ultimate beneficiaries of companies and difficulties in accessing information pose significant challenges to transparency and accountability in Mozambique's tax system.

Mozambique does not have a centralised national registry that allows the supervision and identification of the partners and final beneficiaries of legal entities. The information on the Government Portal of the published Boletins da República does not allow the identification of effective ownership with respect to companies that are owned by other companies. This situation makes it difficult to hold individuals accountable for their ownership, control or benefits of companies and other legal entities.

Key recommendations:

- The Ministry of Justice, Constitutional and Religious Affairs should establish a law requiring the registration of the ultimate beneficiaries of companies and other legal entities in a publicly accessible registry.
- The MEF and TA should ensure effective transparency, not only by disclosing information of public interest, but also by making it available in a timely manner.
- MEF should prepare and publish reports on tax expenditures (and other off-budget expenditures) estimating the revenue loss associated with provisions that grant preferential treatment to certain individuals, companies, or activities. These reports would provide citizens and policymakers with information on costs and benefits, thus enabling a discussion about the effectiveness of these provisions, identifying areas for reform, and allowing for the making of informed decisions about tax policy.

CHAPTER 7: TAXING MOZAMBIQUE'S NATURAL RESOURCE WEALTH

Mozambique has large gas and mineral reserves in many parts of the country. The country's most valuable resource is natural gas, with estimated reserves of over 277 trillion cubic feet, concentrated mainly in Cabo Delgado province. The wealth of the EI in the country has attracted significant foreign investment over the past two decades. In fact, between 2010 and 2018, 70% of foreign direct investment was destined for EI.

Mozambique's accession to EITI in 2009 was a hugely significant step forward for sector transparency, yet the sector – both multinational companies and public agencies – continues to demonstrate low levels of transparency. A major gap is the legal and institutional obstacles to making EI-beneficial ownership information available on a registry in an up-to-date and accessible manner.

Mozambique suffers significant leakages related to the taxation of extractive resources owing to IFFs and tax-avoidance and -evasion strategies by MNCs. Mozambique has a revenue-sharing mechanism in place, by which 10% of royalties related to natural resource exploitation are channelled to the development of the provinces, districts and local communities in which extraction takes place.

The creation of a sovereign wealth fund is currently being considered by the parliament, and important aspects of its legal structure and regulation – which will affect the country's development over a long period – are yet to be decided. Mozambique has made significant progress in increasing transparency in the extractive industry, but there are still deficiencies and gaps – mainly related to the disclosure of contracts and revenue streams – that must be resolved.

Key recommendations:

See the main report recommendations in the Executive Summary (pages ix–x).

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LIST OF COMMON ABBREVIATIONS AND ACRONYMS

AT	Mozambican Revenue Authority (Autoridade Tributária de Moçambique)
BEPS MLI	Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting
CBF	Tax Incentives Code (Código de Benefícios Fiscais)
CDD	Centre for Democracy and Human Rights (Centro para Democracia e Direitos Humanos)
CIT	Corporate Income Tax
CSO	Civil Society Organization
DTA	Double Taxation Agreement
EI	Extractive Industry
EITI	Extractive Industry Transparency Initiative
FTM	Fair Tax Monitor
FY	Fiscal Year
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GMP	Gas Master Plan
GRB	Gender-Responsive Budgeting
HNWI	High-Net-Worth Individual
ICE	Specific Consumption Tax (Imposto sobre Consumos Éspecificos)
IF	Inclusive Framework
IFF	Illicit Financial Flow
ILO	International Labour Organization
IMF	International Monetary Fund
INAMI	National Mining Institute (Intituto Nacional de Minas)
INP	National Petroleum Institute (Instituto Nacional de Petróleo)
INSS	National Institute of Social Security (Instituto Nacional de Segurança Social)
ISPC	Simplified Tax for Small Taxpayers (Imposto Simplificado para Pequenos Contribuintes)
LNG	Liquefied Natural Gas
MEF	Ministry of Economy and Finance
MIREME	Ministry of Mineral Resources and Energy (Ministério dos Recursos Minerais e Energia)
MNC	Multinational Company
MZN	Mozambican metical
NUIT	Taxpayer Indentification Number (número único de identificação tributária)
OECD	Organization for Economic Cooperation and Development
PASD	Direct Social Action Programme
PESOE	Economic and Social Plan and the State Budget (Plano Económico e Social e Orçamento do Estado)
PGEI	Gender Policy and Implementation Strategy

PIT	Personal Income Tax
PSSB	Basic Social Subsidy Program
SADC	Southern African Development Community
SDSMAS	District Services for Health, Women's Affairs and Social Action
SME	Small and Medium-Sized Enterprise
TADAT	Tax Administration Diagnostic Assessment Tool
TJNA	Tax Justice Network Africa
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax

GLOSSARY

Beneficial owner: The individual or individuals who ultimately own or control a company's shares or voting rights and exercise control over the company's management.

Base Erosion and Profit Shifting (BEPS): Tax planning strategies that exploit gaps and mismatches in tax rules to shift profits to low-tax jurisdictions, resulting in little or no corporate tax being paid.

Direct taxes: Taxes imposed on income, wealth, and property, such as personal income tax, corporate income tax, property tax, and capital gains tax.

Double taxation treaties (DTAs): Agreements between countries to regulate taxation in multiple jurisdictions, aiming to avoid double taxation and determine tax rights, residency, and benefits.

Tax equity/fairness: Ensuring that wealthier individuals and large corporations contribute a higher proportion of taxes (vertical equity) and that taxpayers in similar circumstances pay similar amounts of tax (horizontal equity).

Gender-disaggregated data: Statistics categorized by sex, reflecting gender-related issues and capturing information on gender relations and resource distribution.

Gender equality: The equal status and opportunities for men, women, boys, and girls to contribute to socio-cultural, economic, and political development.

Gender and equity budgeting: Analyzing public revenue and expenditures from a gender and equity perspective to consider the budgetary implications and impacts on women and girls compared to men and boys.

Gender-responsive budgeting: Government planning, programming, and budgeting that promotes gender equality and fulfills women's rights by identifying and funding interventions.

Illicit financial flows (IFFs): Illegally earned, transferred, or utilized funds, including commercial tax evasion, criminal activities, and corrupt practices, which undermine financial systems.

Indirect taxes: Taxes levied on consumption, such as value-added tax (VAT), goods and services taxes, customs duties, and excise duties.

Informal sector: Economic activities and income that operate outside government regulation and taxation.

Progressive tax: A tax system where higher-income individuals pay a greater proportion of their income as tax.

Public spending: Government expenditure on public infrastructure, goods, and social amenities.

Pro-poor spending: government expenditure aimed at addressing the needs and improving the well-being of the poor and marginalized populations, focusing on poverty alleviation and reducing inequality.

Regressive tax: A tax system where everyone pays the same amount of tax, resulting in a greater burden on low-income individuals compared to high-income individuals. Tax avoidance: The practice of minimizing tax obligations by exploiting loopholes or adopting an unintended interpretation of tax regulations.

Tax evasion: Illegal actions taken by a taxpayer to escape tax liability by concealing or misrepresenting income from the tax authorities.

Transfer pricing: Pricing of transactions between related companies within the same economic group, often manipulated to improperly allocate income and expenses to reduce taxable income.

Wealth tax: A tax based on the market value of assets owned by individuals, such as cash, properties, shares, and financial assets.

Unpaid care work: Unremunerated activities involved in caring for households, individuals, and communities, including tasks like cooking, cleaning, and caregiving.

Exchange rate: The exchange rates between Mozambican Meticals (MZN) and US dollars (US$) used in this study are presented in the table below. The conversion from MZN to US$ is done using the average exchange rate during that financial year, except when referring to the contemporary time when the rate of 63.83 MZN/USD is applied. (Source: National Institute of Statistics and Mozambique Central Bank)

FY	2017	2018	2019	2020	2021
Average	63,6	60,3	62,6	69,5	65,5

INTRODUCTION

This section gives a brief description of the current Mozambican tax system. It also provides a brief historical evolution of the tax system, including recent reforms in the context of the Economic Acceleration Package (EAP).

Brief description of Mozambique's tax system

The bases for the implementation and the general principles and norms of the Mozambican legal and tax system are established in the Law on the Basis of the Tax System (Law no. 15/2002 of 26 June) and in the General Tax Law (Law no. 2/2006 of 22 March). These laws establish the Mozambican state's vision for the tax system, which, however, has yet to be realised: there is a large gap between what is written and what is implemented in practice[1]. Not only is the system unable to generate sufficient revenue to meet the needs of the state, but it also fails to meet the criteria of social justice.

The Mozambican tax system is structured into two subsystems that integrate national and municipal taxes. The Mozambican Revenue Authority is responsible for administering all national taxes and also has jurisdiction over customs, while local governments are responsible for collecting (municipal) taxes prescribed in the Municipal Tax System Law[2].

National taxes are classified as follows:

- Income tax: personal income tax (PIT) and corporate income tax (CIT)
- Property tax: inheritance and gift tax and property transfer tax
- Mining and hydrocarbon activities tax: mining production tax (Imposto sobre a Produção Mineira, IPM), surface tax (Imposto sobre a Superfície, ISS) and petroleum production tax (Imposto sobre a produção de Petróleo, IPP)
- Goods and services tax: value-added tax (VAT), excise tax (Imposto sobre Consumos Éspecificos, ICE) and tax on international trade
- Other national taxes: Simplified Tax for Small Taxpayers (Imposto Simplificado para Pequenos Contribuintes, ISPC), special tax on gaming, vehicle tax, stamp duty, and national reconstruction tax

Although the basic principles of the tax system refer to the idea that the system is intended to be progressive and equitable, in practice, only a few national taxes (such as the PIT) follow the principle of progressivity, while all other taxes are regressive or single-rate, with only a few special regimes for some sectors and small taxpayers.

Also at the national level, Mozambican citizens in the formal sector are subject to mandatory social-security contributions. In addition, people working in the informal economy are encouraged to make these contributions. The contributions are collected by the National Institute of Social Security (Instituto Nacional de Segurança Social, INSS), which is responsible for providing eligible individuals with social protection, including retirement pensions, and disability, survivor, maternity

1 The Mozambican Tax System is based on criteria of social justice "The legal-tax regime obeys the principles of generality, equality, legality, material justice, efficiency and simplicity of the tax system". The system aims to meet the financial needs of the State and other public entities and to promote social justice, equal opportunities, and the necessary redistribution of wealth and income.

2 Law 1/2008 of January 16 and Decree 63/2008 of December 30

and sickness benefits[3].

At the local level, municipalities have the authority to impose the following taxes and fees:

- municipal personal tax,
- municipal property tax,
- SISA municipal tax,
- municipal vehicle tax,
- improvement contribution,
- fees for licenses granted and for economic activity, and
- tariffs and fees for the provision of services.

From this set of revenue sources, municipalities mainly collect revenues from the provision of services (taxes and fees) on account of low administrative capacity, lack of enforcement mechanisms and low tax morale at the local level.

Background and challenges

The modernisation of the Mozambican tax system began in 1998/1999, with the reform of indirect taxes by the introduction of VAT to replace the previous circulation tax created in 1978. The circulation tax was a "cascading tax" with different rates at different stages of marketing (5% at the producer, importer or wholesaler, and 10% at the retailer). At the same time, the excise tax was also approved to discourage the sale of certain items considered harmful to health or the environment, or considered luxury or unnecessary goods.

The modernisation process was consolidated with the reform of direct taxes when the new income tax system was introduced in 2002, with separate corporate and individual tax codes. Replacing the multitude of rates that existed under the industrial tax, the uniform CIT tax played an important role in simplifying the tax system for businesses and guiding investment based on business opportunities rather than tax differences[4], but it did not reflect the general principle of progressivity. This flaw persisted until seven years later, when a simplified regime for small taxpayers was introduced in 2009.

Regarding the PIT, the reforms meant abandoning the first regime, under which each person was taxed separately on income from sources classified under separate regimes. Under the new code, all income (regardless of source) is lumped together and then the tax payable is determined by applying progressive rates.

Law 15/2002 of 26 June was also innovative in introducing the concept of

3 Law no. 4/2007 of 7 February, Mozambique – Social Protection Law.

4 Castro, P., Junquera-Varela, R., Schenone, O. Teixeira, A. (2009). Evaluation of reforms in tax policy and administration in Mozambique and related TA - 1994 - 2007. Washington, DC: International Monetary Fund. https://www.imf.org/external/np/pp/eng/2009/090109b.pdf

withholding tax, contributing to the reduction of tax evasion[5].

In 2006 the AT was created, combining previously separate organisations for taxes and customs duties. The objective of this reform was to create a new organisational basis to modernise tax administration and professionalise the tax service to strengthen enforcement, improve services, combat evasion and expand the tax base[6]. In the same year, the new General Tax Law was introduced to overhaul the entire revenue regime, including the duties and responsibilities of the tax authorities and the obligations and rights of taxpayers[7].

The policy on customs duties was also reformed, with changes to rates and exemptions, contributing positively to economic liberalisation and the efficient allocation of economic resources[8].

While these reforms have helped align Mozambique's tax system with international best practices for low-income countries, some challenges remain, such as:

- the generous system of tax incentives established in favour of certain types of investment, particularly capital-intensive mega-projects[9];
- a legal and/or institutional void that makes it difficult to properly tax high-net-worth individuals (HNWIs) and transfer-pricing operations; and
- lack of transparency on the part of companies in making their financial statements public, and the involvement of employees in corruption schemes[10].

Recent tax reforms

In recent years, the Mozambican economy has suffered a series of endogenous and exogenous shocks that have increased the country's structural economic weaknesses, affecting business, employment and, consequently, household income and living standards[11]. Stand-out shocks with generalised and potentially lasting

5 Da Barca. Aurélio (2005). Reforma Tributária em Moçambique (1975 - 2004): dos objetivos enunciados aos resultados obtidos. Maputo: Eduardo Mondlane University.

6 USAID (2009). PARPA Review II-The Fiscal System in Mozambique . Volume I. https://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d119378.pdf

7 Le. T (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. Macrothink Institute, 3(2), 2333-3324.

8 IMF (2009). Evaluation of reforms in tax policy and administration in Mozambique and related to 1994 – 2007. Periodic. https://www.imf.org/external/np/pp/eng/2009/090109b.pdf [Accessed 5 January 2023]

9 Macrothink Institute (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. Periodic. https://www.macrothink.org/journal/index.php/csbm/article/view/9710 [Accessed 23 November 2022]

10 Manjate. J (2018). Ineficiência de operacionalização do sistema fiscal Moçambicano. ISCAP, Porto, Portugal. https://recipp.ipp.pt/bitstream/10400.22/13172/1/Joaquim_Manjate_MCF_2018.pdf

11 Hamela. H (2021) Acelerando as acções de recuperação económica do sector privado de

impacts that implied huge losses to the various sectors of the economy include the 2016 financial scandal, followed by the violent attacks by extremists in the northern region of the country, Cyclones Idai and Kenneth, the COVID-19 pandemic that caused a 3.6% decrease in gross domestic product (GDP) growth in 2020, and, more recently, the geopolitical conflict between Russia and Ukraine[12].

In response, the government announced a package of economic acceleration measures (the EAP), more specifically, 20 fiscal and macroeconomic reforms[13] aimed at promoting the acceleration of the country's economy with prospects for short- and medium-term results. On the fiscal front, the government proposed:

- Reduce the VAT rate from 17% to 16%, aiming for a gradual reduction in the tax burden to boost the economy and improve the purchasing power of families. This reform also introduced a new special regime with a VAT rate of 5% for private schools and hospitals – which until then were exempt from VAT – which increased the cost of these services and penalised family budgets, making them less accessible to low-income families. See Chapter 1 for a discussion.
- VAT exemption on imports of inputs for agriculture and electrification, aimed at lowering the cost of agricultural inputs to increase agricultural production and competitiveness, and promoting more investment in renewable energy to accelerate access, especially in rural areas. See Chapter 1 for a discussion.
- Reduce the CIT rate from 32% to 10% in agriculture, aquaculture and urban transportation to improve the competitiveness of these sectors by making them more attractive to private investment and increasing the supply of much-needed public transportation, as well as reducing the cost of public transportation to the population. See Chapter 1 for a discussion.
- Establish tax incentives for new investments in key sectors made over the next three years. These tax incentives cover new private initiatives in agriculture, agro-processing, manufacturing, tourism and urban transportation that expand installed production capacity. See Chapter 3 for a discussion.

Regarded by the executive as "bold and profound", the reforms received various interpretations and divided opinions about their potential to effectively improve the business environment and boost private investment and economic activity in the country. This will be discussed in the following chapters.

Moçambique. https://drive.google.com/file/d/1kERFbaneZUn3wQCaQn_kD2ENYCad7Smo/view

12 Betho, R., Chelengo, M.,Jones, S., Keller, M., Mussagy, I. Seventer, D. & Tarp, F. (2022). The Macroeconomic Impact of COVID-19 in Mozambique. Journal of International Development. 823 - 860. https://www.wider.unu.edu/publication/macroeconomic-impact-covid-19-mozambique-0

13 MEF (2022). Pacote de medidas de aceleração económica. https://www.mef.gov.mz/index.php/publicacoes/estrategias/pacote-de-medidas-de-aceleracao-economica/1644-pacote-de-medidas-de-aceleracao-economica-en/file

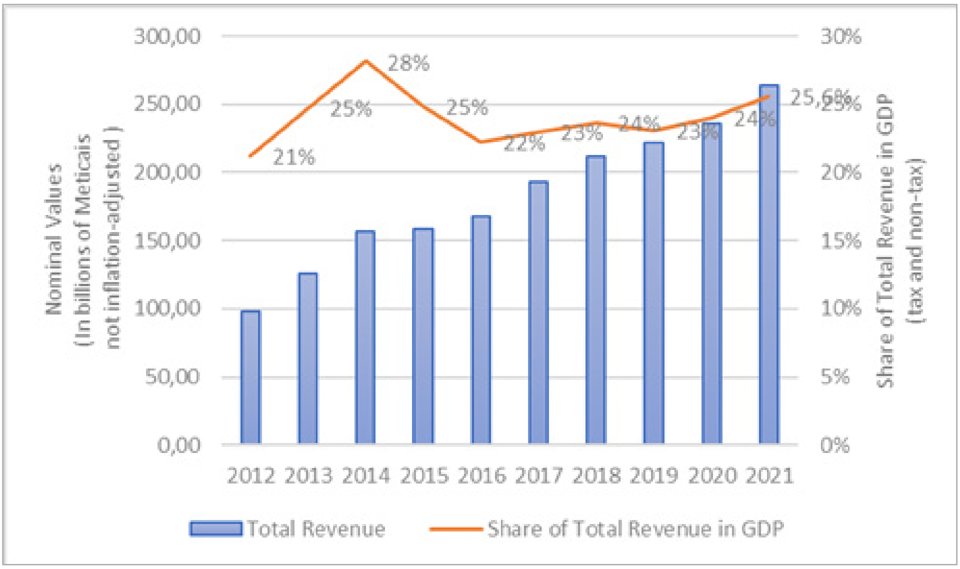
CHAPTER 1: DISTRIBUTION OF THE TAX BURDEN AND PROGRESSIVITY

This section evaluates the tax system with regard to its progressivity and income re¬dis¬tri-bu¬tion mechanism in the country. PIT, CIT, VAT, excise taxes and tax on international trade are the main topics under analysis, as they represent Mozambique's main sources of revenue.

1.1. Cross-cutting progressivity

With the substantial reforms mentioned in the introductory chapter, total revenue collection has increased over the past decade, despite the political and social instability as a result of the political–military tension in Cabo Delgado, the occurrence of natural calamities, and the budgetary restrictions arising from the suspension of state budget support by the cooperation partners, with significant impacts on the Mozambican economy[1].

Graph 1.1: Trends in total revenue (tax and non-tax), 2012–2021

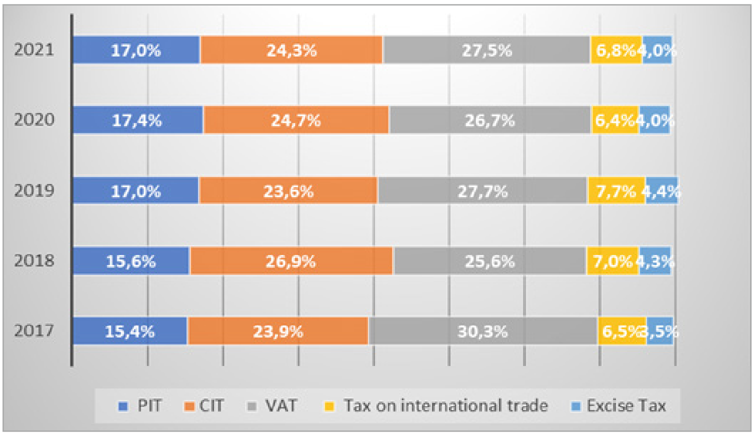


Source:Mozambican Revenue Authority

As shown in Graph 1.1, total revenues collected increased from 21% of GDP in 2012 to 26% in 2021 (including tax and non-tax revenues). Even during the COVID-19 pandemic, revenues increased by about 3 percentage points between 2019 and 2021. However, revenue collections remained below public expenditures, indicating that the country will not cease its reliance on foreign aid in the near future. Mozambique's citizens and government hope to reduce this gap with revenues from the extractive sector, which has seen a significant expansion of interest and investment by multinational companies from countries such as the US, France, China and India in its natural resources, particularly minerals and hydrocarbons.

1 Ministry of Economy and Finance (2021) . Report of the Balance of Implementation of the Strategic Plan for Public Finance 2016 - 2019. https://www.mef.gov.mz/index.php/publicacoes/politicas/avaliacao-do-desempenho-da-gestao-de-financas-publicas/1215-relatorio-da-implementacaopefp-2016- 2019/archive

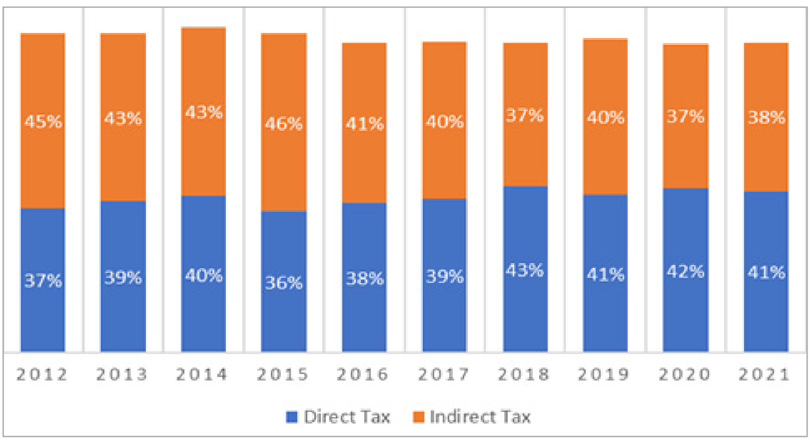
Graph 1.2: Main taxes as a percentage of total revenue (tax and non-tax), 2017–2021



Source: Mozambican Revenue Authority

The current tax regime configuration of the main taxes – CIT, PIT, VAT, excise tax and tax on international trade – collectively accounted for about 80% of total revenues in 2021. Considering these main revenue sources, Mozambique collects more direct taxes (PIT and CIT) than indirect taxes (VAT, ICE and tax on international trade), with about 41.2% and 38.3% respectively, for the year 2021. As Graph 1.3 illustrates, the composition of public revenue in Mozambique has changed over the past ten years, becoming relatively more dependent on direct taxes.

Graph 1.3: Direct taxes and indirect taxes as a percentage of total revenue (tax and non-tax), 2012–2021



Source: Mozambican Revenue Authority

This change is essentially explained by the slight reduction in the share of VAT and the increase in the share of direct taxes (PIT and CIT) in total revenues – a trend that indicates a positive development towards a less regressive tax system. However, it is important to note that VAT is still the largest revenue source in disaggregated terms, accounting for 27.5% of total revenues in 2021, followed by CIT, accounting for 24.3% of total revenues. Therefore, Mozambique is still highly dependent on indirect taxes that affect poor people disproportionately, as VAT is based on the value of goods and services rather than people's ability to pay. This contributes to inequality and can have negative and disproportionate impacts on the poorest and most vulnerable members of society.

It is also important to note that Mozambique collects more CIT than PIT, As Graph 1.2 illustrates. Corporate taxation is a difficult aspect in a country's jurisdiction, and rules pertaining to it vary greatly from country to country. It is therefore positive that Mozambique has been collecting more in CIT than PIT, given that PIT is an easier tax to collect. This is also important, given that approximately only 3% of the population is formally employed[2].

1.2 Personal income tax

PIT is a national tax levied on a person's global annual income[3] (whether in cash or kind). For persons resident in Mozambique, PIT is levied on all of their income, including income earned outside the territory. In the case of non-residents, the tax is levied only on income earned in Mozambican territory.

As illustrated in Table 1.1 and established in Articles 54 and 60 of the PIT Code, approved by Law No. 33/2007 of 31 December, for the payment of PIT, only the income levels and size of the household (number of dependants who are dependent on the taxpayer) are considered, without distinction of sector of activity, gender, marital status or vulnerable groups.

In addition, politicians and senior officials of public institutions have the privilege of receiving various allowances, including representation allowance, management allowance, risk allowance, availability allowance, exclusivity allowance and housing allowance[4]. These allowances may exceed their regular salaries and are not subject

2 D+C. (2021) Why small-business owners find formalisation unattractive: D+C - development + cooperation, Dandc. https://www.dandc.eu/en/article/mozambique-every-person-working-formal-sector-there-are-ten-informal-sector

3 PIT Code (approved by Law no. 33/2007) exempt the payment of tax for the following incomes from employment: (1) pensions due as retirement, old-age, disability, or survivor pensions, as well as other pensions of a similar nature, as well as maintenance pensions; (2) benefits payable by insurance companies, pension funds; (3) benefits related exclusively to professional training actions for workers; (4) redundancy payments and death benefit.

4 Law no. 5/2022, of 14 February. Defines the rules and criteria for setting the remuneration of public services, holders or members of public bodies and holders and members of the bodies of the Administration of Justice and approves the Single Wage Scale (TSU). https://www.mef.gov.mz/index.

to PIT. Since these state agents are the highest earners in public service[5], it is not surprising that inequality rates have been increasing over the years[6].

The PIT Code established in 2013 the minimum non-taxable income to be 225,000 MZN (approximately 3,526.59 USD) per year, equivalent to 18,750 MZN (293.70 USD) per month, which is below the current cost of living in Mozambique. For example, in 2019, the Mozambique Workers' Organisation reported that the cost of the basic food basket was estimated to be around 19,000 MZN (303.21 USD)[7]. In the same way, the tax tables have not been updated since 2013 in line with inflation levels, even considering the fact that wage increases have not been following the inflation levels.

For personal income exceeding 225,000 MZN per year, the PIT rates in Table 1.1 apply.

Table 1.1: PIT rates according to taxpayers' annual collectible income

Annual collectible income (MZN)	Rate
Up to 42,000	10%
42,001–168,000	15%
168,001–504,000	20%
504,001–1,512,000	25%
1,512,000 and above	32%

Source:KPMG, 2020, Legislação fiscal, 8th edition, Maputo: Plural Editores

PIT has progressive marginal tax rates, which contributes to tax fairness. But, in practice, the fairness of the PIT is compromised by the way in which the tax is collected[8]. This tax is withheld at source monthly as an advance payment and applies to income from employment (first category) and other categories (second, business and professional income; third, income from capital and capital gains; fourth, property income; and fifth, other income) for entities that have or should have

php/publicacoes/legislacao-dngrh/tabela-salarial-unica-tsu/1622-lei-n-5-2022-de-14-de-fevereiro-tsu/file

5 CIP (2023). Quem realmente se beneficiou com a Tabela Salarial Única? Quem-realmente-se-beneficiou-com-a-Tabela-Salarial-Única-1-2.pdf (cipmoz.org)

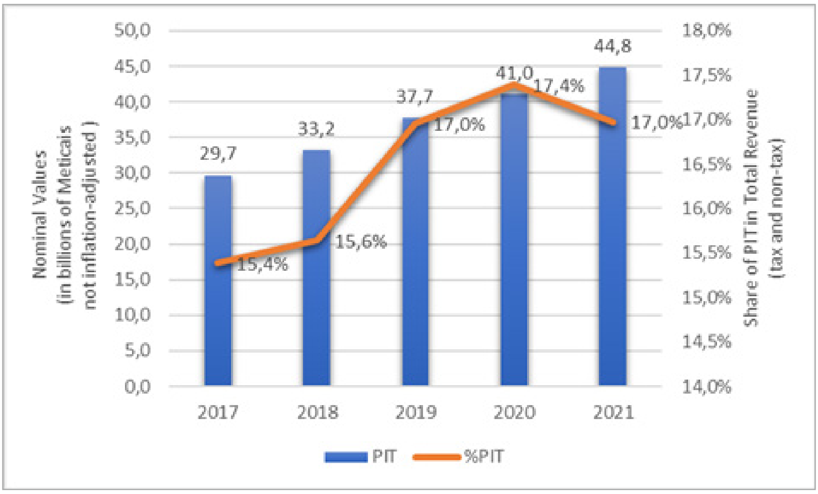
6 Maquenzi, J. (2021). Pobreza e Desigualdades em Moçambique: Estudo de caso em 6 distritos. Maputo: Observatório do Meio Rural. https://omrmz.org/wp-content/uploads/OR-113-Pobreza-e-Desigualdades-em-Mo%C3%A7ambique.pdf

7 Alfredo, E. (2019, 06 de Maio de) Custo de vida acima do salário mínimo. Jornal O País. https://opais.co.mz/custo-de-vida-acima-do-salario-minimo/

8 Castro, P., Junquera-Varela, R., Schenone, O. Teixeira, A. (2009). Evaluation of reforms in tax policy and administration in Mozambique and related TA - 1994 – 2007. Washington, DC: Fundo Monetário Internacional. https://www.imf.org/external/np/pp/eng/2009/090109b.pdf

organised accounting. But if there is no room for withholding at source, taxpayers can, in practice, end up paying less tax, even though they may have higher incomes, because they proceed with the payment directly to the Tax Authority, presenting the annual income declaration made by themselves.

Graph 1.4: Trends in PIT, 2017–2021



Source: Mozambican Revenue Authority

As may be seen in Graph 1.4, with regard to performance, over the past five years, the share of PIT in total revenue increased by 1.6 percentage points from 15.4% in 2017 to 17% in 2021.

Overall, PIT is the only national income tax that applies progressive rates to different income levels. However, PIT fails to ensure tax fairness when (1) it does not tax the various allowances paid to politicians and senior officials in state institutions, who are the highest earners in public service; (2) when the minimum non-taxable income and tax tables are not updated in line with inflation levels, meaning that taxpayers' real ability to pay taxes is not being considered; and finally, (3) when it opens the possibility of tax evasion to taxpayers earning income not withheld at source.

1.2.1 Municipal personal tax (IPA)

Despite the popularity of the idea of implementing PIT at the local level, it has not been done successfully in practice. Problems related to payment and enforcement mechanisms persist, and there has been no serious national discussion about ways to increase tax morale and strengthen compliance mechanisms at the local level.

The Municipal Personal Tax[9] is regulated by Law no. 1/2008 of 16 January (Municipal Tax System Law) and is levied on all national and foreign individuals residing in the respective municipality, when they are between 18 and 60 years old, and the circumstances of occupation and work ability are met by them. However, in practice, only employees of public institutions and citizens who use municipal services pay this tax, as the IPA is withheld at source on the payment of salaries in public institutions and as a condition for the provision of municipal council services, such as official documents. In addition, some municipalities rely on community leaders to collect the tax in neighbourhoods and communities, but often do not reach all citizens[10].

The IPA is arguably regressive. Since it is levied on the highest minimum wage in the year, the effort to pay the tax is extremely high for citizens with lower wages, compared to the "richer" with regard to minimum wages, since the tax base considers the income of the second group. It is even more disproportionate when compared to those earning incomes above the established minimum wages.
The IPA, therefore, is a tax that does not take into consideration the taxpayers' ability to pay, disproportionately affecting the poorest and worsening the situation of inequality in the country.

1.3 Corporate income tax (CIT)

Fixed in December 2007, the statutory CIT[11] rate is 32% with multiple rates applicable. Charges that are not properly documented or expenses considered confidential are taxed at 35%. In addition, withholding tax at a rate of 20% is due on a variety of payments such as rentals and services provided in Mozambican territory, and royalties for the use of intellectual property. Payments to entities that do not have headquarters or effective management in the national territory are

9 Municipal Personal Tax is a single-rate tax that is determined by applying the following rates, according to the classification of local authorities, on the highest national minimum wage in effect on June 30 of the previous year: 4% for Level A; 3% for Level B; 2% for Level C; and 1% for Level D. Levels are determined by the central authorities according to the degree of importance and/or development of the municipality.

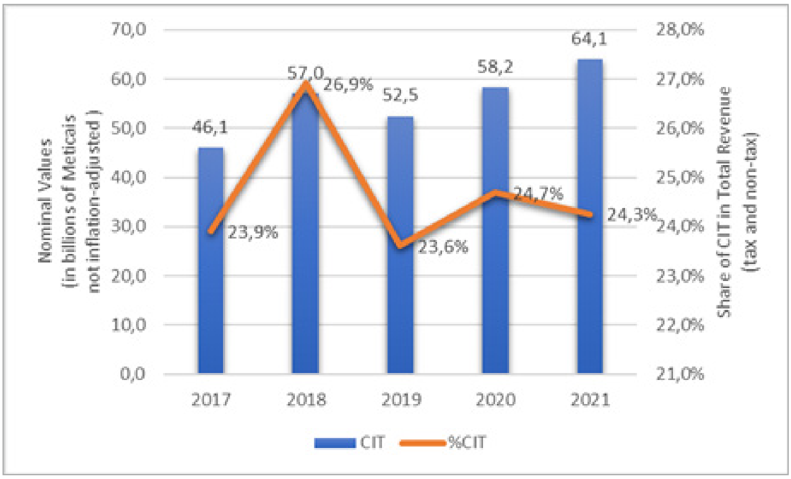
10 Schiller, A., Forquilha, S., Bunk, S., Klawonn, D., Krull, J., Sennewald, A., Steinhilber, C. e Boeselager, J. (2018). Aptos para alcançar os seus objetivos ? Obstáculos de Ordem Administrativa à Mobilizaçào de Receita Local nos Municípios Moçambicanos. Desafios para Moçambique (2018). Maputo: Instituto de Estudos Sociais e Económicos. https://www.iese.ac.mz/wp-content/uploads/2019/05/artigo1_sf.pdf

11 CIT is a national direct tax that is levied on income obtained, even that arising from illegal acts. For private companies and any other public or private corporations with headquarters or effective management in the national territory, CIT is levied on total income, including that obtained outside the national territory (observing any applicable international double tax treaties). For entities, with or without legal personality, that do not have a headquarters or effective management in the national territory, only the income obtained in the country is subject to CIT. Specifically, CIT is levied on the profit of commercial or civil companies in a commercial form, cooperatives and public companies, and other legal persons whose main activity is commercial, industrial, or agricultural, including the provision of services. CIT is also levied on the global income, corresponding to the sum of the income of the various categories considered for the PIT, of the entities when they do not carry out a commercial, industrial or agricultural activity as their main activity.

applicable at a rate of 20% or 10%, depending on the type of income.

As part of the Economic Acceleration Package announced in 2022, the CIT rate for agri-culture, aquaculture and urban transport was reduced from 32% to 10%. The intention is to make these sectors more attractive to private investment and increase the badly needed supply of public transport, as well as reduce the cost of public transport. Whether these intended impacts will materialise is yet to be seen.

Graph 1.5: Trend in CIT, 2017–2021



Source: Mozambican Revenue Authority

As may be seen in Graph 1.5, with regard to revenue performance, the share of CIT in total revenue fluctuated between 23.6% and 26.9% over the years observed. About ten years ago, CIT contributed approximately 15.4% of the total revenue.

1.3.1 Fiscal incentives

Mozambique's tax system offers numerous fiscal incentives and exemptions[12] for corporations, which are outlined in both the CIT Code and the separate Fiscal Benefit Code. Specifically, the Code of Fiscal Benefits provides benefits for ten categories of investments:

- basic infrastructure creation projects,

12 Under the CIT code exemptions from taxable income are allowed for by type of organization and type of activities. The state, municipalities, social-security institutions and public-utility associations are exempt, while agricultural, craft and cultural cooperatives are subject to a reduced rate of 50%. Cultural, recreational and sports activities are exempt from this tax if the income and social assets are used for the purposes of their creation, and under no circumstances are they distributed among the partners.

- commerce and industry in rural areas,
- manufacturing and assembly industry,
- agriculture and fisheries,
- hospitality and tourism,
- science and technology parks,
- large-scale projects,
- rapidly developing areas,
- industrial free trade zones, and
- special economic zones.

In terms of the CIT, these benefits include tax credits, exemption from paying this tax for some years (usually five to ten years), tax reductions for periods set at 80%, 50% and 25%, and additional provisions such as depreciation and discounts for professional training, depending on the type of investment[13].

In general, these incentives are intended to provide tax advantages to investors and attract capital. But it is questionable whether the incentives have the intended effect, and if they do, whether it is still worth all of the negative effects with regard to lost tax revenues needed for the provision of public services and increased inequalities of income and wealth. These incentives distort the economic playing field in favour of new, large and foreign companies[14]. Therefore, tax incentives in Mozambique often very regressively benefit large firms and their wealthy owners.

1.3.2 Transfer pricing

Mozambique does not implement the transfer-pricing guidelines of the Organization for Economic Cooperation and Development (OECD). The country has no formal transfer-pricing documentation requirements for submission of the master file, local file, country-by-country report, or the country-by-country report notification for qualified multinational groups[15]. However, there are rules governing transfer-pricing arrangements as they become increasingly critical as the country adopts more foreign direct investment and megaprojects in the extractive sector[16].

The transfer-pricing regime was approved by Decree no. 70/2017 of 6 December, which regulates transfer pricing practised in commercial and financial operations, involving related entities. It applies to CIT and PIT taxpayers, resident or domiciled

13 KPMG. (2020). Legislação fiscal, 8th edition, Maputo: Plural Editores.

14 USAID. (2009). Review of PARPA II-The Fiscal System in Mozambique. Periodical. https://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d119378.pdf

15 TPA Global (2021). Transfer Pricing Country Summary Mozambique. https://www.tpa-global.com/wp-content/uploads/2022/05/Mozambique-Transfer-Pricing-Country-Summary-2021.pdf

16 Le, T. (2016). Measuring efficiency and productivity of taxation: A review of tax system in Mozambique. Case Studies in Business and Management, 3(2), 2333-3324. https://www.macrothink.org/journal/index.php/csbm/article/view/9710

in the national territory, in operations carried out with resident or non-resident related parties, following the principle of "full competition", where terms and conditions are practised almost identically to those that would normally be agreed, accepted and practised between independent entities, in comparable operations.

Transfer-pricing taxation in Mozambique focuses more on foreign financing of resident financial companies. With respect to interest deductibility, taxpayers are entitled to a tax deduction with respect to interest incurred on related party debt[17]. The following are, however, exceptions to the rule:

- The value of interest on shareholder loans that exceed the Prime Rate provided by the central bank is not deductible for tax purposes.
- The interest rate charged on related-party transactions is not deductible if it is not within the arm's-length parameters.
- The Thin Capitalisation rules adopted by Mozambique follow the safe-harbours approach. This approach restricts the amount of debt for which interest is tax deductible by defining a debt-to-equity ratio of 2:1. Interest accrued on debt exceeding this set ratio is not deductible for tax purposes. However, for the interest to be deemed excessive and thus disallowed for tax purposes, the following requirements need to be in place:
    - the creditor of the interest must be a non-tax resident entity in Mozambique;
    - there must be a special relationship between the debtor and the creditor, as defined by the CIT Code; and
    - the debtor of the interest is able to present evidence that it would have reached the same level of indebtedness under similar terms and conditions if they were to obtain the loan from an independent third party.

1.3.3 Simplified Tax for Small Taxpayers (ISPC)

Taxation of micro, small and medium enterprises is dealt with under a different code, called Simplified Tax for Small Taxpayers (ISPC)[18]. Under this regime, companies with a turnover of up to 36 times the highest minimum wage (currently 208,800 MZN) are exempt from tax. Businesses with a turnover of more than this amount but less than 2.5 million MZN (39,150.78 USD) may elect to pay 75,000 MZN (1,175.78 USD) in tax, or a rate of 3% of turnover.

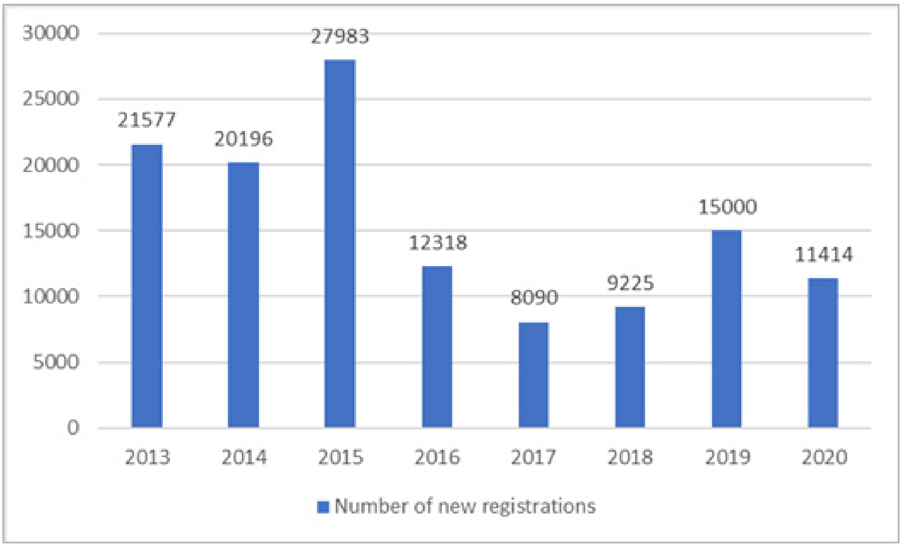
The National Assembly passed the ISPC on 26 December 2008, and the law came into effect on 1 January 2009. The Ministry of Economy and Finance (MEF) hoped

17 PwC. (2022). Corporate group taxation. https://taxsummaries.pwc.com/mozambique/corporate/deductions

18 The Simplified Tax for Small Taxpayers is a direct tax that applies to natural or legal persons who carry out small-scale agricultural, industrial or commercial activities within the national territory, including the provision of services. For income covered by this tax, taxpayers have an exclusion from VAT, CIT and PIT.

that by attracting a large number of new taxpayers to the formal regime, the simplified tax would capture an increasing revenue stream over time. As Graph 1.6 illustrates, the number of registered businesses has increased, but there is no publicly available data to assess the impact on revenues, that is, whether this has resulted in increased tax revenues.

Graph 1.6: Trend in ISPC registration, 2013–2020



Source: Mozambican Revenue Authority

1.4 Value-added tax

Since January 2023, the VAT rate has been 16% for all imports and transfers of goods and services for consideration within the national territory[19].

The decision to reduce VAT from 17% to 16% is part of the Economic Acceleration Package announced in 2022 by the president of the republic. This reform also introduced a new special regime with a reduced VAT rate of 5% for private schools and hospitals, which until then were exempt from VAT. This resulted in an increase in the cost of these services and made them less affordable for low-income families, thus penalising household budgets. Likewise, VAT exemption was introduced on the importation of inputs for agriculture and electrification, aiming to reduce the cost of agricultural inputs to increase agricultural production and competitiveness, and to promote more investment in renewable energy to accelerate its access,

19 Law no. 22/2022, of 28 December. Amends articles 9, 10, 12, 15, 17, 19, 20 and 21 of the Value Added Tax Code, approved by Law no. 32/2007, of 31 December, amended and republished by Law no. 13/2016, of 30 December, and amended by Law no. 16/2020, of 23 December.

especially in rural areas. However, the realisation of the intended impacts can be analysed only in the medium and long term.

The reform of the VAT code was a response to the proposal presented by the International Monetary Fund (IMF) in August 2018. As in the IMF proposal, the reform of the VAT code included a reduction in tax exemptions, with particular emphasis on the elimination of exemptions in provision of health and education services by private entities. Although this means that access is made difficult for low-income families in the short term, if the additional revenues are ultimately used to expand public education and health services, then this can be considered a progressive measure.

There remains a complex and extensive list of goods and services exempt from VAT[20], intended to minimise the VAT burden on basic goods consumed heavily by poor households and women, providing some progressivity in the VAT system. However, it is worth noting that "mega projects" are also eligible for VAT-exempt certificates under the Fiscal Benefit Package[21], distorting the economic playing field between businesses in favour of new and larger (and often foreign) companies.

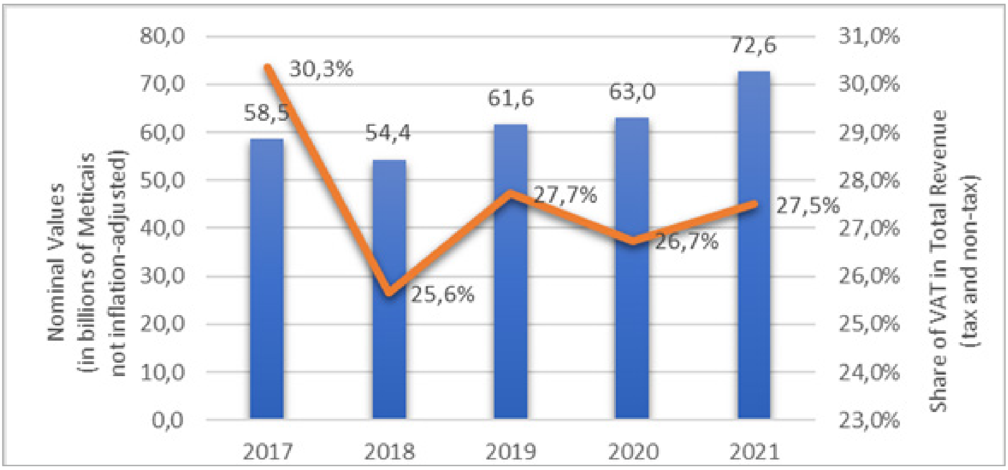
In addition, the fact cannot be ignored that VAT exemptions complicate the administration of tax both for taxpayers and for the AT. Taxpayers who sell exempted products and taxable products must allocate credits for VAT paid in connection with their purchases and with all sales, which complicates their accounting. In addition, there is the temptation to claim all VAT credits, as if all purchases involved taxable products. This risk substantially complicates the Tax Revenue Authority's audit and enforcement activities[22].

20 Transmissions and definitive imports of goods and provision of health and education services remain exempt when carried out by public establishments; the transfer of assets carried out by public entities or non-profit organisations; banking, financial, and insurance operations subject to stamp duty and the leasing of real estate for residential purposes are also exempt. In addition, transmissions of corn, corn flour, rice, bread, iodised salt, powdered milk for infants up to one year old, wheat, wheat flour, fresh or chilled tomatoes, potatoes, onions, frozen horse mackerel, lighting oil, domestic gas, jet fuel, common and iron bicycles up to four speeds, condoms and insecticides are exempt, as they are considered essential goods. Besides these, the government of Mozambique exempts the levying of VAT on all transfers of goods and provision of services for sugar, oil and soap, including goods to be used as raw materials, intermediate products, parts, equipment and other components used for the production of these goods, with a deadline of 31 December 2023. Finally, in line with international norms, exports are subject to zero tax and qualify for a full refund of VAT paid on inputs.

21 Le, T. (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. Case Studies in Business and Management, 3(2), 2333-3324. https://www.macrothink.org/journal/index.php/csbm/article/view/9710

22 Castro, P., Junquera-Varela, R., Schenone, O. & Teixeira, A. (2009). Evaluation of reforms in tax policy and administration in Mozambique and related TA - 1994 – 2007. Washington, DC: Fundo Monetário Internacional. https://www.imf.org/external/np/pp/eng/2009/090109b.pdf

Graph 1.7: Trend in VAT, 2017–2021



Source: Mozambican Revenue Authority

With regard to performance, the share of VAT in total revenue has oscillated around 25% over the past five years. About ten years ago, VAT contributed about 37.9% of the total revenue, which shows a gradual reduction in dependence on indirect taxes.

1.5 Wealth taxes

Analyzing wealth taxes in Mozambique is difficult due to the absence of detailed data. Nonetheless, it is crucial to evaluate these taxes given the rapid growth of the "super-rich" population in the country. According to the "Africa Wealth Report 2023" published by Henley & Partners, Mozambique currently ranks 16th among African countries with the highest number of millionaires, with a total of 1,100 national citizens who have a wealth exceeding one million dollars. Over the past 10 years, there has been an 18% increase in the number of millionaires in the country. With a Gini index of 54%, Mozambique is among the top 10 countries in Africa with the highest levels of wealth inequality, indicating that the country's growth process has benefited a privileged minority while leaving a significant portion of the population behind.

Wealth taxes encompass taxes on the possession, transfer, or increase in the value of wealth. They apply to a wide range of assets, including cash and bank balances, real estate properties, personal belongings such as jewelry, art, and boats, stocks and shares, pensions and other financial assets, and business assets. In Mozambique's tax system, wealth and property taxes include the following:

i. **Inheritance and gift tax**: Taxation of the transmission of property (inheritance and gifts) at rates ranging from 2% for descendants, spouses, and ascendants, 5% for siblings and collateral relatives up to the third degree, and 10% for any other individuals. This tax applies to the free transfer of property rights, whether through inheritance, legacy, gift, or any legal transaction. It does not apply to pensions or death benefits or charitable donations. In the case of inheritance, a non-taxable minimum is set equivalent to five hundred times the highest monthly minimum wage.

ii. **Property transfer tax (SISA)**: This tax applies to the onerous transfer of property rights in real estate properties. It is levied at both national and local levels at a rate of 2% based on the declared amount of the transfer or the property's taxable value.

iii. **Taxation of capital income, capital gains, rental income, and capital increments**: The taxation of income from the third, fourth, and fifth categories of the Individual Income Tax (IRPS) represents the taxation of wealth and assets of individuals, subject to tax rates specified in the IRPS code.

iv. **Vehicle tax**: This tax applies to the use and enjoyment of motor vehicles, including light and heavy vehicles, motorcycles, private-use aircraft, and recreational boats, at both national and local levels.

v. **Municipal property tax**: The municipal property tax is levied on the assessed value of urban properties at a rate of 0.4% for residential properties and 0.7% for properties used for commercial, industrial, or independent professional activities.

Taxes on assets and properties are powerful mechanisms for wealth redistribution from the rich to the poor. Therefore, overall strengthening of property taxes is encouraged. Additionally, the publication of disaggregated data on these taxes is crucial for monitoring performance and identifying areas for improvement.

1.6 Excise taxes

The excise tax is levied on the production and importation of certain products or goods, such as alcoholic beverages, tobacco, cosmetic products, jewellery and precious stones, motor vehicles and aircraft, among other items, as a way of discouraging sales of certain items considered harmful to health or the environment and to redistribute income through items considered luxury or unnecessary goods. The revenues from this tax should also finance the prevention or mitigation of the negative effects of these harmful activities, but, in practice, the state budget has not earmarked these revenues for this purpose. Only recently did the government announce that an unspecified percentage of the ICE levied on tobacco, alcoholic and non-alcoholic beverages will be allocated to health and sports sectors. The government's decision is intended to reduce budget deficits faced by the aforementioned sectors[23].

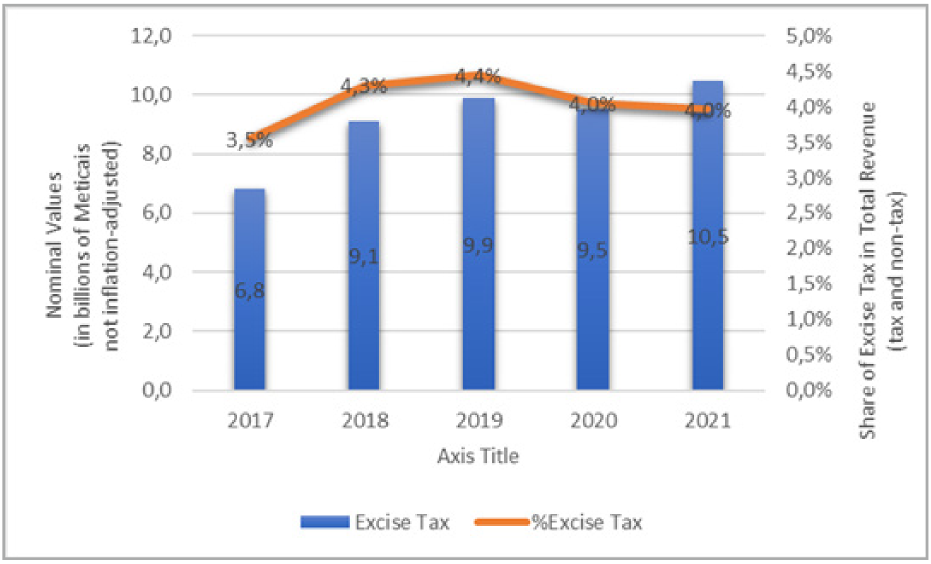
The established rates are ad valorem rates, ranging from 3% to 75%, applied to an

23 Finjamo, C. (2023, May 30). Parte das receitas do Imposto sobre Consumo Específico será alocada à saúde e ao desporto. Jornal O País. https://opais.co.mz/parte-de-receitas-do-imposto-sobre-consumo-especifico-sera-alocada-a-saude-e-ao-desporto/

extensive list of over 180 items. For certain items, the application of ad valorem rates must be combined with the minimum amount of tax payable by a specific unit of taxation[24]. The taxable base of this tax is wide and includes not only the sale price (for imported products, the tax base is the customs value) but also the legal charges that may be levied on these goods, including fees and taxes[25] .

With regard to performance, the share of excise tax in total revenue has remained around 4% in the same period (see Graph 1.8).

Graph 1.8: Trend in excise tax, 2017–2021



Source: Mozambican Revenue Authority

With the recent reform of this tax code, which expands the number of goods subject to excise tax, with emphasis on the implementation of taxation of fuels under excise tax, it is expected that the revenues from this tax will increase in the coming years. The minister of economy and finance explained that the incorporation of fuels in the Excise Tax Code is also justified by extra fiscal reasons, namely, the environmental damage caused by them and the need to replace the costs of their use[26]. However, as fuel is an important raw material for the Mozambican economy and has a multiplier effect on basic goods and services, this most likely has a negative effect of increasing the cost of living, especially for poor people. Once

24 ACIS. (2011). General Overview of the Tax System in Mozambique. https://www.acismoz.com/wp-content/uploads/2017/06/1%20General%20Overview%20Eng%20Dec11.pdf

25 Leitão, M. (2020). Guia Doing Business Moçambique. https://www.hrlegalcircle.com/xms/files/2020/Doing_Business_MZ_PT.pdf

26 Inalcídio Uamusse. (2022, December 8). Combustíveis passam a ser tributados por lei específica. O País News. https://opais.co.mz/combustiveis-passam-a-ser-tributados-por-lei-especifica/

again, the government did not publish the impact-assessment studies (taking into account the impact on women and the poorest people in society) for that decision.

1.7 International trade taxes

Trade taxes refer to tariffs collected on imports and exports. In practice, however, trade taxes are essentially tariffs levied on imports, as Mozambican exports are typically exempt from customs duties, being subject to the ad valorem rate that applies to a limited range of products (e.g. cashew nuts and wood)[27]. The standard duty rates range from 0% to 20%, according to the import category:

- 20% for consumer goods (Class C)
- 7.5% for intermediate materials (Class I)
- 5% for capital goods (Class K) and fuel (Class N)
- 2.5% for raw materials (Class M)
- 0% for basic goods (Class E)

The Mozambican government levies a fixed fee, known as the Custom Services Levy, for customs clearance of zero-rated products and for imported goods that are exempt from duties.

Graph 1.9: Trend in tax on international trade, 2017–2021

Source: Mozambican Revenue Authority

Over the past five years, the share of tax on international trade in the total revenue has fluctuated around 6.5%. In 2020, the customs duties experienced a notable

27 ACIS. (2011). General Overview of the Tax System in Mozambique. https://www.acismoz.com/wp-content/uploads/2017/06/1%20General%20Overview%20Eng%20Dec11.pdf

decline owing to decreased demand resulting from COVID-19 restrictions.

Under the Southern African Development Community (SADC) trade protocol, most imports from member states enter Mozambique duty-free when accompanied by the required (and complicated) documents for compliance with SADC rules of origin. The SADC Interim Economic Partnership Agreement (EPA) with the European Union (EU), which Mozambique signed in June of 2009, will also reduce the tax base for collecting customs duties as duties are gradually removed on imports from the EU[28].

The parliament also ratified the agreement creating the African Continental Free Trade Area in December 2022, with unanimous consensus. Like the SADC protocol, the agreement aims to reduce tariffs between member countries and attend to policy areas, including trade facilitation, services and regulatory measures such as sanitary standards and technical trade barriers. Aside from the trade benefits, for a net-importer country like Mozambique, these agreements mean fewer revenues and consequently less public expenditure.

Furthermore, the Code of Fiscal Benefits provides significant duty exemptions to eligible investors, specifically for capital goods, similar to the exemptions granted under the CIT and VAT codes. The IMF has repeatedly expressed concerns about Mozambique's tendency to implement broad policies for tax exemptions. The organisation suggests that in order to promote businesses through customs exemptions[29], it is crucial to identify areas that will benefit the society as a whole, not just the investors involved. Any errors made in this identification process can be significantly costly for the unselected contributors. In addition, there is no mechanism in place to ensure that only unintentional and honest mistakes are made, creating an opportunity for rent-seeking activities in both customs and domestic taxes. This is another disadvantage of Mozambique's broad exemption policy.

The tax incentive package is criticised by other experts for favouring large investments at the expense of small and medium-sized companies, creating a regressive effect on corporate taxation[30]. Furthermore, the complexity and size of the tax benefits granted by the package make the tax system overly complicated for the existing capabilities, diverting resources away from other essential taxation efforts. There is the risk that tax incentives may eventually cause disinvestment in companies that do not benefit from them. This can happen either by distorting the competitive environment or by limiting public spending (owing to the increase

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28 USAID. (2009). PARPA II Review—The Tax System in Mozambique. https://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d119378.pdf

29 Castro, P., Junquera-Varela, R., Schenone, O. Teixeira, A. (2009). Evaluation of reforms in tax policy and administration in Mozambique and related TA - 1994 – 2007. IMF. https://www.imf.org/external/np/pp/eng/2009/090109b.pdf

30 Ossemane, R. (2011). Desafios de expansão das receitas fiscais em Moçambique. https://www.iese.ac.mz/lib/publication/livros/des2011/IESE_Des2011_6.ExpRec.pdf

in tax revenues foregone for exemptions) on goods and services that promote the economic activity of small and medium-sized companies, which are those most in need of fiscal support from the state.

1.8 Gender analysis

A gender analysis of tax policy in Mozambique is hampered by a lack of gender-disaggregated data on taxpayers since the Tax System is gender-blinded.

Despite Mozambique having an advanced political framework and having ratified several international conventions related to human rights and gender equality, gender inequalities in the country persist and have resulted in a Human Development Index of 39% for women, compared to 44% for men[31] in 2016. This figure is not expected to have changed much over the past few years since its publication.

The national gender policy does not deal with issues related to the tax system. Men and women are subject to the same tax conditions, despite studies showing that women are in disadvantageous conditions, being found mostly in the informal and agricultural sector, with low income. Since they operate outside the tax system (informally), the income tax does not have a significant impact on their cost of living.

In contrast, implicitly, it is possible to capture how indirect taxes worsen gender and income inequality since these are not based on the taxable person's ability to pay. Although there is a VAT exemption for some necessities, VAT does not differ between men and women, and generally, the burden of these taxes falls disproportionately on women. This is because women tend to spend a larger proportion of their income, which is generally less than that of men, on collective domestic needs such as food, health, education and personal hygiene goods and services.

1.9 Public perception of the tax system

Literacy remains a challenge for Mozambique. The illiteracy rate in Mozambique sits at about 40%[32], which means that this portion of the population (at a minimum) is on the margins of discussions on the Mozambican tax system and therefore far from realising and evaluating the justice and fiscal transparency of the system.

In contrast, civil society organisations, which are the "voices of the communities", have become active participants in debates on tax policy in Mozambique. One of

31 Ministério do Género, Criança e Acção Social. (2016). Perfil de gênero de Moçambique. https://www.ophenta.org.mz/wp-content/uploads/2019/01/Perfil-de-genero-mocambique.pdf

32 Jornal Domingo. (2021, December 16). Reduz taxa de analfabetismo em Moçambique. https://www.jornaldomingo.co.mz/nacional/reduz-taxa-de-analfabetismo-em-mocambique/.

the biggest concerns that they have raised is the excessive tax incentives that are given to certain types of investment, which are generally capital intensive. Among these, the tax incentives that are given to MNCs that operate in the extractive sector stand out. The Confederation of Economic Associations in Mozambique (CTA), sharing the same opinion, suggests revising the fiscal policy for the country to benefit from megaprojects[33]. CTA also considers that the taxes applied to the local business community are excessive for a still-weak economy. A recent study showed that the current tax burden on the business sector (about 36.1%) is above the tax burden of most developing countries, and if it rises to 43%, the profitability of business ventures will become zero, which can make private-sector business activity unfeasible[34].

1.10 Recommendations

- The government of Mozambique should maintain the positive trend of reducing dependence on VAT, which still represents the largest source of tax revenue in the country.
- The MEF should update and strengthen the progressivity of PIT by increasing the bracket thresholds and increase the tax rate for the highest income group. The current PIT tax tables have not been updated since 2013 and are thus out of line with inflation incurred in the past ten years. Therefore, currently the non-taxable threshold is only 18,750 MZN (293.70 USD) per month, which is below the basic living cost in Mozambique, estimated in 2019 to be about 19,000 MZN (303.21 USD) per month.
- Tax incentives need to be reformed. Currently, the system tends to favour large capital-intensive projects and uses various incentive instruments that reduce the tax base and create opportunities for tax evasion. Most worrisome is the loss of needed public revenue in Mozambique. MEF should rethink the exemptions granted under CIT, VAT, tax on international trade, and Code of Fiscal Benefits to see when the presumed benefit of stimulating foreign investment is valid and whether this justifies the loss of tax revenue, the regressive impact that tax exemption has on inequality, and the perceived unfairness of the tax system. In addition, the increased complexity of AT audits and enforcement activities should also be considered.
- The MEF should support municipalities in defining local tax-collection mechanisms, mainly the Municipal Personal Tax (for example, through legal provisions that allow withholding taxes).
- The various allowances given to politicians and senior officials of public institutions should be subject to the payment of PIT.
- The MEF should reform the tax system to be gender sensitive by putting in place

33 MZNews. (2023, February 23). CTA sugere revisão dos benefícios fiscais para megaprojectos. https://mznews.co.mz/cta-sugere-revisao-dos-beneficios-fiscais-para-os-megaprojectos/

34 CTA. (2022). Reflexão sobre a Política Tributária e sua optimização para a competitividade do sector privado em Moçambique. https://cta.org.mz/wp-content/uploads/2022/12/Carga-tributaria-no-Sector-Empresarial-em-Mocambique.pdf

mechanisms for the collection and analysis of gender-disaggregated data. This will enable tracking of the impact of tax policies on gender and reduce income and gender inequality.

CHAPTER 2: SUFFICIENT REVENUES AND ILLICIT FINANCIAL FLOWS

2.1 Introduction

The main objective of this chapter is to discuss the impact of (in)sufficient revenues and illicit financial flows (IFFs)[1] on the Mozambican economy.

The analysis of sufficient revenues and their impact on the country's budget allocation is crucial to understanding the financial dynamics of the state. With the growing prevalence of IFFs, it is also crucial to assess their impact on the state budget and the country's development, and the need for effective policies to prevent and control their occurrence.

It has become increasingly important to identify a sufficient level of revenue. Sufficient revenue is seen as the adequate amount of revenue to meet the state's financial obligations and provide essential public services without incurring unsustainable debt or relying on external financing. Therefore, maintaining essential services and infrastructure for economic growth and social welfare is seen as the basic premise of sufficiency in public-finance management.

In Mozambique, the evolution of the proportion of taxes' contribution to the GDP in the past ten years has been positive (see Graph 1.1), although highly conditioned by internal factors, such as fiscal policies without targets[2], extreme climate events[3], and military instability in the north of the country that has conditioned the advance of LNG exploration megaprojects in Cabo Delgado province[4]. Externally, the recession caused by the COVID-19 pandemic, the geopolitical tension in Ukraine, and its impact on commodity prices have had a visible effect on revenue collection.

Furthermore, the country faces a growing challenge of combating IFFs. TJN's (2021)[5]estimations point to annual losses on account of IFFs of well above 2.2% of GDP, a value that exceeds the African average, representing an enormous burden for the country. This chapter seeks to explore the main challenges and solutions to promote revenue collection and combat IFFs in Mozambique.

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1 Money that is generally illegally earned, transferred or utilised. These funds originate from three sources: commercial tax evasion, trade mis-invoicing and abusive transfer pricing; criminal activities including the drug trade, human trafficking, illegal arms dealing, smuggling contraband; bribery and theft by corrupt government officials. While most IFFs stem from illegal activities, aggressive tax avoidance is also considered part of the concept, even though it is not illegal in all instances.

2 https://cddmoz.org/niveis-crescents-de-devida-publica-interna-colocam-a-sustentabilidade-fiscal-cada-vez-mais-longe-de-ser-alcancada-2/

3 Mozambique is extremely vulnerable to the effects of climate change owing to its geographic location in the inter-tropical convergence zone and downstream of shared river basins, its long coastline, and the existence of extensive areas with altitude below the current sea level (MTA, 2022).

4 https://cddmoz.org/wp-content/uploads/2020/07/TotalEnergies-avalia-condicoes-para-retoma-das-operacoes-em-Palma-e-insurgentes-intensificam-terror-em-Macomia.pdf

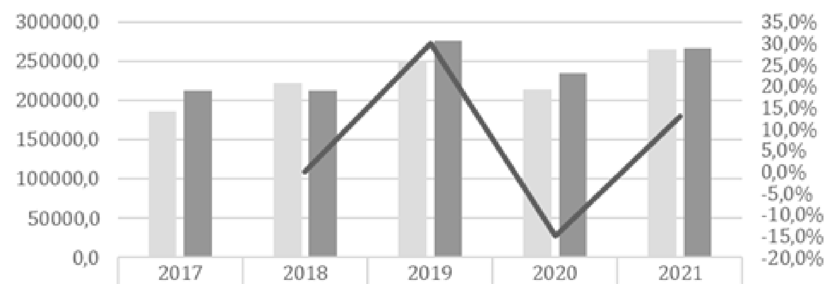
5 TJN (2021). The State of Tax Justice. Tax Justice Network Africa. https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf

2.2 Sufficient revenue and its impact on budget allocation

The Tax Authority of Mozambique (AT) regularly exceeds its collection targets, with a consistent pattern in recent years of up to 10% higher than expected.

As illustrated in Graph 2.1, in 2019 the AT collected gross revenue of 276.8 billion MZN (4.4 billion USD), which corresponds to an achievement of 110,6%. For the years 2020 and 2021, even with the challenges imposed by military instability, tropical cyclones and the economic recession caused by the COVID-19 pandemic, the AT did not fail to meet and exceed its targets. Specifically, in 2020[6], the institution collected 235.2 billion MZN (3.76 billion USD), an amount that represents 109,8% of the revised target, and in 2021 it reached a gross collection of about 100,1%.

Graph 2.1: Nominal targets versus gross achievement and nominal revenue growth rate (in millions of MZN; not adjusted for inflation)



	2017	2018	2019	2020	2021
Targets	186333,5	222859,7	250227,2	214141,7	265596,1
Gross Achievement	213222,9	213032,2	276788,2	235213,3	265935,6
Revenue growth rate		-0,1%	29,9%	-15,0%	13,1%

Targets Gross Achievement Revenue growth rate

Source: General State Account (Several years)

Although these numbers are positive, they do not inform us about the sufficiency of the collected resources. To identify the sufficiency of resources, it is important also to analyse the levels of public expenditure and the country's obligations, such that the optimal level should be identified later on through the analysis of the country's losses owing to IFFs.

2.3 Evidence of (in)sufficiency of revenues in Mozambique

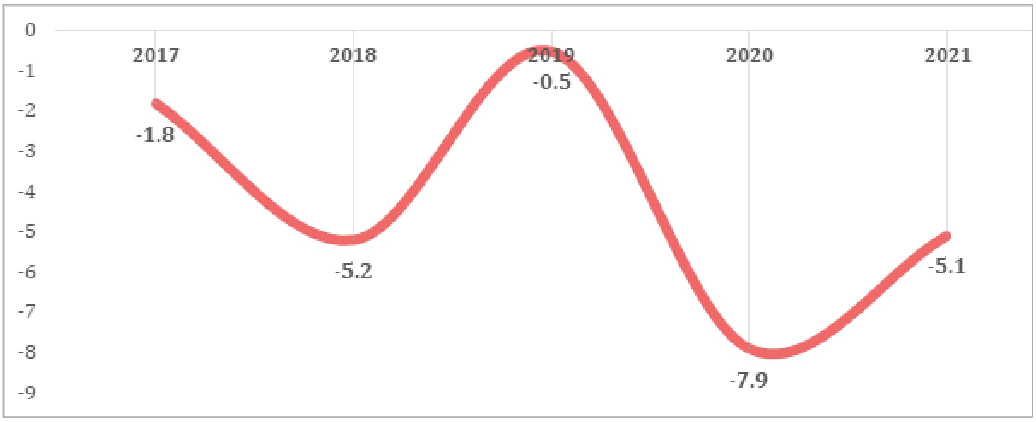
To analyse the sufficiency of revenues in Mozambique, it is important to consider

6 Carta de Moçambique. (2020). AT diz ter superado a meta revista. Como? E a Covid-19? [AT says it has exceeded the revised target. How? What about Covid-19?] https://cartamz.com/index.php/economia-e-negocios/item/7006-at-diz-ter-superado-a-meta-revista-como-ea-covid-19

the fiscal-deficit-to-GDP ratio over the years. This indicator provides a better picture of the country's revenue adequacy than the tax-to-GDP ratio. The fiscal-deficit-to-GDP ratio indicates the amount of money the government cannot cover, which is the gap that must be filled with domestic resource mobilisation efforts.

An analysis of fiscal balances before grants from 2017 to 2021 indicates that the country recorded negative balances throughout this period. The persistent trend of fiscal deficit before grants illustrated in Graph 2.2 highlights the insufficiency of the country's fiscal resources to support its expenses. This insufficiency not only affects the government's ability to provide essential services to citizens, but also undermines the country's economic growth and development. The government must seek ways to finance it.

Graph 2.2: Fiscal deficit before grants 2017–2021 (% GDP)



Source: Ministry of Economy and Finance (several years)

Insufficient fiscal resources in Mozambique resulted in a heavy reliance on external funding, including grants, for basic expenditures. Indeed, with the outbreak of the COVID-19 pandemic, Mozambique had to mobilise 700 million USD in donations to finance the entire COVID-19 response plan, which included actions in the education, health, social-protection, business, public, works and housing sectors.

With these problems on the rise, the issue of donor fatigue and dependency is a major concern for Mozambique. In 2016, with the discovery of the contraction of hidden debts[7], the largest corruption scandal ever in Mozambique, the international community cut support to the state budget. Owing to the huge foreign dependence, this shock was enough to cause the currency to devalue against the US dollar from 41.19 MZN in October 2015 to 77.58 MZN in the same month of 2016.

7 Sovereign guarantees granted to the companies EMATUM, EMAM and Proindicus, without the approval of parliament, in contradiction to the provisions of the law in Mozambique.

With the inability to finance its expenses, the government of Mozambique implemented austerity measures to contain public spending. These measures included the suspension of state subsidies for bread production, which translated into an increase in the price of this essential product in the diet of Mozambicans, with an impact on the well-being of the most disadvantaged members of the population. Also, as a result of the suspension of the fuel subsidy for semi-collective transport, the price of urban and peri-urban transport in Maputo rose by about 30%.

Over time, the government has implemented several tax reforms to increase collected revenue and reduce dependence on external resources. However, the revenue collected is still not enough to cover all current expenditures or to guarantee the adequate provision of public services, such as education and health.

This highlights the importance of recognising that goal achievements alone do not provide a complete picture of the state's financial health. The sufficiency of resources is considered by factors such as state expenditures, and it is important to analyse fiscal deficits. In addition, despite the optimal level of revenue collection, one cannot ignore the quantification of the country's losses owing to IFFs, which also show the level of unrecovered revenue annually.

Therefore, the fiscal authority should not be content to exceed its targets but should strive to ensure that the governmental revenue collected is sufficient to cover expenditures and combat IFFs. In addition, the MEF should collaborate through improved budget planning and efficient spending practices to achieve a sustainable budget.

2.4 Public policies for gender equality and allocation of budgetary resources

In 2018, the Mozambican government approved the Gender Policy and Implementation Strategy (PGEI), aimed at promoting gender equality and eliminating barriers that prevent women's full and equal participation in society. The PGEI was developed with the participation of various stakeholders, including the public sector, the private sector and civil society. The implementation of the PGEI is led by the National Council for Gender Development (CNGD), composed of members from government, the private sector and civil society.

Progress in incorporating gender issues into the budgetary process occurred in 2007, when the Economic and Social Plan began to identify possible gender-equality consequences for the common goals set (Holvoet & Inberg, 2014). Since 2009, budget-call circulars have included criteria on women. However, studies have revealed that many sectoral ministries face challenges in their practical implementation (IMF, 2016)[8].

8 IMF (2016). Sub-Saharan Africa: A Survey of Gender Budgeting Efforts. https://www.imf.org/

As pointed out by UN Mozambique (2022)[9], Mozambique's gender indicators continue to be of concern, with one in four women suffering physical or sexual violence, with limited access to integrated services (health, police, justice, social protection) to prevent and respond to gender-based violence (GBV). Furthermore, with regard to education in rural areas, 62% of women are illiterate and 45% of school-aged girls have never attended school.

Therefore, while the government of Mozambique has taken important steps to tackle gender inequality through the legislative framework, the persistent challenges suggest the urgency of taking additional measures to mobilise domestic resources, as well as enforce the law and fund gender-related public policies, as also noted by UN Mozambique.

2.5 Illicit financial flows (IFFs)

According to the 2021 State of Tax Justice report[10], Mozambique is one of the countries in Africa that suffers the most from international corporate profit shifting and citizens' holding of wealth offshore. By 2021, the estimated tax revenue losses owing to financial wealth owned by Mozambique citizens but held offshore was 1.6 billion USD, equivalent to 10.3% of GDP, causing a loss of 25.3 million USD in tax revenue. This loss is, however, dwarfed by the loss on account of MNCs shifting profits out of Mozambique: in 2021, 963 million USD of profits were shifted out of Mozambique, causing a 308.2 million USD annual tax loss, equivalent to 2.0% of GDP or close to Mozambique's total health budget.

external/pubs/ft/wp/2016/wp16152.pdf

9 UN Mozambique (2022). 2022-2026 UN§ Sustainable Development Cooperation Framework for Mozambique. https://www.undp.org/sites/g/files/zskgke326/files/2022-06/2022-2026%20UNSDCF-moz.pdf

10 TJN. (2021). The State of Tax Justice. https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf

Table 2.1: Tax losses in African countries

Country	Total annual tax loss (million USD)	Of which: Corporate Tax Abuse (million USD)	Of which: Offshore wealth (million USD)
Nigeria	2,017.6	1,767.6	250.0
Zambia	635.3	602.3	32.9
Kenya	558.8	495.9	72.4
Mauritius	450.5	378.2	308.2
Mozambique	**333.5**	**308.2**	**25.3**
Tanzania	212.8	192.6	20.2
Ghana	166.9	84.3	308.2
Zimbabwe	106.6	64.5	42.1
Rwanda	105.7	103.2	2.5
Madagascar	76.7	65.2	11.5
Malawi	60.2	56.1	4.1
Namibia	51.5	47.4	4.2
Mali	49.7	39.3	10.4
Niger	22.8	21.6	1.2

Source: The State of Tax Justice, 2021[11]

Table 2.1 shows Mozambique's position compared to selected other countries in Africa. As illustrated, Mozambique is in a worrying position, as its losses as a result of tax inefficiencies are relatively high. Emphasis is placed on tax abuse of legal persons. Corporate tax losses are direct losses[12] arising from the misalignment between the location of profits and the location of economic activity[13] and constitute only the tip of the iceberg owing to the hidden nature of IFFs[14].

Mozambique's relatively less efficient position is still evidenced by the fiscal-losses-to-GDP ratio, which stands at 2.2%, a position well above the African average of 0.7%, as illustrated in Graph 2.3.

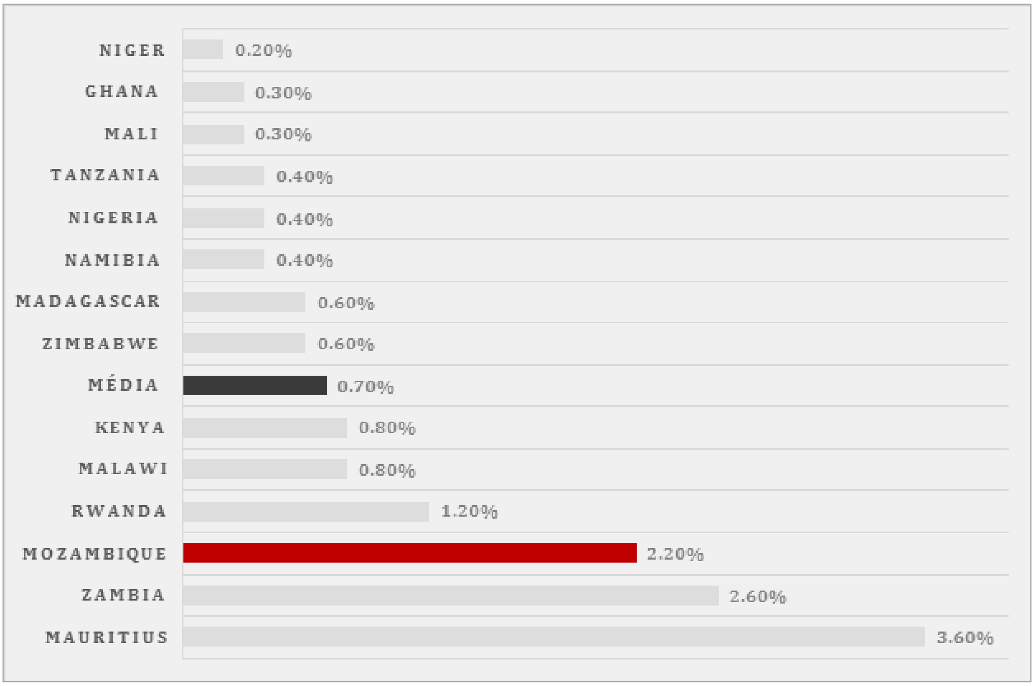
11 TJN. (2021). The State of Tax Justice. https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf

12 Conversely, indirect losses, or spillover costs, arise where governments reduce statutory and effective corporate tax rates to counter the direct losses of corporate tax abuse, with the mistaken belief that this will attract investment. (TJN, 2021)

13 Based on data presented in aggregated country-by-country report data published by OECD.

14 https://www.youtube.com/watch?v=5v_5IsPEwBI

Graph 2.3: Total annual tax losses (% of GDP)



Source: The State of Tax Justice, 2021 [15]

The Rovuma Basin LNG projects are catalysts for change in Mozambique and prospects for much-needed public revenues. However, the country's hopes for high revenue collection have been marred by violent extremism in the northern region, postponing the expected benefits. As a result, short- and medium-term benefits depend mainly on the Coral South floating LNG (FLNG) project[16]. Extraction from this project began on 18 June 2022, with the first gas export occurring on 13 November 2022.

The project, encouraged by the Italian oil company ENI, could generate tax revenues of approximately 12 billion MZN over the next four years, representing a 5.5% increase in current total tax revenues. Although still estimated, the level of the collection could be much higher if the government considered the various inefficiencies in the revenue-collection process in Mozambique. Part of this role lies with the MEF.

15 TJN. (2021). The State of Tax Justice. https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf

16 Area 4 is operated by Mozambique Rovuma Venture SpA (MRV), a joint venture owned by Eni, ExxonMobil and CNPC, which holds a 70% stake in the Area 4 exploration and production concession contract. Other Area 4 shareholders are Galp, KOGAS and ENH, each with a 10% stake. Eni is the delegated operator for the Coral South project and all upstream activities in Area 4.

It is not new for MEF or AT that a growing number of MNCs are using tax treaties in considered tax schemes, making treaties one of the main channels for the loss of corporate tax revenue. Even with that, the institutions did nothing to reassess the treaties in force and ensure that they are not used unlimitedly and that the tax benefits are operationalised to the benefit of Mozambicans.

2.6 Non-tax revenue in Mozambique

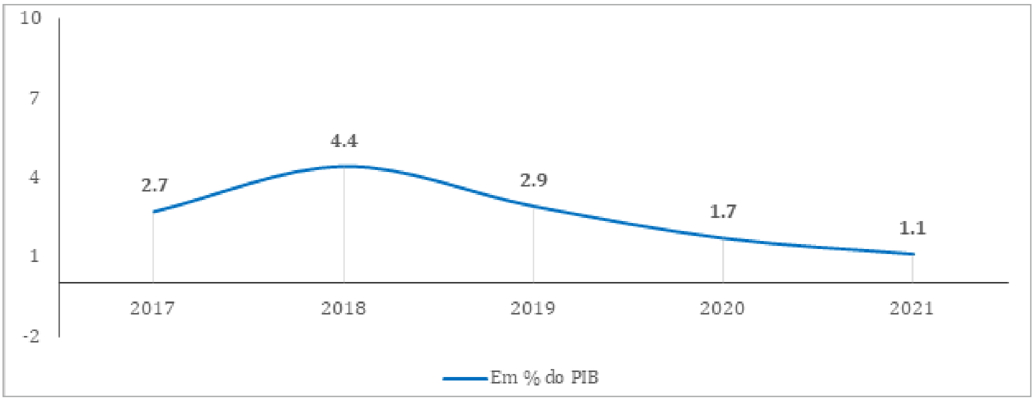
Non-tax revenues, such as royalties and fees, play a critical role in complementing tax revenues to finance public expenditure and promote economic growth. This section provides an overview of the current state of non-tax revenue in Mozambique and identifies key issues and challenges that must be resolved to improve the collection and utilisation of this important source of revenue.

2.6.1 Analysis of non-tax revenue in Mozambique in the past five years

Non-tax revenues in Mozambique mainly comprise royalties from EIs, fees for services provided by the government, and rents from state assets. The royalties from EIs, in particular from coal and natural gas, represent a significant proportion of the country's non-tax revenues.

Mozambique's non-tax revenue collection has been inconsistent over the past five years, with a peak of non-tax revenues representing 4.4% of GDP in 2018, declining to 1.1% in 2021[17].

Graph 2.4: Non-tax revenue in percentages of GDP (2017–2021)



Source: MEF (2022). Finanças Publicas em Números. Maputo: Ministério da Economia e Finanças.

17 MEF (2022). Finanças Publicas em Números. Maputo: Ministério da Economia e Finanças.

Table 2.2: Non-tax revenue figures (2017–2021)

Non-Tax Income	2017	2018	2019	2020	2021	Average annual day
Value (million MZN)	22,492.7	39,271.8	28,138.4	16,345	12,473.1	**23,744.2**
% of GDP	2.7	4.4	2.9	1.7	1.1	**2.6**
Nominal change rate (%)	9.8	74.6	−28.3	−41.9	−23.7	**−1.9**

Source: MEF (2022). Finanças Publicas em Números. Maputo: Ministério da Economia e Finanças.

The decrease in non-tax revenue in 2020 and 2021 can be attributed to several factors, including the COVID-19 pandemic and the economic slowdown. The pandemic had a significant impact on the economy as it led to reduced economic activity and disrupted global supply chains, resulting in a drop in export revenues. In addition, low commodity prices affected the revenue collection of the mining sector in Mozambique. Moreover, the economic crisis led to a decline in revenue from other sources, such as licencing fees, fines and penalties.

Non-tax revenue management in Mozambique has also been hampered by inadequate monitoring and evaluation mechanisms. MEF's monitoring and reporting of non-tax revenues has been inadequate, with several gaps and inconsistencies in national reporting.

Despite being a significant source of revenue, non-tax revenues are not always captured and reported accurately in national budget documents. For example, national reports often do not aggregate the different types of non-tax revenue, making it difficult to assess the actual collection of this source. This lack of clarity in reporting makes it difficult to determine the effectiveness of non-tax revenue policies and programmes and to ensure that revenues are used effectively and efficiently[18].

In addition, the government lacks clear mechanisms for monitoring and reporting on the allocation of resources for non-tax revenue policies. This makes it challenging to track revenue collections and ensure that revenues are used for their intended purposes. The lack of monitoring and reporting mechanisms also increases the risk of revenue leakage, corruption and mismanagement, further reducing the effectiveness of non-tax revenue policies and programmes.

In effect, the government should establish clear mechanisms to monitor and report on non-tax revenue policies and programmes by improving the accuracy and clarity of national budget documents and by accurately capturing and aggregating the different types of non-tax revenues. This will provide better insight into revenue-collection efforts, making it easier to assess the effectiveness of non-tax revenue

18 Economic and Social plan, state budget (PESOE)

policies and programmes.

2.7 Taxpayers

This subsection analyses the number of tax records relating to natural and legal persons. The implementation of the tax register in Mozambique began in 1999 and was later approved by Decree no. 52/2003 of 22 December. This was revoked by Decree no. 28/2012 of 28 July, which has remained in force to date.

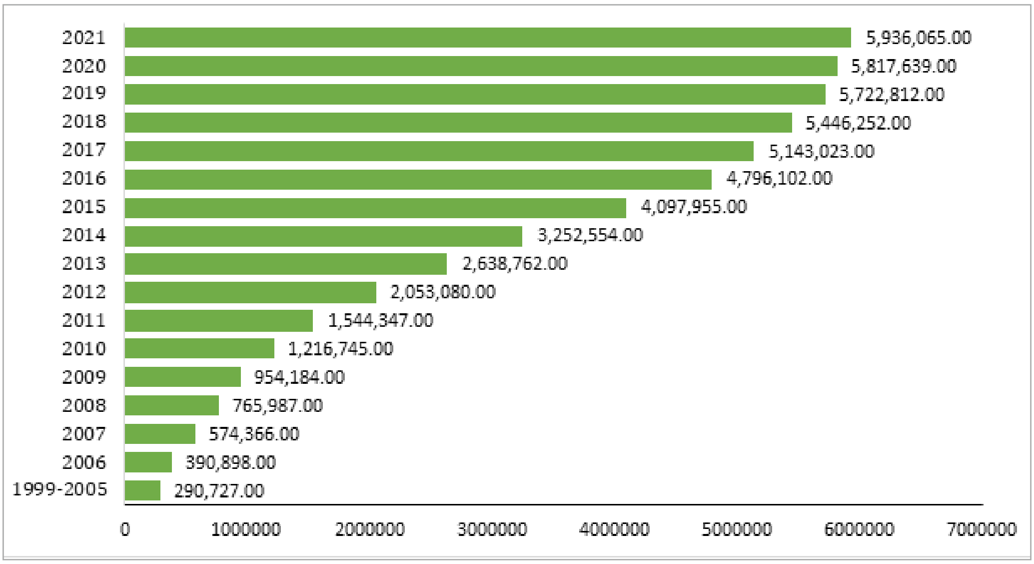
2.7.1 Registration of taxpayers

The tax-registration system in Mozambique is known as the Unique Tax Identification Number (*Número Único de Identificação Tributária*, NUIT[19]) . This system encompasses the records of legal and natural persons. The database from the beginning of the implementation, in 1999, until 2020 shows differentiated evolution along the timeline.

As illustrated in Graph 2.5, from 2010–2016 the number of beneficiaries registered increased at a rapid pace. During this period, the number of taxpayers increased from 1,216,745 to 5,817,639, showing an average annual growth of 37.8%. However, the growth of registered entities has seen significant declines in recent years. For example, over the past three years, the average annual growth was only 4.37%.

19 NUIT is the taxpayer identification number that is assigned to all natural persons (all citizens, employees, individual entrepreneurs, etc.), legal entities (commercial companies, cooperatives, public companies, etc.) and equivalent entities (associations, foundations, Non-Governmental Organizations, Diplomatic Representations, among others), which must be used in all national taxes, including customs, and in municipal taxes. See: AT (2023) - http://www.at.gov.mz/por/Media/Files/NUIT

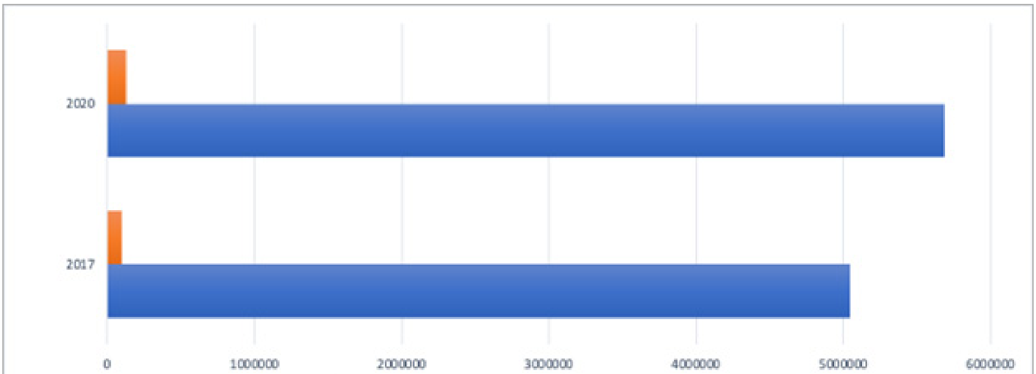
Graph 2.5: Number of registered taxpayers (1999–2021)[20]



Source: Tax Authority of Mozambique (2022)

Analysis of the number of entities registered by category reveals a greater concentration in the registration of natural persons. According to data from the AT, in 2020, the number of individual taxpayers was 5,686,153, while the number of corporate taxpayers was 131,486.

Graph 2.6: Composition of corporates versus individuals taxpayers 2020 versus 2017[21]



	2017	2020
Corporates	99534	131486
Individuals	5043489	5686153

20 AT (2022). Statistical Yearbook 2021. Maputo: Tax Authority of Mozambique

21 AT (2022). Statistical Yearbook 2021. Maputo: Tax Authority of Mozambique.

There is also a notable lack of data on the gender and age distribution of taxpayers, which should change. The company tax registration system in Mozambique must also be improved. The number of registered legal persons has increased in the past five years, but still represents only a small fraction of the estimated number of companies operating in the country. Most entities in Mozambique are concentrated in the informal sector. According to the most recent survey of the informal sector by the National Statistics Institute (INE, 2022), the informal sector contributes around 44.7% to the GDP. Through its informality, however, the government loses significant tax revenue.

According to the AT[22], the large informal sector in Mozambique has been a factor of macroeconomic distortion and fertile ground for the proliferation of unfair competition and incentives for tax evasion, including the development of fiscal and economic crimes, such as counterfeiting, smuggling, embezzlement and tax evasion in internal operations and flows resulting from foreign trade.

In addition, disproportionately generous benefits to large MNCs have increased the perception of the injustice of the current tax system by small and medium-sized companies (SMEs). As tax incentives benefit large MNCs, the SMEs, which comprise 98.6% of businesses by number, this represents and regressive unfairness in the tax system and moreover discourages SMEs from registering as formal taxpayers, possibly reversing the positive achievements of increasing the tax-to-GDP ratio over the past decade.

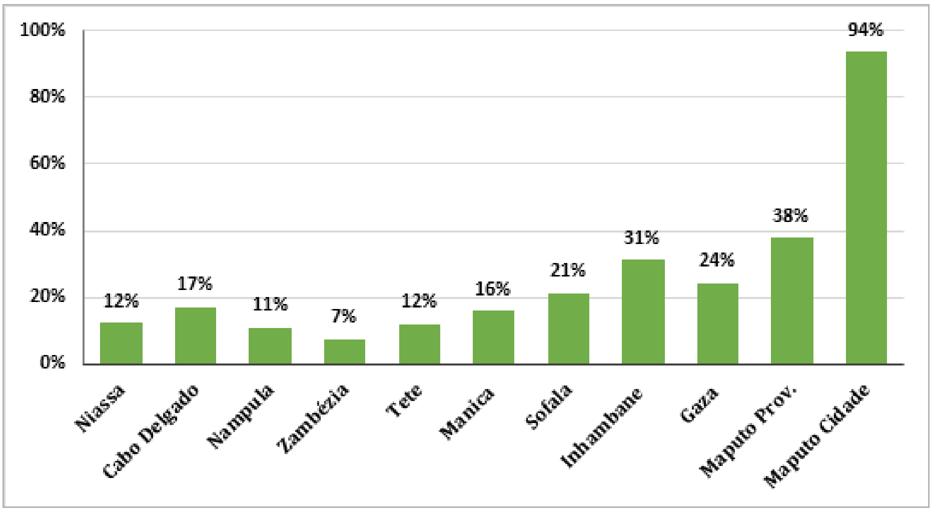
2.7.2 Provincial dispersion of the contributors

At the national level, Maputo City and Maputo Province have the most significant number of registered taxpayers, totaling 1,102,598 and 874,947 (as of 2021), respectively. Among these two regions, Maputo City stands out with a NUITs coverage of almost 94% of the population.

As illustrated in Graph 2.7, in 2021, the coverage of NUITs is much lower in the other provinces (between 7% and 30% of the population) than in the city of Maputo, where the coverage is more than 90%. This disparity indicates that there is a need to expand taxation efforts beyond the capital.

22 O País. (2022, July 7). Tax authority suggests the creation of cooperatives to increase the tax base.

Graph 2.7: NUITs coverage rate, by province (% total population)[23]



The low number of taxpayers in all provinces of Mozambique, except in Maputo City, is a problem that must be dealt with urgently. During our analysis of the Mozambican tax system, we identified that the concentration of efforts by the AT in the city of Maputo is a contributing factor to the low rate of taxpayers in other provinces.

Furthermore, it is important to note that some tax injustices, such as unequal tax benefits, may also be contributing to the low rate of taxpayers. Several Mozambican companies have already considered taxation to be unfair as a result of unequally distributed tax benefits. Therefore, it is important that the Mozambican government take concrete steps to remedy the low rate of taxpayers throughout the country. Implementing these measures will not only help finance economic and social development, but will also increase public confidence in the government and the tax system.

2.8 Recommendations

Mozambique faces a dependence on external financing as a result of insufficient tax revenues. This is a major challenge, as Mozambique relies heavily on foreign loans and aid, which can be affected by factors beyond the government's control and lead to disruptions in essential public services. Therefore, the government must increase tax revenues. To this end, the following measures are recommended.

- During the financial crisis, the government of Mozambique implemented austerity measures that had a significant negative impact on the well-being of the population. The suspension by the state of subsidies for fuel, public

23 Source: AT (2023). Statistical Yearbook 2021. Maputo: Tax authority of Mozambique.

transport and bread led to an increase in the prices of essential products, leaving the most disadvantaged population in a situation of vulnerability. To help mitigate the negative effects of the austerity measures on the most disadvantaged population, the Mozambican government should implement targeted social-protection programmes.

- Mozambique has significant tax revenue losses as the result of IFFs. In 2021, offshore financial wealth owned by Mozambican citizens has caused a tax loss of 25.3 million USD, and offshore profit-shifting by multinational companies has resulted in a loss of 308.2 million USD. In total, this amounts to more than 2.0% of the GDP or nearly equivalent to Mozambique's total health budget. In order to tackle the significant tax losses, the MEF needs to invest in full audits of MNCs operating in Mozambique. By conducting comprehensive audits, the AT can closely examine the financial records, transactions and tax-planning strategies employed by MNCs. This may help in identifying instances of aggressive tax planning and ensure that the revenue owed to the country is collected properly. In addition, the MEF needs to establish a specialised unit or task force dedicated to combatting IFFs. This unit should consist of specialists in taxation, finance, law enforcement and intelligence analysis. The unit can collaborate with international organisations such as United Nations Office on Drugs and Crime (UNODC) or regional bodies such as SADC to strengthen cross-border cooperation in combating IFFs.
- The management of non-tax revenues in Mozambique has been hampered by inadequate monitoring and evaluation mechanisms. There are gaps and inconsistencies in national reporting, and non-tax revenue is not always accurately captured and reported in national budget documents. The lack of clarity in reporting makes it difficult to determine the effectiveness of non-tax revenue policies and programmes. The government must establish clear mechanisms for monitoring and reporting non-tax revenue, improve the accuracy and clarity of national budget documents, and accurately capture and aggregate the different types of non-tax revenue. This will provide better insight into revenue-collection efforts, making it easier to assess the effectiveness of non-tax revenue policies and programmes.
- With the informal sector contributing about 44.7% to the GDP, there is a significant loss of tax collection owing to the lack of formalisation of this sector. Despite a slight increase in the number of registered legal companies over the past five years, this figure remains a small fraction of the estimated number of companies operating in the country. The government should enhance efforts to resolve the regional disparities in tax-payer registration and equally expand the tax base across regions and sectors in Mozambique. This will not only help to finance economic and social development, but will also help to ensure that citizens and companies all pay their fair share of tax, and in this way increase the public confidence in the government and the tax system.

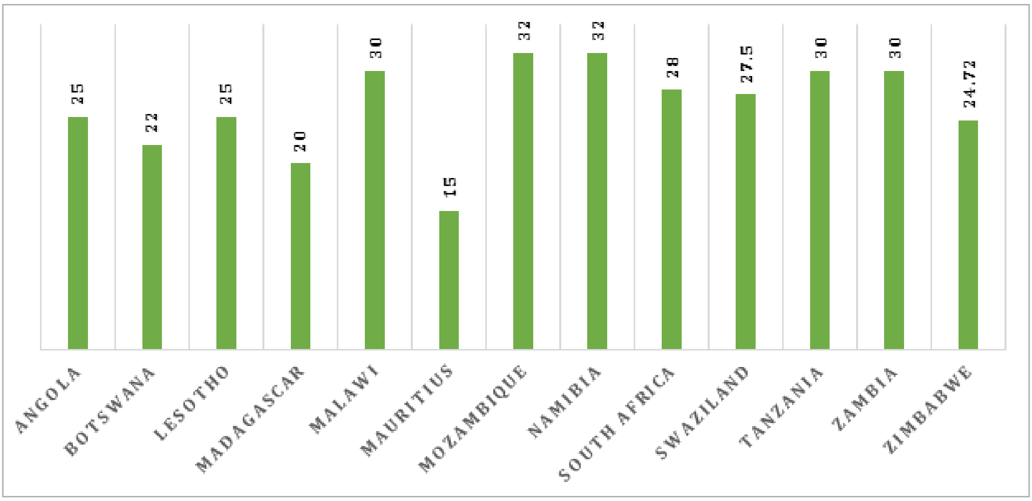
CHAPTER 3: TAX COMPETITION AND CORPORATE INCENTIVES

In this chapter, we examine different aspects of tax competition and corporate incentives in Mozambique, including the country's statutory CIT rate, the effective corporate rate, and the tax incentives regimes in Mozambique. We also examine international rules on tax breaks in Mozambique, discretionary tax breaks, withholding rates, anti-abuse measures, permanent establishment rules and DTAs. Finally, we examine Mozambique's policy for attracting investment and taxpayers' perceptions of the tax system.

3.1 Statutory corporate income tax (CIT) rate

The statutory CIT rate in Mozambique is 32%, which is higher than the average rate of in sub Saharan Africa of 25.9%. The CIT rates of SADC member countries are shown in Graph 3.1.

Graph 3.1 Corporate Income Tax (CIT) statutory rate in SADC member countries



Source: Trading Economics (2022)[1]

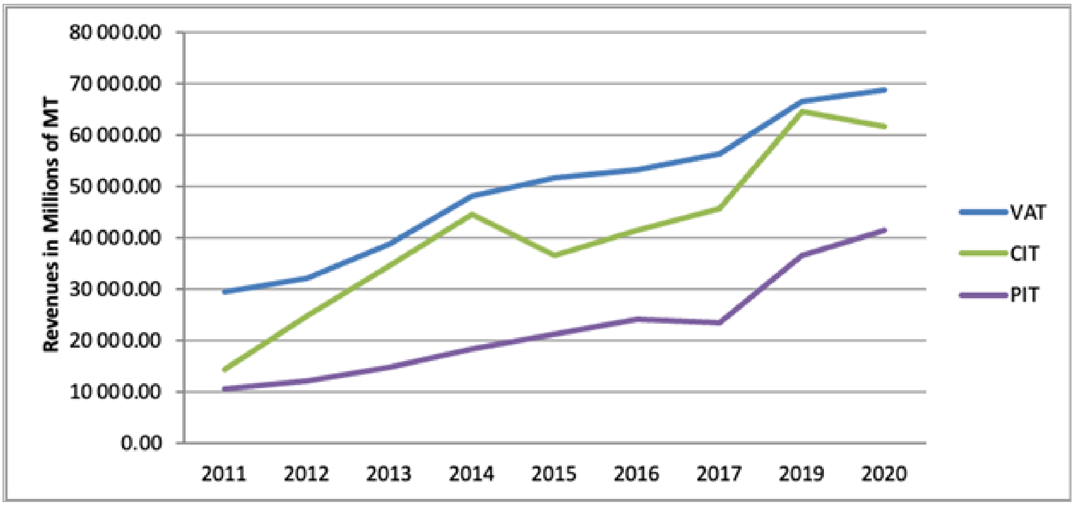
The business community in Mozambique argues that to compete with other countries in the region for foreign investment, Mozambique should consider reducing its CIT rate. However, it is important to note that the statutory CIT rate is not the only factor that companies consider when making investment decisions. Other factors such as public infrastructure and services, the business environment and the stability of the economy can also play a significant role in attracting investment. Furthermore, a lower CIT rate does not necessarily mean more investment if the country lacks other attractions. Lastly, it is worth remembering that on account of tax incentives and tax planning, it is common for large companies and MNCs to pay an effective tax rate well below the statutory rate of 32%. Therefore, it is mainly SMEs that pay the full rate.

A lower tax rate could lead to a reduction in public revenues, which are considered insufficient, as discussed in the previous chapter. This reduction in revenue could have a negative impact on public services and infrastructure, as well as on the country's ability to service its debt, especially as Mozambique is already in debt. As

1 Trading Economics – https://tradingeconomics.com/country-list/corporate-tax-rate?continent=africa

shown in Graph 3.2, CIT comprises the second main form of tax collection.

Graph 3.2 Comparison of VAT, PIT and CIT collection, 2011–2020



Source: General State Account 2011-2020

Indeed, the Mozambican government needs to ensure that companies are attracted to a country not by the tax rate, but by a transparent, predictable and stable tax regime. A fair tax system is one in which all companies, regardless of size or location, pay their fair share of taxes. This helps to ensure that the burden of supporting public services and infrastructure is shared equitably among all taxpayers.

3.2 Corporate tax incentives in Mozambique

Corporate tax incentives in Mozambique are regulated by the Investment Law, and by the Tax Incentives Code (Código de Benefícios Fiscais, CBF) approved by Decree no. 43/2009 of 14 July.

According to the decree, tax benefits are considered measures that imply the exemption or reduction of the amount payable from taxes in force, to favour activities of recognised public interest, as well as encourage the economic development of the country. The tax benefits provided for in this legal code in Mozambique are: deductions from the taxable amount,

- tax deductions,
- accelerated amortisations and repayments,
- investment tax credits,
- tax exemptions, and
- the reduction of the tax rate and the deferral of their payment.

CBF offers specific benefits, depending on the investment areas[2].

In Mozambique, special zones are the ones with the greatest corporate incentives. The purpose of these zones is to attract foreign investment, offering tax exemptions and other benefits to companies that settle there. Below are the Zones consecrated by the CBF.

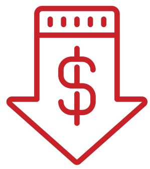
A. Rapid Development Zones

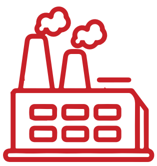
For the Code of Tax Benefits in Mozambique, Rapid Development Zones are the geographical areas of the national territory, characterized by the great potential in natural resources, but lacking infrastructure and having a low level of economic activity.

- Five fiscal years of a tax credit per investment of 20% of the total investment made, to be deducted from the CIT tax until it comes into effect.
- Other generic income tax incentives.
- Exemption from customs duties and VAT due on the importation of goods included in class "K" of the customs tariff, as well as other essentials for the pursuit of the activity;

B. Special Economic Zones

- Exemption of CIT for the first 3 or 5 fiscal years, for the company and operator, respectively;
- Discounted CIT rate of:
  - 50% from the 4th to the 10th fiscal year or from the 6th to the 10th fiscal year, for company and operator, respectively;
  - 25% from the 11th to the 15th fiscal year or for the life of the business, depending on whether it is a company or operator, respectively;
- Exemption from payment of customs duties and VAT on the importation of materials and goods;





C. Industrial Free Zones

- Exemption of CIT for the first 10 fiscal years;
- Discounted CIT rate of 50% from the 11th to the 15th fiscal year; and 25% for the life of the business;
- Exemption from payment of customs duties and VAT on the importation of materials and goods, while the enterprise remains operation in such zones;

Source: Law no. 4/2009 of 12 January, approving the Tax Benefits Code.

2 At the sector level, it has specific benefits for Manufacturing and Assembly Industry, Agriculture and Fisheries, Hotel and Tourism, & Trade and Industry in Rural Areas. In terms of projects, the projects Creation of Basic Infrastructures, Science and Technology Parks benefit; and Mega Projects. Finally, there are specific benefits for geographic zones, namely: Rapid Development Zones; Industrial Free Zones; Special Economic Zones.

See also: Ministerial Diploma no. 202/2010, Approves the Regulation of the Tax and Customs Regime of Special Economic Zones (ZEE) and Free Industrial Zones (ZFI) and revokes Ministerial Diploma no. 14/2002 of 30 January.

The granting and revocation of tax benefits are governed by the Investment Law and the CBF. Tax benefits are granted within the scope of investment projects whose proposals are submitted to the Centre for the Promotion of Investments (CPI). Decisions regarding the authorisation and granting of tax benefits are made by public entities, including the AT and the CPI. There is a lack of transparency in the procedure for the granting of tax incentives, as the parliament, civil society and the media have no oversight over the decision-making process. In addition, there is no publication or any information on the cost–benefit analysis of these incentives. Once granted, tax benefits cannot be revoked unless there is non-compliance or undue granting, as specified in the CBF.

3.3 Double taxation agreements (DTAs) and withholding taxes in Mozambique

In Mozambique, withholding taxes applies to companies on specific payments, including royalties, interest, dividends and management fees. According to the Mozambique Tax Code, a withholding tax of 20% is applicable to royalties, interest and dividends paid to foreign companies. For management fees paid to foreign companies, the withholding rate is 32%.

It is important to note that these withholding taxes are subject to reduction or exemption per the DTAs in force between Mozambique and other countries. This, together with other elements of the DTAs, cost Mozambique very significant tax losses. For instance, it is estimated that the DTAs with just two tax havens, Mauritius and the United Arab Emirates (UAE), cost Mozambique 315 million USD in withholding taxes on interest payments and dividends in 2021, equivalent to 7.4% of the country's total tax revenue[3].

As of 2023, Mozambique has DTAs in force with the countries shown in the table below:

3 SOMO 2023, "How Mozambique's tax treaties enable tax avoidance" https://www.somo.nl/how-mozambiques-tax-treaties-enable-tax-avoidance/

Table 3.1: Mozambique DTAs signed

Container	Dividends	WHT (%) Interest	Royalties	CIT (%) Capital gains on shares
Non-treaty	**20**	**20**	**20**	**32**
Treaty				
Botswana	0/12	10	10	0
India	7.5	10	10	32[a]
Italy	15	10	10	0
Macao	10	10	10	0
Mauritius	8/15b	8	5	0
Portugal	10	10	10	32[a]
South Africa	8/15b	8	5	32a
United Arab Emirates	0	0	5	32[a]
Vietnam	10	10	10	32a

[a] Gains are only taxed in the other state if assets of the entity sold are composed of more than 50% immovable assets. In the case of Vietnam, the threshold is 30%.

[b] DTAs may feature varying WHT rates for qualified dividends and portfolio dividends. For Mozambique, its agreements with Botswana, Mauritius, and South Africa impose a higher WHT rate for portfolio dividends. In situations where an investor holds only a limited number of shares in a company (with a threshold of 25% in the aforementioned treaties), the dividend payouts are classified as portfolio dividends.

Source: Pwc (2023). Corporate - Withholding taxes

In Mozambique, the Ministry of Finance is responsible for the negotiation of tax treaties, which are subject to approval and ratification by the Mozambican Parliament.

Some of the tax treaties that Mozambique has signed include:
- Mauritius, signed in 1999
- UAE and Italy, signed in 2005
- South Africa, signed in 2009
- Portugal, signed in 2010
- Macau, signed in 2011
- India, signed in 2012
- Vietnam, signed in 2012

The tax treaties described above were signed by Mozambique before the foreign investment boom in the country generated by extractive findings and contain very unfavourable conditions for the country. The treaties greatly limit Mozambique's ability to tax the income generated by these foreign investments, resulting in significant tax losses for the government.

The original purpose of tax treaties was to prevent companies from being taxed twice for business activities that take place in the two signatory states. Also the argument of attracting investment is often used in favour of DTAs. However, both arguments lack empirical backing, as most countries offer deductions for taxes paid abroad, and no conclusive evidence demonstrates that tax treaties actually lead to additional investment between signatory states. As Martin Hearson stated, "for every published study that finds a positive association between tax treaties and investment in lower income countries, there is another that does not"[4]. Recent research by the IMF has shown that tax treaties do not lead to additional investments and are instead used by multinational companies to avoid taxes on investments to which they have already committed, regardless of these tax treaties[5]. As illustrated in Table 3.1, Mozambique has a total of nine treaties in force. Only one of these – with India – has anti-abuse measures. The remaining eight increased the vulnerability of the Mozambican tax system and limited its ability to protect its tax rights. Especially worrying is the Mozambique–UAE treaty, signed in 2003, which completely prohibits and exempts withholding taxes on the payment of dividends, interest and royalties, which significantly reduces the tax bill, increasing tax losses. Not surprisingly, to facilitate third-party debt financing of the construction of the FLNG vessel, the Area 4 partners set up a separate company in the UAE. This is registered in the Dubai Multi Commodities Centre (DMCC) free trade zone, not only to take advantage of the tax benefits associated with the free trade area, but also to benefit from withholding tax exemptions on dividends and interest payments in the UAE's DTA with Mozambique[6].

Mozambique is currently negotiating a tax treaty with the Netherlands, which could pose additional risks to the country owing to the role played by the Netherlands as a tax haven in international tax-abuse schemes for multinational corporations. Indeed, the Mozambican government should be very cautious about signing such an agreement, remembering that it has a responsibility to ensure that the country's resources are used for the benefit of all, which includes ensuring that companies operating within its borders pay taxes properly.

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4 Martin Hearson, Imposing standards: the north-south dimension to global tax politics (New York: Cornell University Press, 2021), 14.

5 Sebastian Beer and Jan Loeprick, "Too high a price? Tax treaties with investment hubs in Sub-Saharan Africa", International Tax and Public Finance, 2021, 28, 1, 5 (2021), 113–153, https://econpapers.repec.org/article/kapitaxpf/v_3a28_3 ay_3a2021_3ai_3a1_3ad_3a10.1007_5fs10797-020-09615-4.htm; Boriana Yontcheva, Dan Devlin, Hilary Devine, Sebastian Beer, and Irena Jankulov Suljagic, "Tax avoidance in Sub-Saharan Africa's mining sector", IMF, 28 September 2021, 23, https://www.elibrary.imf.org/view/journals/087/2021/022/article-A001-en.xml

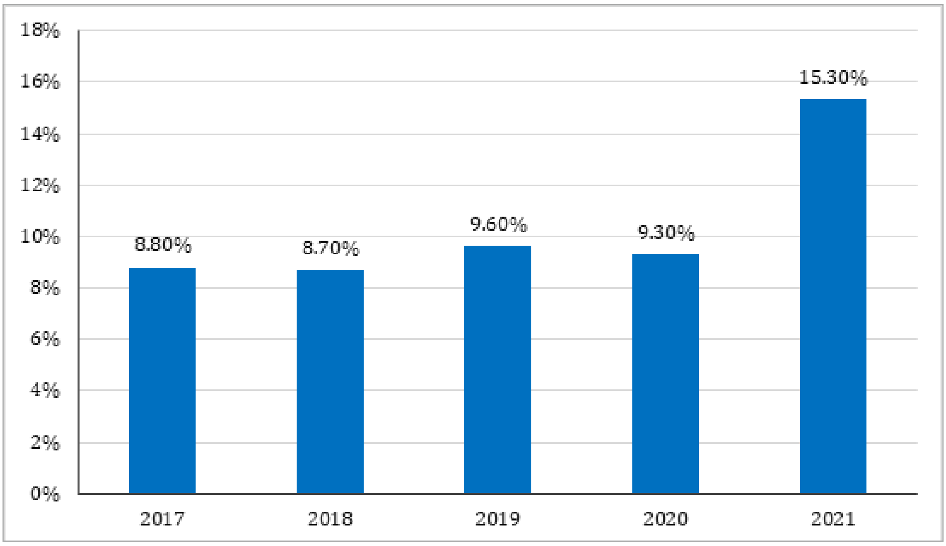
6 Hubert, Don. (2019). Government Revenues From Coral FLNG. https://www.oxfamamerica.org/explore/research-publications/government-revenues-coral-flng/

3.4 Effectiveness of tax incentives and taxpayers' perception of the tax system

As previously described, Mozambique's Investment Law and CBF[7] contain a set of benefits intended to attract investment. The country has in place a complete legislative framework for the attraction of investments and a variety of specific benefits for projects, sectors, and special zones. However, it is important to look at tax benefits as a cost for the country in comparison to the taxes that would have normally been collected, which must be continuously monitored and evaluated so that this does not result in losses for the government when it is not the main attraction factor for investors.

In 2021 the country lost about 40,650 million MZN as a result of tax incentives[8]. This figure comprises 15,3% of annual revenues. Over five years (2017-2021), the value adds up to more than 109 billion MZN (1.7 billion USD).

Graph 3.3: Weight of total exemptions in total state revenue (2017–2021)[9]



Tax benefits to large companies and/or MNCs inevitably make the tax system more regressive, as it prevents corporations from paying their fair share.

7 Approved by Decree no. 43/2009 of 14 July.

8 Autoridade Tributária de Moçambique. (2022). Anuário Estatístico: Estatísticas Tributárias 2021. https://www.at.gov.mz/por/Media/Files/Anuario-Estatisco-2021

9 Autoridade Tributária de Moçambique. (2022). Anuário Estatístico: Estatísticas Tributárias 2021. https://www.at.gov.mz/por/Media/Files/Anuario-Estatisco-2021

Indeed, it is a commonly held belief by those in the business community that the tax system is unfair. The business sector has continually complained about delays in the refunding of VAT by the state, as, in addition to the increase in debt, it simultaneously causes a deficit in the companies' accounts. When these aspects are taken into consideration, entrepreneurs often question the logic behind and viability of having numerous incentives for mega-projects, while SMEs that do not refund VAT are harmed.

Other sources suggest that the tax system in Mozambique is perceived as burdensome by some taxpayers. According to a representative of the private sector[10], the high tax burden is an imminent threat to entrepreneurs' annual profits, affecting the viability and competitiveness of their businesses.

3.4.1 Mozambique performance in the World Bank's Ease of Doing Business report

In addition to these sources, according to the World Bank's Ease of Doing Business 2022 report, Mozambique ranked 127 out of 190 countries with regard to "paying taxes". This score considers several factors, such as the taxes and mandatory contributions that a medium-sized company must pay or withhold each year, as well as the administrative burden of paying taxes and contributions and complying with post-filing procedures (VAT refund and tax audit).

Despite the government's efforts to ease the payment of taxes by reducing the mandatory reporting period before taxpayers can claim VAT refunds to four months (from 12 months previously), there are still enormous challenges[11].

Regarding the number of tax payments required per year in the country, a company must make 37 payments, a number higher than the average for sub-Saharan Africa. There are also issues related to the post-filing process, which involves improving the time it takes to comply with a VAT refund, obtain a VAT refund, comply with a corporate income-tax correction, and complete a corporate income-tax correction. At the level of this index, the country is also below the regional average, as highlighted in Table 3.2.

10 Carta de Moçambique. (2023). Elevada Carga Fiscal Ameaça Anular Lucros das Empresas Moçambicanas. https://www.cartamz.com/~cartamzc/index.php/economia-e-negocios/item/12934-elevada-carga-fiscal-ameaca-anular-lucros-das-empresas-mocambicanas-estudo

11 World Bank (2020). Doing Business Report 2020 https://archive.doingbusiness.org/content/dam/doingBusiness/country/m/mozambique/MOZ.pdf

Table 3.2: "Paying Taxes" index – Mozambique

Indicator	Mozambique	Sub-Saharan Africa	OECD high income	Best regulatory performance
Payments (number per year)	37	36.6	10.3	3 (2 Economies)
Time (hours per year)	200	280.6	158.8	158.8 49 (3 Economies)
Total tax and contribution rate (% of profit)	36.1	47.3	39.9	26.1 (33 Economies)
Post-filing index (0–100)	50.2	54.7	86.7	None in 2018/19

Source:World Bank (2020)

3.5 Recommendations

In 2021, Mozambique lost the equivalent to 15,3% of its annual revenues with tax incentives. The following recommendations are steps that the Mozambican government can take to increase revenue collection in a progressive way.

- Mozambique's corporate tax rate (CIT) of 32% is higher than the average rate of 25.9% in sub Saharan Africa and the highest rate in the SADC region. However, as the country faces significant revenue deficits, a reduction in the CIT rate to attract foreign investment and the subsequent drop in government revenues would negatively affect services and infrastructure public policies, as well as the country's ability to pay off its already unsustainable debts. Therefore, the government must prioritise the attraction of investment with a stable and transparent tax regime, a favourable economic and political environment, and complete legislative framework, among other factors.
- Although the Mozambican government has provided tax incentives for various sectors and geographic areas, there is lack of targeted cost–benefit evaluation of these incentives to ensure that the loss of tax revenues is justified. As the tax incentives come with debatable benefits at a high cost and a draw on the resources available to the government, the Mozambican government should undertake a comprehensive assessment including an analysis of the tax revenues lost, the impact on investments, job creation, and other relevant indicators, and maintain only incentives that are clearly justified. As discussed in Chapter 1, Mozambique's tax incentives currently favour large investments at the expense of SMEs, creating a regressive effect on the country's corporate taxation. Essentially, tax incentives should be provided only if the additional taxes expected over the medium term compensate for taxes foregone in the immediate term, or if measurable externalities can be identified with equivalent effect.
- The process for granting tax incentives in Mozambique is not transparent, and there is a risk that incentives are granted to companies without adequate scrutiny or oversight. The government should establish an independent oversight

mechanism to ensure that incentives are granted fairly and transparently. Moreover, all relevant governmental agencies, such as the MEF and the AT, should publish publicly accessible tax expenditure reports on a regular basis, disclosing which companies receive tax incentives and the conditions attached to those incentives.

- In the extractive sector in particular, there is a lack of transparency regarding the total revenue lost as a result of the tax incentives granted. The government should regularly publish a breakdown of the tax benefits granted to the mining and hydrocarbon sectors.
- Mozambique's DTAs increase the vulnerability of the tax system to evasion. Eight of the country's nine DTAs limit Mozambique's ability to protect its tax rights and have increased the country's tax losses. All DTAs should therefore be reviewed and re-negotiated – and special attention should be paid to the agreements with the UAE and Mauritius. The renegotiation of these treaties should aim to include provisions to prevent tax-abuse practices and to increase withholding tax rates, currently at 0%. Mozambique should also consider these factors during the current negotiation of a DTA with the Netherlands.
- The business sector has complained about the delay in refunding VAT by the state. The government must respond to the concerns of the business sector and reduce the delay in the refunding of VAT. This must include the simplification of tax procedures. This will also result in a tendency towards improved performance in the "doing business" indicators, corroborating the country's efforts to attract investments.

CHAPTER 4: EFFECTIVENESS OF THE TAX ADMINISTRATION

This chapter assesses AT's capacity with regard to effectively implementing progressive tax policies, and helps to determine whether the revenue shortfalls are mainly related to weak tax administration or poorly designed tax policies. It also provides information on the capacity of tax administration with regard to human and financial resources and reviews the structure and governance of the tax administration, including a gender perspective.

4.1 Organisation

4.1.1 The national and municipal taxing subsystems

Mozambique has a two-tier taxing system that integrates national and municipal taxes. The AT is mandated to administer all national taxes[1] (including natural resources-related revenues) and has jurisdiction over customs. In turn, the local governments are mandated to collect taxes that do not fall under the jurisdiction of AT[2] (e.g. property tax, property transfer tax, municipal tax on vehicles, contributions for infrastructure improvements, levies for issuing operating licences and tariffs, and charges for the provision of municipal services).

From this pool of revenue sources, the municipalities mainly collect revenue from the provision of services (levies and fees) owing to the low administrative capacity, lack of enforcement mechanisms and low tax morale at the local level. The local governments have financial autonomy in the management of the resources they collect (Article 276 of the Republic of Mozambique Constitution), while the AT transfers all of the collected revenue to the public-treasury account in the Central Bank (Conta Única do Tesouro), which is then appropriated by the parliament during the budgetary process.

Ideally, the existing hybrid system (with national and municipal taxing subsystems) would balance functions/competencies and resources at the local level, which is an essential condition for a good decentralisation model. However, in practice, this balance has yet to be met, as most of the local governments still lack the financial and technical capacity to collect the designated taxes[3]. The challenges are even more pressing as the country advances in its creation of more decentralised bodies providing administrative, financial and patrimonial autonomy to the provinces, districts and local authorities in the context of the new paradigm of decentralisation introduced with the punctual revision of the 2018 Constitution.

Owing to relatively precarious taxing mechanisms and low tax morale at the local level, in a context of minimal collaboration with the AT, local governments mainly collect revenue from the provision of services (levies and fees) and are therefore increasingly dependent on fiscal transfers from the central government. Legally, the transfers comprise the regular Municipal Compensation Fund (Fundo de Compensação Autárquica, FCA) for current expenditures (set at 1.5% of the annual revenues) and the Investment Fund for Local Initiatives (Fundo de Investimento

1 Law no. 15/2002 of 26 June – Law on the Basis of the Tax System.

2 Prescribed in the Municipal Finance Law – Law no. 1/2008 of 16 January and Decree no. 63/2008 of 30 December. See the different taxes in the Introduction.

3 Celeste, F. B. (2019). Descentralização fiscal sem enquadramento no contexto actual das finanças públicas: O caso dos municípios. Centro de Integridade Pública (CIP). https://cipmoz.org/wp-content/uploads/2019/05/Descentralizac%CC%A7a%CC%83o-fiscal-copy.pdf

de Iniciativas Locais, FIIL) to finance local projects[4]. However, with regard to the disbursement of these resources, not only have they been marked by delays, but there have been complaints of a lack of transparency that leads to allocations below the legally stipulated level to the local governments. As a result, the sub-national governments are able to provide only a very limited set of municipal services of very low quality to the population[5].

4.1.2 AT organisation and Domestic Resource Mobilisation

The AT officially falls under the MEF, which determines the funds available for the AT and ultimately shapes its decisions regarding tax-policy implementation[6]. The AT's president is appointed by the council of ministers, which is composed of the president of the republic, who presides over it, the prime minister and the other ministers[7].

For this reason, it can be said that the AT functions as a semi-autonomous agency with its senior staff members vulnerable to political interference[8]. Although 40% of Mozambicans have little or no trust in the AT[9] and are sceptical about the institution's autonomy and the fairness and impartiality of the revenue administration, it is not easy to find reports of abuse by the tax administration against taxpayers.

The Mozambican Tax Authority has the following structure:
- General Directorate of Customs
- General Tax Directorate
- Office for Planning, Studies, and International Cooperation
- Internal Control Office
- Communication and Image Office.

Although simplistic and clear, this structure does not allow the AT to effectively tax different taxpayers, as certain segments require more expertise/effort owing to their complex nature. A good example of the way in which the current organisation of the AT enables leakages of resources is the inexistence of a specialised transfer-

4 Law no. 1/2008 of 16 January

5 Celeste, F. B. (2019). Descentralização fiscal sem enquadramento no contexto actual das finanças públicas: O caso dos municípios. Centro de Integridade Pública (CIP). https://cipmoz.org/wp-content/uploads/2019/05/Descentralizac%CC%A7a%CC%83o-fiscal-copy.pdf

6 Decree no. 9/2010 of 15 April – AT's Organic Statutes

7 Article no. 201 of the Republic of Mozambique Constitution

8 In a recent polemic case, a civil society organisation demanded the AT president's resignation after she was elected to an influential position in the country's ruling party. Read more: https://cddmoz.org/wp-content/uploads/2020/07/Eleicao-da-Presidente-da-Autoridade-Tributaria-para-a-Comissao-Politica-da-Frelimo-atenta-contra-a-lei-imparcialidade-e-neutralidade-exigidas-a-todo-servidor-publico.pdf

9 Afrobarometer (R8 2019/2021) – Mozambique. https://www.afrobarometer.org/online-data-analysis/

pricing unit. Despite having legislation on transfer pricing, the country does not have a unit to enforce it[10].

Mozambique has a transfer-pricing system applied to multinational companies with an annual turnover equal to or greater than 2.5 million MZN and that carry out international transactions with related parties[11]. The general tax directorate (GTD) collects the revenue of these operations, along with other taxes. Basically, the taxpayers fill out the required form[12] and submit it to the GTD. As the AT currently does not have a specialised unit in place to verify the information provided by the taxpayers, the tax authority relies heavily on the taxpayer's good faith, which undermines the revenue collection from these operations.

Mozambique's experience shows that creating units to deal with special taxpayers is merely the first step. The real challenge is assuring their operation and the promotion of effective domestic mobilisation of resources. This can be seen in the units for large corporate taxpayers created in 2014[13]. Currently, the country has six units, all equipped with a system allowing large taxpayers to submit their tax processes online and make payments via commercial banks[14]. However, the system remains underutilised as national companies are still reluctant to use it. For example, the last publicly available AT report indicates that in the fiscal year (FY) 2016/2017, only 100 of the total 573 large taxpayers were effectively using the system to pay taxes[15].

AT's structure also fails to properly tax the segment of HNWIs. The country does not have a unit dedicated to HNWIs nor a specific strategy for monitoring and assessing them. The government could find inspiration in the Ugandan government and tax authority, which has successfully set up a HNWI unit and drastically expanded the tax compliance of the wealthiest Ugandans while simultaneously raising substantial additional revenue[16].

10 RSM Moçambique. (n.d). Transfer Pricing. https://www.rsm.global/mozambique/pt/precos-de-transferencia

11 The Mozambique transfer pricing system has five internationally recognised methods (comparable market price method, reduced resale, increased cost, profit fractionation, and net operating margin) and applies to taxpayers' Corporate Income Tax and Income Tax of Natural Persons domiciled in Mozambique.

12 http://www.at.gov.mz/por/content/download/93324/804553/version/1/file/IRPS+M-20+ANEXO+I+-PRECO+DE+TRANSFERENCIA.pdf

13 Ministerial Diploma. https://www.lexlink.eu/FileGet.aspx?FileId=50246

14 Annual income statement of transfer pricing, privileged tax regime and undercapitalized http://www.at.gov.mz/index.php/por/content/download/91296/791706/version/1/file/Plano+de+Actividades+e+Or%C3%A7amento+Anual+da+AT+2017.pdf

15 Mozambique Revenue Authority. (Several years). Report and Balance of Activities http://www.at.gov.mz/index.php/por/content/download/91804/795018/version/1/file/Relat%C3%B3rio+de+balan%C3%A7o+das+Actividades+Desenvolvidas+pela+AT+em+2017+e+Perspectivas+de+Ac%C3% A7%C3%B5es+para+2018.pdf

16 Oxfam. (2019). Widening the tax base of low-income countries: taxing high net worth

4.1.3 Taxpayer education

The AT does not have an official and consolidated taxpayer-education/civic-engagement strategy. However, through its Office of Communication and Image, the authority endeavours to educate the public about tax policies, rates, and collections through the media, such as radio and TV, distributing brochures and establishing tax hubs in various parts of the country[17].

The Taxpayer's Caravan (Caravana do Contribuinte) stands out as an emblematic initiative created to raise awareness about the importance of paying taxes through travels to different regions of the country to provide taxpayer assistance services. This may include providing information on tax obligations, issuing tax certificates and assisting with tax-return filing. The authority also provides information on tax policies, rates and collections through its website[18].

Despite the abovementioned initiatives, it seems that the efforts have proved insufficient to fill the knowledge gap, as a considerable part of Mozambicans still face difficulties finding out what taxes and fees they are supposed to pay to the government. According to Afrobarometer estimates, approximately 48.7% of Mozambicans find themselves in this category (finding it "difficult" or "very difficult" to ascertain what taxes and fees are due)[19]. Therefore, a broad and consolidated taxpayer-education/civic-engagement strategy emerges as key to reversing this trend.

4.2 Resources for tax administration

4.2.1 Financial resources

The statutes of the AT[20] limit the institution's financial resources to three main sources, namely, the budget, commission income (which is derived from remuneration for services provided to other entities), and revenue resulting from the sale of studies, works or other editions promoted by the institution. In practice, the institution also benefits from external aid (designated Fundo Comum) to support tax reforms and is also entitled to a budget allocation equivalent to 1% of

individuals. Oxfam Policy Paper. https://policy-practice.oxfam.org/resources/widening-the-tax-base-of-low-income-countries-taxing-high-net-worth-individuals-621078/

17 Mozambique Revenue Authority. (Several years). Report and Balance of Activities. http://www.at.gov.mz/index.php/por/content/download/91804/795018/version/1/file/Relat%C3%B3rio+de+balan%C3%A7o+das+Actividades+Desenvolvidas+pela+AT+em+2017+e+Perspectivas+ de+Ac%C3%A7%C3%B5es+para+2018.pdf

18 Mozambique Revenue Authority webpage - http://www.at.gov.mz/por

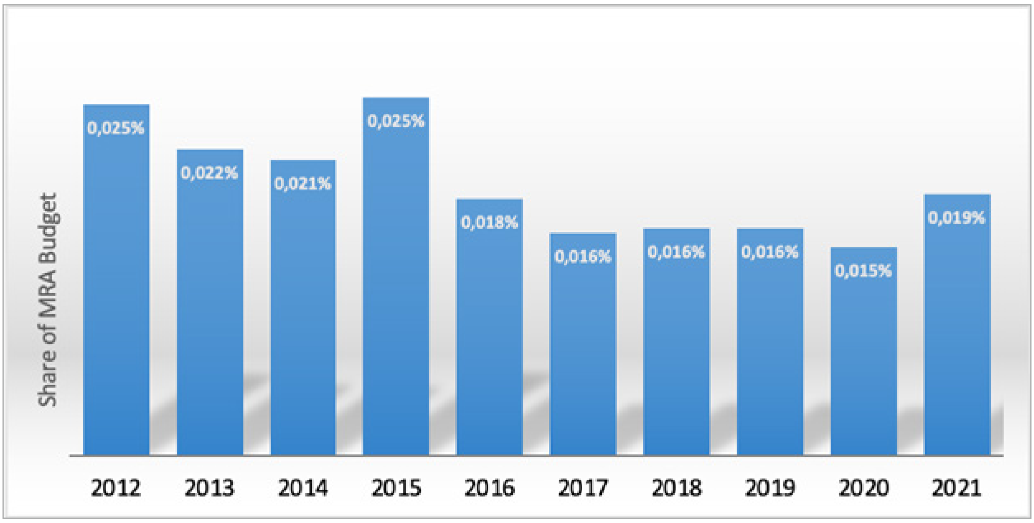
19 Afrobarometer (R8 2019/2021) – Mozambique. https://www.afrobarometer.org/online-data-analysis/

20 AT Statutes. http://www.at.gov.mz/por/content/download/90036/783524/version/1/file/Estatuto+organico+AT.pdf

the collected revenue.

AT's budget share (essentially used in recurrent expenditures – more than 90%) experienced a downtrend in the last decade. This most likely implies that the capacity of the institution to invest in its overall structure and capacity (with regard to infrastructure, human resources and expertise) to effectively collect taxes might be undermined. As illustrated in Graph 4.1, the resources allocated to the AT fell from 0.025% of the total governmental budget to 0.019% over the past ten years.

Graph 4.1: AT budget (2012–2021)



Source: General Budget (several years)

The downward trend is particularly worrying considering that the AT is responsible not only for collecting the taxes of the central government but also for those collected by the operational technical services of the customs area. In a context in which none of the functions of revenue collection are privatised and the number of taxpayers is rising and the process of collection is becoming more complex with sophisticated aggressive tax planning by companies, this exerts too much pressure on the AT. Put simply, there is an increasing need for financing to strengthen the AT's capacity.

4.2.2 Human resources

Owing to the limited funding, AT also faces constraints in its capacity with regard to staff numbers and its ability to extend services to taxpayers (both registered and potential). The expansion of the taxpayer register is not being accompanied by an increase in the same pace of staff recruitment. In fact, the taxpayer-to-AT staff ratio has increased over the past few years, from 96.9:1 in 2014/2015 to 143.3:1

in 2018/2019[21]. This deficiency undermines the domestic resource mobilisation process, as it makes it difficult to implement the taxation policy effectively, control compliance with tax legislation, and prevent and avoid tax fraud and evasion.

In addition to being understaffed, the institution does not uphold equal opportunity principles in its recruitment policy. Although some efforts have been made in the right direction (reflected by the fact that the institution is currently led by a woman, for example), the gender composition of its staff is still very unequal. The numbers show that the proportion of the female workforce does not amount to even a third of the institution's staff. The most recent report available on AT's website indicates that, until 2017, the AT was still far from gender balance, with the percentage of men at approximately 76%, versus 24% women[22].

4.2.3 Tax modernisation

The efforts towards tax modernisation in the country (mainly funded by external resources) are coordinated within the e-Tributação (e-Taxation) project. This is a governmental strategy that aims to modernise tax administration services based on a revenue-collection and information-management system with a focus on domestic taxes[23]. Nowadays, taxpayers can file a tax return online through the AT website. Likewise, tax payments can be made through banks by cheques, electronic funds transfers or cash deposits. However, there are still important challenges.

Despite the recent improvements, the AT system remains problematic and has been garnering many complaints from taxpayers who still have to go to the institution's facilities to confirm the references that are generated online for their payments. Furthermore, potential taxpayers can register and acquire tax identification numbers (TINs) in person only. These challenges have made the transition to a fully online system impossible (specifically for VAT and ISPC). As a result, taxpayers still face long queues to pay taxes, which favours corruption and undermines tax morale. It's important to note that AT's initial idea was to have these taxes exclusively paid online before 1 June 2022, neglecting the challenges faced by digitally illiterate and marginalised groups (especially women) that would have to pay other people to have their tax returns filed. While AT's digitalisation has many benefits such as greater efficiency, convenience and accuracy, it is important to ensure that those who are not skilled or comfortable with online processes are not left behind. The institution should continue to provide paper forms and in-person support to ensure

21 Mozambique Revenue Authority. (Several years). Report and Balance of Activities. https://www.at.gov.mz/por/Sobre-a-AT/Relatorio-de-Balanco-das-Actividades-Desenvolvidas-pela-AT

22 Mozambique Revenue Authority. (2018). Report and Balance of Activities (AT). http://www.at.gov.mz/index.php/por/content/download/91804/795018/version/1/file/Relat%C3%B3rio+de+balan%C3%A7o+das+Actividades+Desenvolvidas+pela+AT+em+2017+e+Perspectivas+de+Ac%C3%A7%C3%B5es+para+2018.pdf

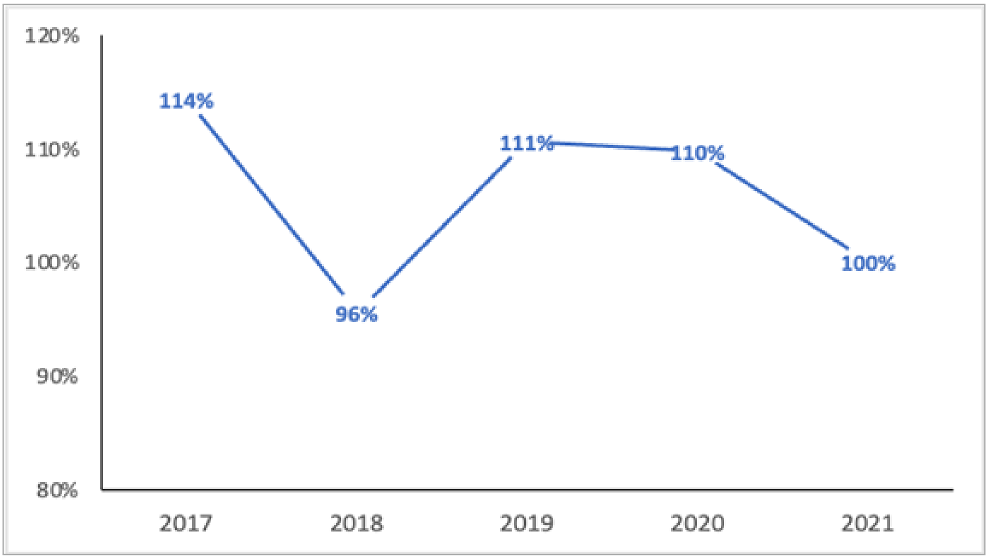
23 Mozambique Revenue Authority. (2020). Projecto e-Tributação. https://cta.org.mz/wp-content/uploads/2020/05/E-TRIBUTA%C3%87%C3%83O-CTA.pdf

that everyone can access their services, regardless of their digital capabilities.

4.3 Revenue shortfall

AT has been popular for its strong revenue performance in the last few years, overcoming targets, even in crisis contexts such as the COVID-19 pandemic. As illustrated in Graph 4.2, the institution usually exceeds the annual targets for major taxes that are set by the MEF as part of the wider midterm strategies of three years (medium-term fiscal scenario). On account of this trend, critics have accused the government of recurrently setting unrealistic or pessimistic targets for revenue collection.

Graph 4.2: Trends of AT revenue-collection performance



Source: General State Account (Several years)

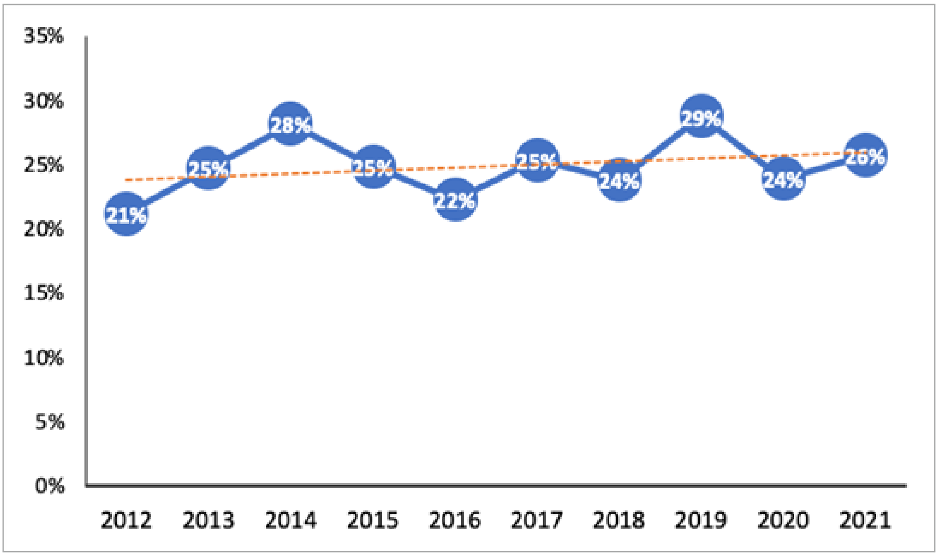
Nonetheless, the analysis of the tax-to-GDP ratio (see Graph 4.3) shows that AT's performance has been slowly increasing over the years. The total amount of taxes collected by the government as a percentage of the country's GDP averaged 25% in the last decade, well above the continent's current average of 16%[24].

While great progress has been made with the establishment of the AT in 2006 and the implementation of important tax reforms, there are still some issues

24 OECD. (2019). Revenue Statistics in Africa 2019: African Union Commission, African Tax Administration Forum and OECD. https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf

that hinder resource mobilisation in the country. Similarly to other developing nations, Mozambique continues to face the challenges of "hard-to-tax" sectors such as wealthy individuals and companies operating within the informal economy. This situation presents considerable enforcement problems and creates ample opportunities for non-compliance, resulting in a relatively low level of tax efficiency in Mozambique[25].

Graph 4.3: Tax-to-GDP ratio trend, 2012–2021



Source: Mozambique Revenue Authority. (Several years). Statistical Yearbook

According to Afrobarometer surveys conducted in 2021, although 70% of Mozambicans agreed that the tax authority has the right to make people pay taxes, about 58.5% thought that people always or often avoid paying the taxes that they owe the government[26].

For example, Mozambique's CIT efficiency ratio[27] is at the low end (0.097) when compared to most SADC countries[28] (see Graph 4.4). This reflects an erosion of the

25 Boly A., Konte, M. & Shimeles, A. (2020). Corruption and Tax Morale in Africa (Working Paper Series No. 333). African Development Bank. https://www.afdb.org/fr/documents/working-paper-333-corruption-and-tax-morale-africa

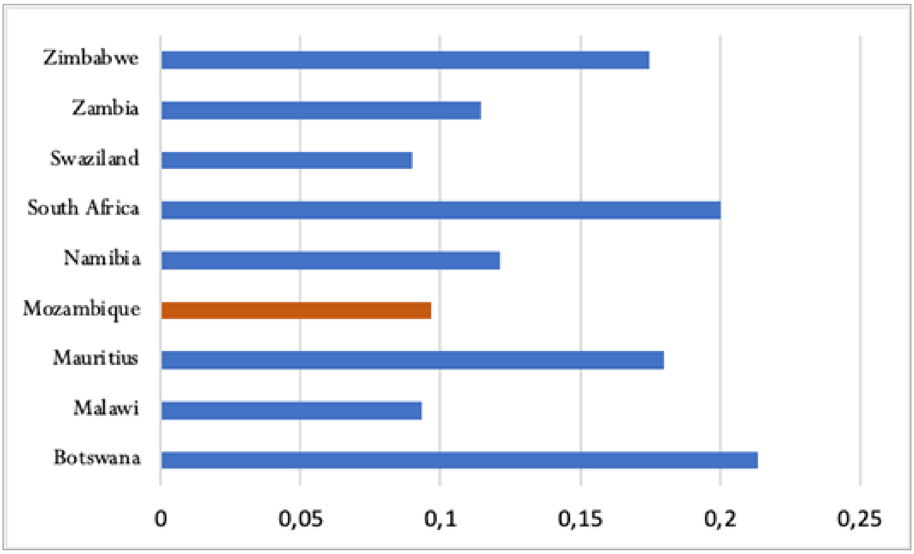
26 Afrobarometer Round 8 Survey (2021)- https://www.afrobarometer.org/publication/summary-results-afrobarometer-round-8-survey-mozambique-2021/

27 The CIT productivity shows how much 1 percentage point CIT statutory rate can generate in CIT revenue relative to GDP, indicating a country's overall efficiency of CIT for revenue mobilisation

28 Le, T. (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. Case Studies in Business and Management, 3(2). https://doi.org/10.5296/csbm.v3i2.9710. https://www.macrothink.org/journal/index.php/csbm/article/view/9710/7937

tax base owing to abusive tax noncompliance and deficiencies in tax administration. A response to these challenges can significantly improve the process of domestic resource mobilisation.

Graph 4.4: CIT efficiency rates in selected SADC countries[29]



Source: Adapted from Le (2016)

4.4 Effective capacity

4.4.1 Tax administration effectiveness

Owing to the lack of reliable and up-to-date data, assessing AT's effective capacity prevails as a wicked task. The reports that are annually made available by the revenue authority do not provide disaggregated data on the cost of collection of the different taxes (PIT, CIT, wealth taxes, VAT/sales tax, presumptive tax), nor on the existing staff expertise. This lack of information makes it difficult to identify areas of improvement and implement targeted reforms.

The Tax Administration Diagnostic Assessment Tool (TADAT) platform indicates that the AT conducted a technical pilot assessment in March 2015, along with 12 other countries. However, the performance assessment report was not made public,

29 Le, T. (2016). Measuring Efficiency and Productivity of Taxation: A Review of Tax System in Mozambique. Case Studies in Business and Management, 3(2). https://doi.org/10.5296/csbm.v3i2.9710. https://www.macrothink.org/journal/index.php/csbm/article/view/9710/7937

which makes it difficult for interested stakeholders to promote discussions on the institution's reform priorities and improvements in administration structures, systems and procedures to strengthen its performance.

4.4.2 Administrative reforms

The administrative reforms in Mozambique have been focused on efforts to modernise and streamline the tax system, aiming to simplify tax payments for taxpayers and improve the efficiency of the tax-collection process. According to the AT's strategic plan[30], one of the priorities is the modernisation of the physical facilities and the improvement of the management model of the technological infrastructure, with the implementation of integrated, secure, consistent, and adequate solutions to institutional needs.

AT's strategic plan also identifies the improvement of the organic structure model as another area of intervention, aiming to optimise results by eliminating redundancies. The focus is on streamlining work processes and simplifying hierarchical levels to achieve this goal. These reforms have the support of the country's international (aid) donors that annually allocate funds to the budget (through the common fund) for their operationalisation.

The proposed reforms would improve the relationship between AT and taxpayers and facilitate the broadening of the tax base if the funds were accompanied by knowledge sharing from international donors. If this were the case, the AT would not face the challenges that it currently does in the full operationalisation of the e Taxation project.

4.5 Conventions

4.5.1 International cooperation on tax matters

Mozambique is not a signatory to the various key international instruments aiming to promote transparency and cooperation in tax matters and combating tax abuse. Mozambique is not a member of the Global Forum on Transparency and Exchange of Information[31], not a signatory to the Convention on Mutual Administrative Assistance in Tax Matters (multilateral convention)[32], and is not involved in the

30 AT Strategic Plan – https://www.at.gov.mz/por/content/download/92958/802295/version/1/file/PLANO+ESTRAT%C3%89GICO+DA+AT+2018-2022.pdf

31 Global Forum members - https://www.oecd.org/tax/transparency/who-we-are/members/

32 OECD. (2023). Jurisdictions participating in the convention on mutual administrative assistance in tax matters: Status – 30 January 2023. https://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf

Automatic Exchange of Information (AEOI) initiative[33].

Likewise, the country is also not part of the Inclusive Framework (IF)[34] nor the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) ("Multilateral Instrument" or BEPS MLI). In brief, this means that cooperation with other jurisdictions is minimal, leaving the country more vulnerable to international tax abuse and undermining domestic resource mobilisation efforts.

Not being a signatory to the BEPS MLI, the country can exchange information with other tax administrations only if there is a bilateral treaty in place between both countries. Mozambique is currently a signatory to eight tax treaties that include provisions for mutual administrative assistance, including exchange of information. However, there is no indication that Mozambique has provided or requested information from its jurisdictional partners.

If Mozambique were to join the BEPS MLI, it would establish the possibility of mutual administrative assistance – including exchange of information on request – with all of its members, which currently include over 140 jurisdictions. Through this multilateral treaty, Mozambique would greatly expand its number of partners and have access to information on Mozambican taxpayers held by other jurisdictions.

Accession to the convention would also pave the way for Mozambique to exchange information through the automatic exchange of information mechanism in the future, which would result in Mozambique's receiving information on foreign bank accounts held by its residents. The country would have to invest in its tax-administration and information-technology infrastructure in order to automatically provide information to and receive information from other jurisdictions; however, access to the foreign financial accounts of its wealthiest citizens would greatly expand Mozambique's domestic resource mobilisation potential.

In order to develop the exchange of information with other jurisdictions, Mozambique should also consider becoming a member of the Global Forum on Exchange of Information. As an organisation with over 160 members, the Global Forum works towards the implementation of global transparency standards and the increase of exchange of information between its members. Joining the Global Forum would provide Mozambique with access to technical assistance – including toward joining the BEPS MLI – and the exchange of experience in this area with other countries. As an African member of the Global Forum, Mozambique would also become part of the Africa Initiative, which is a partnership between the Global Forum, its African members and a number of regional and international organisations and development partners. The Africa Initiative promotes the increased exchange of information in Africa towards increased domestic resource mobilisation and the

33 OECD. (2023). Automatic Exchange of Information (AEOI): Status of Commitments. https://www.oecd.org/tax/transparency/documents/AEOI-Commitments.pdf

34 Inclusive Framework on Base Erosion and Profit Shifting – https://www.oecd.org/tax/beps

tackling of tax evasion

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Since the advantages of these mechanisms, conventions and organisations are well known, one can only speculate that the country has not yet joined on account of a lack of political will and/or the perceived costs that are usually imposed on the tax administration for the exchange of information. However, the country is showing some openness to such initiatives, demonstrated by the discussions regarding the country's possible adhesion to the Global Forum on Exchange of Information in the body's 15th plenary meeting in November 2022[35].

While the membership of the Global Forum is broad – including 37 African jurisdictions – the secretariat of the organisation is part of the OECD. As part of a democratic and transparent shifting of global tax discussions and decision-making forums from the OECD to the UN, the overseeing and promotion of exchange of information and transparency standards should also be considered an important capacity of a new UN global tax body, as there is no clear reason for the OECD to oversee a global forum on the exchange of information.

4.5.2 Gender equality

In addition to being a signatory of international conventions with broad principles on gender equality, such as the Universal Declaration of Human Rights, the country also ratified some agreements specifically targeting gender discrimination, such as the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) on 21 April 2021. Although the convention does not explicitly mention fiscal frameworks, the obligation to prohibit discrimination against women and to ensure substantive equality applies to all governmental policies, therefore including taxation and spending[36]. However, its effect with regard to shaping the way in which the government sets criteria for gender equality in fiscal policy is relatively limited to the extent that the system is gender-blind – which is seen in consumption taxes that disproportionately affect women in the country.

4.6 Oversight

AT is officially under the MEF tutelage and therefore is directly under its supervision. The institution also undertakes its own technical inspections/internal audits and

35 Tax authority of Mozambique. (n.d). Moçambique Participa do Fórum Global sobre Transparência e Intercâmbio de Informações para Fins Fiscais. https://www.at.gov.mz/por/Noticias/MOCAMBIQUE-PARTICIPA-DO-FORUM-GLOBAL-SOBRE-TRANSPARENCIA-E-INTERCAMBIO-DE-INFORMACOES-PARA-FINS-FISCAIS

36 International Monetary Fund. (2021). Fiscal Law Design Considerations in Addressing Gender Inequalities: COVID-19 and Beyond. https://www.imf.org/-/media/Files/Publications/covid19-special-notes/en-covid-19-special-series-fiscal-law-design.ashx

administrative inspections, which are complemented by the oversight of the auditor general.

In addition to the General Statute of State Officials (Decree no. 14/1987 of 20 May) and Resolution no. 10/1997 of 29 July that establishes standards of ethics and ethics for civil servants, AT staff are also governed by an ethical code of conduct (publicly accessible), created two years after the establishment of the institution)[37]. In short, the normative instrument promotes gender equality and inclusion, performing duties with professionalism and compliance with the law, and provisions that discourage any act or attempt of pressure, in the form of coercion, harassment, abuse and violence.

The code also includes provisions that oblige AT's staff to analyse responsibly, impartially and fairly all complaints of the public against the institution and its employees and, when necessary, send them to court. The system also encourages AT staff to ensure the operationalisation of the institution's whistle-blower system.

The system enables taxpayers or whistle-blowers to flag any staff or fellow taxpayers who could be abusing the tax regime. And, in broad terms, the whistle-blowers protection act (Law on the Protection of Victims, Witnesses, Whistle-blowers and Experts in Criminal Proceedings, Law no. 15/2012 of 14 August) protects the rights and legitimate interests of whistle-blowers when their life, physical or mental integrity, and personal or property freedom are endangered because of the contribution they have made or are willing to make to the criminal investigation or the production of evidence in court. However, since the AT system is internally managed, diverging from good practice where it is outsourced, there is still a perceived uncertainty about the protection of whistle-blowers.

The cases that are sporadically reported in the media and the reiterated AT commitments's[38] reflect the existing political will to effectively investigate tax evasion at the domestic level. The AT increasingly is providing strategies to minimise tax fraud at the domestic level, as the entities are increasingly adopting sophisticated and well-studied mechanisms to circumvent tax obligations[39]. The same political will is not perceived when it comes to going to court (criminal or administrative) to try individuals or corporations using offshore tax structures, as reflected by the scarcity of cases on the matter reported in the media.

37 Mozambique Revenue Authority Ethical Code of Conduct - https://www.at.gov.mz/por/Sobre-a-AT/Codigo-de-Conduta-dos-Funcionarios-da-AT

38 Tax authority of Mozambique. (2022). Sistema fiscal Moçambicano continua resiliente. http://www.at.gov.mz/por/Noticias/Sistema-fiscal-mocambicano-continua-resiliente

39 Manjate, J.H. (2018). Ineficiência da operacionalização do Sistema Fiscal Moçambicano (Master's thesis, Polytechnic Institute of Porto). https://recipp.ipp.pt/bitstream/10400.22/13172/1/Joaquim_Manjate_MCF_2018.pdf

4.7 Gender

The whole budgeting and data-collection process of the AT is gender-blind. The institution does not make provisions of funds to collect and update gender-disaggregated data. In fact, the institution's most recent statistical yearbook[40] does not contain a single gender-disaggregation consideration in any of the data that is presented. This is not surprising, considering that the whole fiscal system is also gender-blind.

4.8 Recommendations

- The AT should assist subnational governments in the revenue-collection process and promote effective implementation of tax policy. More specifically, it should provide technical assistance and capacity-building to subnational tax authorities to help them develop the skills and knowledge needed to collect taxes effectively, as well as coordinate efforts to raise public awareness about the importance of meeting tax obligations and the benefits of paying taxes, and help to improve taxpayer compliance.
- MEF and AT should include a gender equity and inclusion analysis, promoting the principles of equal opportunity in their employee recruitment policy.
- The government should create a dedicated unit in the AT for the taxation of HNWIs and provide the political support to tax these powerful and often politically connected people. Currently, the country has neither a dedicated unit for HNWIs nor a specific monitoring and evaluation strategy, and therefore the AT fails to tax this segment effectively.
- The government should create a dedicated transfer-pricing unit in the AT and provide the political and financial support for the institution to build the capacity and political position to tax large MNCs and, if necessary, inspect their reported transfer prices.
- The AT should design and implement an official, consolidated strategy for civic engagement and taxpayer education.
- The AT should undergo an effectiveness assessment (such as TADAT) to identify areas for improvement and implement targeted reforms. The report should subsequently be published.
- MEF and AT should mobilise and allocate more funds to equip the tax authority with regard to infrastructure, human resources and expertise needed to collect more taxes efficiently.
- The AT should intensify tax modernisation efforts through the e Taxation project (collection and information-management system), correcting deficiencies and making it fully operational and "friendly" for taxpayers, but always maintaining the facility for the physical payment of taxes.
- Staff shortages are one of the factors that have hampered the AT's ability to

40 Mozambique Revenue Authority. (2020). Statistical Yearbook. http://www.at.gov.mz/index.php/por/Media/Files/Anuario-Estatisco-20202

reach more taxpayers to increase compliance levels. The MEF should urgently allocate more funds to the AT so that it can increase the number of tax inspectors and reduce the ratio of taxpayers to staff, while investing in training on proper tax-collection methods.

- MEF and AT should consider Mozambique's becoming a member of the Global Forum on Exchange of Information, joining the Convention on Mutual Administrative Assistance in Tax Matters, the Inclusive Framework, and the BEPS MLI, combat tax leakage, and improve domestic resource mobilisation through the establishment of a sound legal framework, technical expertise and infrastructure.

CHAPTER 5: GOVERNMENT SPENDING

The objective of this chapter is to review the ways in which the government spends the revenues collected and whether the effects of fair tax collection are enhanced or diminished by governmental spending. Education, healthcare, agriculture and social protection are the main topics under review as they represent basic public services. Pro-poor and gender analyses of these topics are provided to determine whether the spending is targeted to reduce poverty and decrease economic and gender inequality. Specific attention is given to the government's efforts regarding gender-responsive budgeting (GRB) and actual expenditure.

5.1 General

Overall, the spending in Mozambique is targeted to reduce poverty and decrease economic and gender inequality. Despite having discontinued the old Poverty Reduction Action Plans[1], the country continues to pursue policies aimed at reducing poverty and promoting social inclusion. As reflected in the different annual plans, the Mozambican government pursues policies aimed at improving access to education, health, and water and sanitation services, particularly in rural areas. Furthermore, the nation has several social-protection programmes, including the Basic Social Subsidy Program (PSSB) and the Direct Social Action Programme (PASD), which provide financial assistance to vulnerable and low-income households. These policies are particularly important on account of the high poverty rates in the country – more than half of the population live below the poverty line[2].

Pro-poor policies are gradually receiving more attention in the budgeting process. In 2023, for the first time, the government specified the resources to be spent on actions for poverty eradication or the Sustainable Development Goal 1 (End poverty in all its forms everywhere) in the yearly planning and budgeting process. The defined allocation was over 110 billion MZN, equivalent to 35% of the annual budget. This figure represents a milestone in the data collection on poverty-reducing spending. However, the data is yet to be disaggregated (by gender and age) according to good practice.

The same efforts are seen with regard to reducing gender inequality. At the central government level, the Gender Unit is responsible for ensuring gender mainstreaming in the policies, strategies, plans and budgets of the different programmes[3]. However, this unit is still operating with a limited capacity that constrains the full execution of its mandate. Although the Mozambican government's budgeting process is gradually approaching the incorporation of a gender perspective, challenges still exist. For instance, despite providing guidelines that include a gender dimension to the sector ministries, PESOE does not explicitly present a gender analysis. Furthermore, despite the existence of platforms for the collection and reporting of data on the provision of services broken down by sex, these are not fed by most of the sector's programmes and, when fed, there is a lack of gender analysis of the variables associated with the data and their impact on the management of, provision of, access to and use of public services.

1 For a brief but insightful analysis of the country's old specific pro-poor policies, see: Baloi, J.A (n.d). Políticas e Estratégias de Combate à Pobreza e de Promoção do Desenvolvimento em Moçambique: Elementos de Continuidade e Descontinuidade. Universidade São Tomás de Moçambique. https://revistaestudiospoliticaspublicas.uchile.cl/index.php/REPP/article/view/48605/55863

2 IGC. (2020). Poverty eradication in Mozambique: Progress and challenges amid COVID-19. Retrieved form https://www.theigc.org/blogs/progress-poverty-eradication/poverty-eradication-mozambique-progress-and-challenges-amid

3 Gender Inclusion Strategy in the Health Sector (2018-2023) – https://www.misau.gov.mz/index.php/planos-estrategicos?download=1521:estrategia-de-inclusao-do-genero-no-sector-da-saude-2018-2023

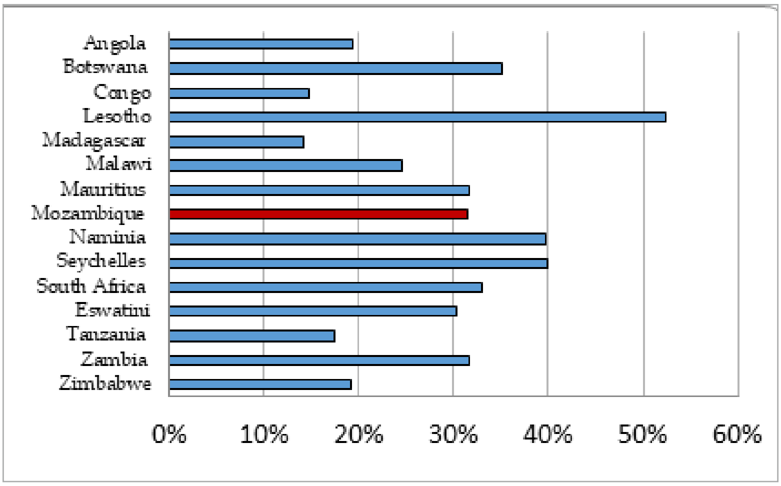
5.2 Overview

The budgetary resources are primarily managed at the central level. This leads to a lack of responsiveness of the budget to the needs and priorities of local communities and limits the ability of subnational governments to access resources. Since all the decisions are made at the central level, the fiscal policy contributes to power imbalances and reinforces existing inequities, rather than reflecting the diverse perspectives and needs of different regions and populations in the country.

Mozambique's annual budget is on average about one third of the GDP – slightly above the SADC regional average of 29% (see Graph 5.1). Ignoring the commitment to the decentralisation project that resulted from the punctual revision of the Constitution of the Republic initiated in 2018[4], the configuration of the territorial allocation of expenditure remains heavily centralised.

For example, the distribution of expenditure by management level in FY 2021/2022 shows that national state bodies and institutions absorbed 67.2% of the total expenditure, whereas only 32.8% was spent by the provincial (11.7%), district (19.7%) and municipal (1.5%) bodies combined. Graph 5.2 shows the regional distribution of all expenditures - both national, provincial, district and municipal.

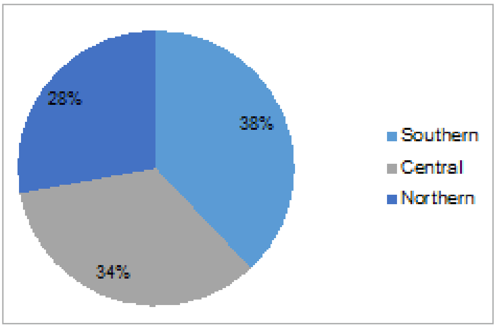
Graph 5.1: Expenditure to GDP in SADC countries – FY 2020/2021



Source: Fiscal Monitor – International Monetary Fund

4 Decentralization Law (no. 1/2018)

Graph 5.2: Regional distribution of the Mozambican budget, FY 2020/2021



Source: Report on the Implementation of the State's Budget

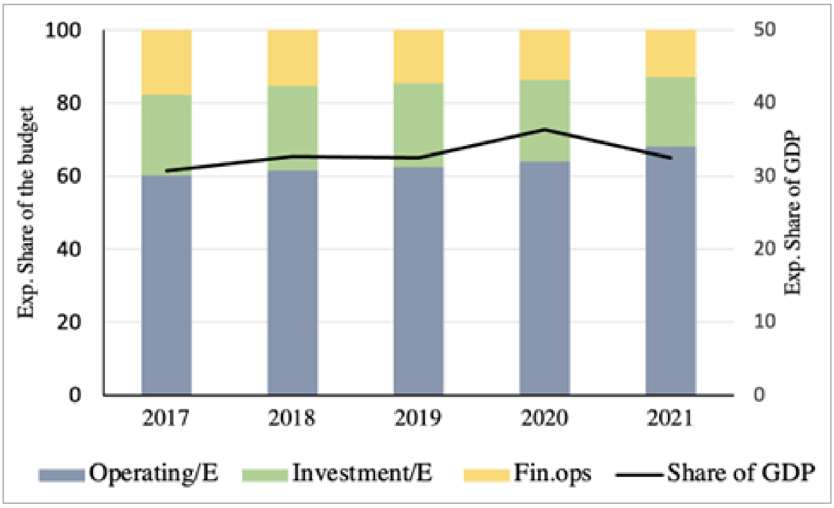
Further reinforcing the prevailing disparities, the regional distribution of the budget tends to favour the southern and central provinces at the expense of the northern. Therefore, it is not surprising that the northern[5] region of the country, rich in natural resources, has the highest poverty rate (55.1%), contrasted with the southern region, where 32.8% are living below the poverty line[6]. The centralised budget geared towards financing the state's administrative machinery is a problem because it fails, unfairly, to adequately reach the most marginalised regions and populations.

Mozambique's total budget increased from 31% of the GDP in FY 2017/2018 to 33% of the GDP in FY 2021/2022. As illustrated in Graph 5.3, an increasing part of the total budget has been allocated to operating expenditures, with both investments and debt servicing (financial operations) falling during the period.

5 Maquenzi, J. (2021). Pobreza e desigualdades em Moçambique: Um estudo de caso em seis distritos. Observatório do Meio Rural. https://omrmz.org/wp-content/uploads/OR-113-Pobreza-e-Desigualdades-em-Mo%C3%A7ambique.pdf

6 Ministério de Economia e Finanças. (2016). Pobreza e bem-estar em Moçambique: Quarta avaliação Nacional. Retrieved from https://igmozambique.wider.unu.edu/sites/default/files/News/Mozambique-A5-web-24022017.pdf

Graph 5.3: Trends in government budget



Note: *Operating/E = operating expenditures; Investment/E = investment expenditures; Fin.ops = financial operations Source: State General Account (several years)*

Source: State General Account (several years)

Historically, the Mozambican state budget has always been in deficit as a result of the low tax base combined with the continuous need for public investments. This continuous deficit of public accounts has forced the government to become indebted both internally (internal public debt) as well as externally (external public debt). For FY 2020/2021, of the 362.3 billion MZN (5.53 billion USD) expenditures, 75.1% were covered by the state's revenue, while the rest was financed through external aid (5.0%)[7] and domestic (13.7%) and external debt[8] (6.2%).

The most recent history of the country's debt can be divided into two important periods: before and after the scandal of the hidden debts (the government's secretly contracting illegal loans of about 2 billion USD). Indeed, after a period of almost ten years (2006 to 2014) in which the public debt was within the sustainability standards defined by the IMF, the insertion in 2015 of the "hidden" debts in the general state account (GSA) precipitated the acceleration of public debt to unsustainable levels, leading the country to be ranked among the economies with the highest levels of public debt.

7 Foreign aid to the country is in the process of resumption following the suspension by cooperation partners in 2016 due to the hidden debts scandal. Before the suspension, the country was heavily dependent on external aid, which financed nearly one fifth of the budget.

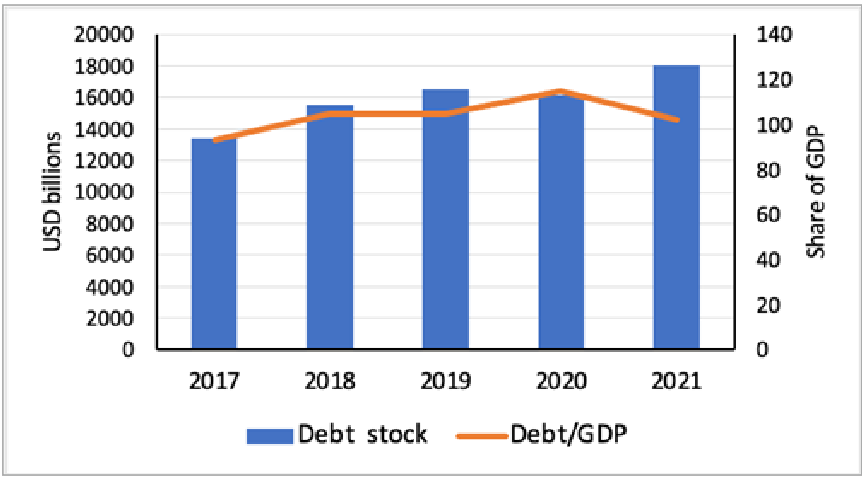
8 Machava, A. (2019, November 25). What price are Mozambicans paying for the unsustainable public debt? http://eleicoes.cddmoz.org/wp-content/uploads/2019/12/What_price_are_mozambicans_paying_for_the_unsustainable_public-debt_.pdf

The hidden-debt scandal triggered an unprecedented crisis in the state's accounts. Owing to the cut in budget assistance by the cooperation partners, it is estimated that public expenditure per person (USD per capita) decreased by about 39% between 2014 and 2019. The government was unable or did not make enough effort to compensate for the loss of external financing with an increase in tax revenue. Instead, it chose to adopt austerity measures[9].

These austerity measures, which negatively affected public spending for social purposes, were a result not only of the country's economic crisis but also because part of the public budgets had to be allocated to debt servicing. For example, during the period from 2014 to 2019, the resources allocated to the education and health sectors experienced reductions of approximately 26% and 28%, respectively.

According to the MEF, as of December 2021, Mozambique's public debt stood at 1.2 trillion MZN (18.3 billion USD)[10] – about 102% of GDP, of which 896.3 billion MZN (13.7 billion USD) was external and 255.4 billion MZN (3.90 billion USD) was domestic. These high levels of indebtedness discredited the country in the eyes of the international markets and triggered a rapid increase in the cost of living for Mozambicans through their effects on bank interest rates and on the depreciation of the national currency.

Graph 5.4: Trends in debt stock



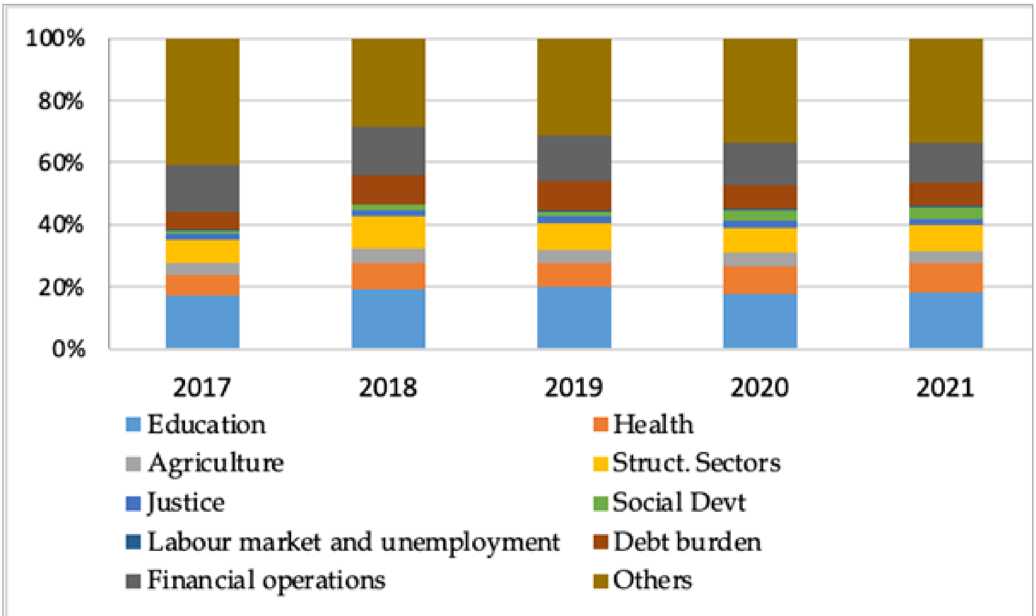
Source: State General Account (several years)

9 Center for Public Integrity. (2019). Costs and Consequences of Hidden Debts for Mozambique. https://www.cmi.no/publications/file/8282-custos-e-consequencias-das-dividas-ocultas-para-mocambique.pdf

10 Ministry of Economy and Finance. (2021). Annual Debt Report: FY 2020. https://www.mef.gov.mz/index.php/todas-publicacoes/instrumentos-de-gestao-economica-e-social/gestao-da-divida-publica/1511-relatorio-anual-da-divida-publica-exercicio-fiscal-2020-1/file?force-download=1

The high spending on debt-servicing (capital and interest expenditures incurred to amortise debt instalments owed to the country's creditors) has negatively affected the fiscal space and governmental investment in the social sectors (such as health, education and social development). Indeed, the share allocated to sectors such as agriculture, justice, social development, and work and employment has been much lower than that allocated to debt-servicing, as may be seen in Graph 5.5. Furthermore, the country has been struggling to effectively meet international and regional commitments, including allocating at least 15%, 10% and 20% of the annual budget to the health, agriculture and education sectors, respectively.

Graph 5.5 Budget disaggregation by sectors



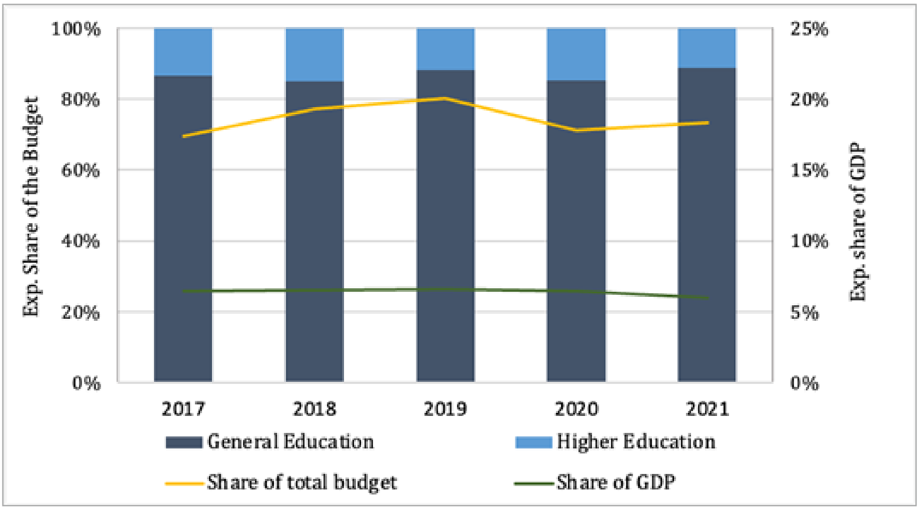
Source: State General Account (several years)

5.3 Education

5.3.1 Overview

Over the past five years, the total allocation to the education sector has stagnated around an average of 19% of the national budget (close to but still below the national commitment of 20%) and 6% of the GDP. Graph 5.6 shows the trends in Mozambique's education-sector budget allocations and share of the total budget and GDP, both in line with the benchmarks of the Incheon Declaration to ensure inclusive and equitable quality education[11] and larger than its regional and income-level peers[12].

Graph 5.6: Trends in education intra-sectoral budget allocations



Source: State Budget Account (Several years)

The Education Sector in Mozambique is financed by both internal (i.e. domestic) and external (i.e. foreign) resources. Two types of external resource fund the education sector: (1) The Education Sector Support Fund (Fundo de Apoio ao Sector da Educação, FASE) contributions, which is funding from development partners to the multi-donor Common Fund for Education, and (b) "bilateral project funds", which are all other grants and credits from partners not channelled through FASE. The FY 2021/2022 education-sector budget was funded by 90.8% internal resources and 9.2% external resources, which signals remarkable self-reliance in the education sector[13].

The expenditure in this sector follows the broad guidelines and goals of the Strategic Education Plan (ESP) 2020–2029 with the logical framework of the interventions aiming to implement an equitable, efficient, effective and innovative education in the country[14]. The Mozambican government promotes and practises the principles

11 UNESCO – Education 2030: Incheon declaration and framework for action. https://unesdoc.unesco.org/ark:/48223/pf0000245656

12 UNICEF. (n.d). Budget brief: health Mozambique 2019. https://www.unicef.org/mozambique/media/2751/file/Budget_Brief_2019_-_Education.pdf

13 State's Budget Account 2021, author's calculations: Summary of Expenditure According to Functional Classification, Compared to Budget Allocation.

14 Strategic Plan of Education 2020-2029 – https://www.globalpartnership.org/sites/default/files/document/file/2020-22-Mozambique-ESP.pdf

of universal free access to quality education at the primary level and the first cycle of secondary education[15]. The gratuity encompasses tuition and other fees related to enrolment, attendance, certification and schoolbooks, which are assumed by the state through what is called compulsory education in the national system[16]. However, as denounced by a civil society organisation (CSO) working in the sector, this gratuitousness is rarely ensured. For instance, the promises of distribution of free books to all students in a ratio of 1:1 and more efficient production and allocation of these is not yet a reality – at least 30% of students in public primary education have no access to the required textbooks each school year[17].

Primary and secondary education – general education, including district services – always accounts for more than three quarters of the total education-sector budget. The evolution of the education sector, as well as other sectors in the economy, is closely linked to the metamorphoses that the country has been undergoing over time – especially the transition from socialism to neoliberal capitalism with the Economic Rehabilitation Program (PRE) in 1987. The reversal of the socialist project saw developments in school education, with the approval of Law no. 6/1992 of 6 May, aimed at readjusting the general framework of the education system contained in Law no. 4/1983 of 23 March and aligning it with the neoliberal capitalism context.

As a result, in the text of the new Educational Law, the state allowed the participation of other entities, including community, cooperative, business and private bodies, in the educational process[18]. Of the 23,608 primary and secondary schools that existed in 2020, 95.3% (22,510 schools) were public schools, and the remaining 4.7% (1,098 schools) were private (for a more detailed breakdown, see Table 5.1). However, the existing supply is not enough to meet the growing demand. Owing to the demographic dynamics and the structural trend of an increasing population of school age, there is enormous pressure on the education sector to be effective[19].

15 Law on the National Education System – Law nr 18/2018 of December 18: https://www.ilo.org/dyn/natlex/docs/SERIAL/108938/134915/F1233978312/Lei%2018_2018%20MOZAMBIQUE.pdf

16 It is worth noticing that the government recurrently fails to guarantee the gratuity de facto in schools.

17 Centro de Integridade Pública. (2022). Negócio do livro escolar em Moçambique: quanto custa, quem ganha, quem perde e que reformas são necessárias? https://www.cipmoz.org/wp-content/uploads/2022/01/Nego%CC%81cio-do-livro-escolar-em-Moc%CC%A7ambique-3.pdf

18 Bande, A. (2022). Negócio do livro escolar em Moçambique: quanto custa, quem ganha, quem perde e que reformas são necessárias? Centro de Integridade Pública. https://www.scielo.br/j/aval/a/ZmWNGhxZ9KHZKsmptmhQQnd/?lang=pt

19 UNICEF. (2023). Vista Geral do contexto da Educação (Unpublished document).

Table 5.1: Mozambique education supply – 2020

Phase	Public	Private
Primary Schools	21,552	690
Secondary Schools	958	408
Total	**22,510**	**1,098**

Source: National Institute of Statistics Yearbook (2020)

In its efforts to promote the development of human capital and social justice, at the tertiary level, the Mozambican government also provides scholarships to public universities for less-privileged students and children of former combatants. Furthermore, the government offers foreign scholarships for bachelor's, master's, and doctoral degrees through a competitive process. The process is coordinated by the Institute of Scholarships[20], a national public institution with administrative autonomy supervised by the Ministry of Science and Technology, Higher and Vocational Technical Education.

5.3.2 Gender equality

The governmental expenditure on the education sector is gradually progressing to be more gender-responsive. This is evidenced by the existing gender institutionalisation in the education sector, reflecting the strategic options of the Strategic Education Plan regarding gender equity, which, in turn, are aligned with the country's Gender Strategy of the Education Sector (2016–2020). As a matter of fact, the Ministry of Education and Human Development (MINEDH) has a gender unit that operates within its Department of Human Resources. The fact that the unit belongs to a department increases its chances of having a budget for its activities[21]. In addition to this unit, MINEDH also decentralised the gender focal-point figure to the school level (in principle, all schools have a gender focal point)[22]. As a result, the country has made significant strides in promoting gender parity in its education system; the gender parity index[23] in primary education stood at 0.94 in 2020, higher than the 0.89 registered a decade before (2010)[24]. As is evident in

20 Institute of Scholarships – https://www.ibe.gov.mz/

21 Education Sector Strategy – https://www.globalpartnership.org/sites/default/files/document/file/2020-22-Mozambique-ESP.pdf

22 Mozambique Gender Profile – https://www.ophenta.org.mz/wp-content/uploads/2019/01/Perfil-de-genero-mocambique.pdf

23 The gender parity index (GPI) for gross enrolment ratio in primary education is the ratio of girls to boys enrolled at the primary level in public and private schools. A GPI of less than 1 suggests that girls are more disadvantaged than boys in learning opportunities, and a GPI of greater than 1 suggests vice versa.

24 https://data.worldbank.org/indicator/SE.ENR.PRIM.FM.ZS

Table 5.2, the gender gap in school enrolments is narrow.

Table 5.2: School enrolment by gender – 2020

Phase	Enrolment (%)	
	Male	Female
Primary Schools	51.6	48.4
Secondary Schools	50.8	49.2
Average	**51.2**	**48.8**

Source: National Institute of Statistics Yearbook (2020)

However, challenges still exist. There is still a limited technical capacity at local, district, provincial and national levels in the areas of financial planning and management, monitoring and evaluation from a gender perspective[25] . The Gender Unit and gender focal points do not receive enough funds to acquire skills for deep gender analysis. This renders it impossible to respond effectively to issues such as the high dropout rates among girls and women[26].

Despite the existence of a national Strategy for Inclusive Education and Development of Children with Disabilities (2018-2027), whose precepts are also reflected in the Education Sector Strategy, the governmental expenditure still fails to explicitly consider the needs of vulnerable groups of society, especially those with special needs and disabilities. It is difficult to assess which share of the budget is annually allocated to provide education to many vulnerable children, especially those with disabilities. The government provides schooling for those with special educational needs of physical, sensory, mental and other natures in regular and special schools. However, this is still not enough to respond to the existing demand for and limited access to inclusive education[27].

5.4 Healthcare

The COVID-19 pandemic exposed pre-existing weaknesses in the healthcare system, including limited access to healthcare in remote areas, inadequate funding and limited access to essential medicines. The health-sector budget has averaged

25 Gender Manual – http://ead.mined.gov.mz/jogar/wp-content/uploads/2021/10/pe-gender-manual-mh2021019-Genero-na-Educacao.pdf

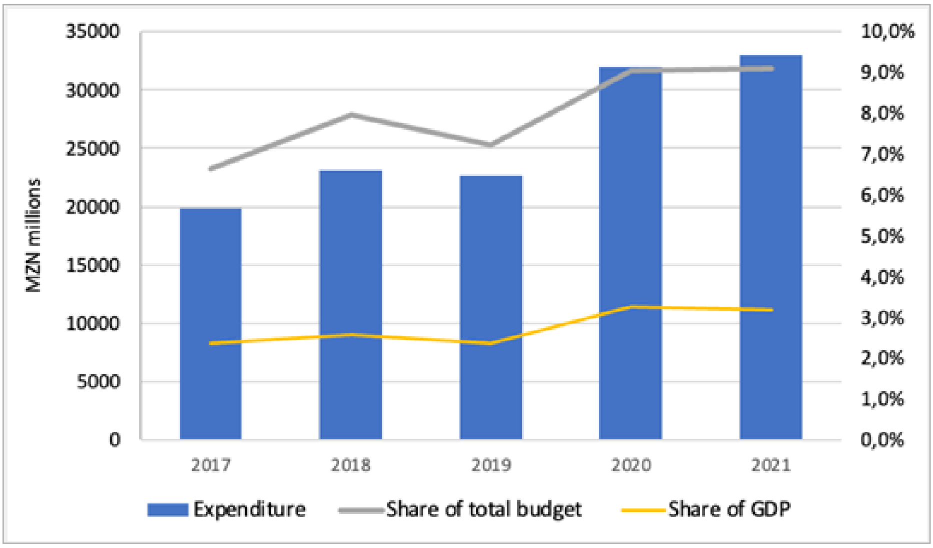
26 Mozambique Gender Profile – https://www.ophenta.org.mz/wp-content/uploads/2019/01/Perfil-de-genero-mocambique.pdf

27 O País. (2022). Há apenas 21 escolas que respondem às necessidades educativas especiais na Cidade de Maputo. https://opais.co.mz/ha-apenas-21-escolas-que-respondem-as-necessidades-educativas-especiais-na-cidade-de-maputo/

between 7% and 9% of the overall volume of the state budget and about 2%–3% of the GDP over the past decade. Owing to this stagnation, the budget allocation to the sector remains well below the target, set at 15% of the state budget total in the Abuja Declaration.

Despite being one of the sectors receiving the most resources in the priority sector group, the health sector has historically suffered from a lack of consistency in the budget-allocation trend that undermines the consolidation of the gains that have been achieved over the years[28]. In FY 2021/2022, as a result of the increasing needs in the context of the pandemic, the total budgetary allocation to the health sector increased to 9.1% of the budget, higher than the 8.8% and 7.4% allocated, respectively, five and ten years before.

Graph 5.7: Trends in healthcare budget allocations



Source: State Budget Account (Several years)

From the perspective of type of institution, the Ministry of Health and the District Services for Health, Women's Affairs and Social Action (SDSMAS) receive more than half of the budget (31% and 34%, respectively), while the rest is allocated to the Provincial Directorate of Health (DPS), the country's hospitals (central, provincial, district and psychiatric), Central Medical Stores (CMAM), Regional Health Development Centre (CRDS), and the National Institute of Health (INS). By level of care, historically, the central government receives over half of the total funds allocated to the sector, followed by primary and secondary healthcare, provincial

28 UNICEF. (2020). Budget brief: health Mozambique 2019. https://www.unicef.org/mozambique/media/2761/file/Budget_Brief_2019_-_Health.pdf

administration, tertiary and quaternary healthcare[29]. Although the country still faces challenges meeting the 15% target of the Abuja Declaration, the government has made significant strides in increasing per capita spending on health, from 29.70 USD a decade ago to nearly 40 USD in 2020/2021, well above the 34 USD that is recommended by the World Health Organization's Commission on Macroeconomics and Health.

The Mozambican government promotes and practises the principles of universal free access to quality healthcare, through universal primary healthcare. The National Health System (NHS) operates based on gratuity for a set of health services and a symbolic fee for hospitalisation and outpatient treatment. However, owing to the lack of stable sources of income, combined with the levels of unemployment in the country, the values established by the rates in health services, although symbolic, limit access to health services, as this fee is increased by other costs such as medicines, consultation, transport and food.

Depending on the type of service, the fees charged range from 50 to 2,000 MZN. It is important to note that these fees also differ between hospitals, as there is no legal instrument in place to regulate these charges. A recent study by a CSO working in the health sector estimated that at least 56% of Mozambicans who seek healthcare services have to sacrifice basic needs, such as food, electricity, water and transportation, among others, to cover the fees[30].

Furthermore, owing to underinvestment, the performance of the healthcare services is generally poor; the quality of facilities (such as beds, wards and delivery beds) at health-service delivery units is very poor or, in most cases, not functioning[31]. Because of the poor health services in government health facilities, most people turn to private healthcare providers, increasing their out-of-pocket spending. The actual household out-of-pocket expenditure as a percentage of total health expenditure increased by 3 percentage points during the past decade, from approximately 7% in 2010/2011 to 10% in 2019/2020[32], owing to the increase in the population's spending on healthcare outside the public facilities.

5.4.1 Gender equality in Mozambique's healthcare spending

Despite the efforts, the inexistence of a specific budget line to meet gender needs makes it difficult to fully respond to the needs of women, especially maternal and

29 UNICEF. (2020). Budget brief: health Mozambique 2019. https://www.unicef.org/mozambique/media/2761/file/Budget_Brief_2019_-_Health.pdf

30 Observatório do Cidadão para Saúde. (2022). Análise dos Efeitos Socioeconómicos das Taxas de Utilizador no Setor Público de Saúde.

31 https://www.cadernos.prodisa.fiocruz.br/index.php/cadernos/article/download/348/434/1185

32 Last update available on WHO Global Health Expenditure Database - https://apps.who.int/nha/database (Consulted on 31st October 2021)

child health, and sexual and reproductive health and rights (SRHR), which is also reflected by prevailing challenges in implementing the country's Gender Inclusion Strategy in the Health Sector (2018–2023[33]). For instance, PESOE does not provide gender-disaggregated data for health or any other priority sector. The funds for the abovementioned interventions are usually channelled through SDSMAS, a subnational entity that has a broader scope beyond gender needs.

Furthermore, the sector receives aid from external donors to deal strictly with gender needs, which the government channels as medicines and medical articles. For instance, the government provided 7.04 million USD for purchases of reproductive-health and family-planning commodities during FY 2021/2022. However, since the intervention was fully funded by donors, there are significant challenges in expanding and sustaining it.

Notwithstanding the prevailing challenges, through its various departments and pro-grammes, the Ministry of Health promotes gender and equity (G&E)-sensitive strategies, guidelines and programming for health-service delivery. This mainly includes G&E-sensitive budgeting, G&E-sensitive disaggregation of data[34] and prioritisation of the most affected and vulnerable populations in planning. The Gender Inclusion Strategy in the Health Sector (2018–2023), the guidelines on the prevention and response to GBV, sexual and reproductive health, and reproductive rights comprised in the Gender Policy and Implementation Strategy (PGEI) are some of the pieces of evidence of the sector's commitment to gender-responsive budgeting.

5.5 Agriculture

Over the past few years, the budget allocation to agriculture and rural development stabilised around averages of 4% and 1% of the national expenditure and GDP, respectively. In 2022, because of concerted efforts of civil society[35], for the first time, the government allocated 10% of total expenditure to the agriculture sector. However, the volume of resources is still considered insufficient for the magnitude and importance of the sector. The sector contributes about 25% of the GDP and absorbs about 70% of the workforce throughout the country, which indicates the need for greater prioritisation in the allocation of resources – greater than the 10%

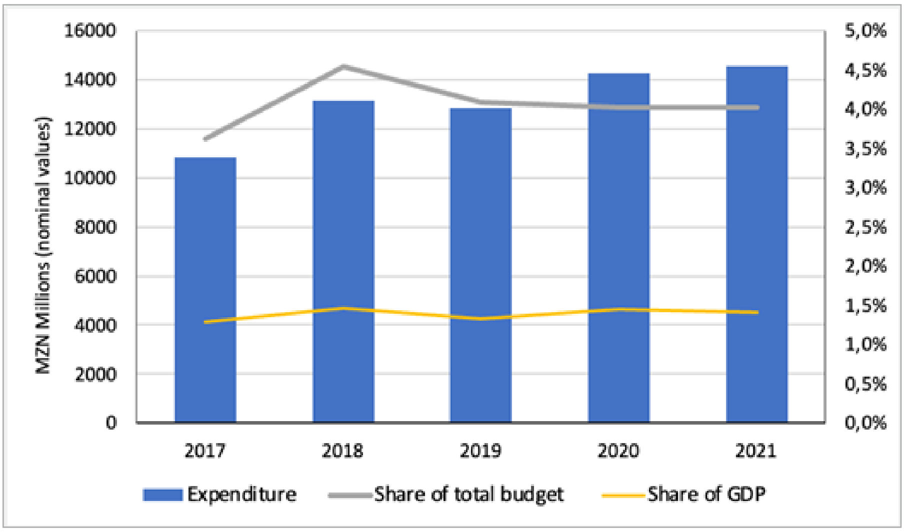
33 The Gender Inclusion Strategy in the Health Sector (2018 – 2023) – https://www.misau.gov.mz/index.php/planos-estrategicos?download=1521:estrategia-de-inclusao-do-genero-no-sector-da-saude-2018-2023

34 This process is still on consolidation. Despite the existence of platforms for collection and reporting of service delivery data disaggregated by sex, these are not fed by most programmes and Organic Units in the sector. (see Gender Inclusion Strategy in the Health Sector)

35 Fórum de Monitoria do Orçamento. (2018). As organizações da sociedade civil exigem 10% do orçamento do estado para a agricultura. https://omrmz.org/wp-content/uploads/Comunicado-10-agricultura.pdf

share of the Maputo/Comprehensive Africa Agriculture Development Programme (CAADP)[36].

Graph 5.8: Trend of the agriculture's budget allocations



Source: State Budget Account (Several years)

Agriculture and rural areas in Mozambique are dominated by the family sector, which implies that there is pressure for all policies, including budget allocations, to prioritise the family sector. Currently, the attention has been on the Integrated Management Project for Agriculture and Natural Resources (Programa SUSTENTA), which seeks to attend to the needs of smallholder farmers[37] . The programme for the integration of family farming in productive value chains comprises seven structural components of support to family farming: (1) technology transfers, (2) financing, (3) markets, (4) planning and production, (5) infrastructure, (6) environmental and social safeguards, and (7) producer subsidy.

The government budget for the agriculture sector covers access to extension services, water production, provision of improved agricultural inputs, technical assistance to producers, and low-cost technology transfer. However, civil society in the agrarian sector recurrently raises concerns about the existence of a "secondarisation" of the family sector with regard to technical assistance, through extension workers who do not offer technical training at the local level, and, when they do, it is not with

36 Fórum de Monitoria do Orçamento. (2019). Análise ao relatório de execução do orçamento do estado 2018. https://omrmz.org/wp-content/uploads/FMO-an%C3%A1lise-or%C3%A7amento-de-estado-2018.pdf

37 Programa Sustenta – https://www.fnds.gov.mz/index.php/pt/nossos-projectos/listagem-de-projectos/21-desenvolvimento-sustentavel/129-programa-sustenta

regularity and continuity[38], which implies that the services are not yet provided in the necessary quantity and quality to the farmers.

5.5.1 Gender equality in Mozambique's agriculture spending

To some extent, governmental expenditure on agriculture is gender responsive. Officially, the government started paying more attention to gender issues in the agriculture sector in 2005 with the approval of the first Gender Strategy for the Agrarian Sector (EGSA) 2005–2010, followed by the approval of the PGEI and the National Action Plan for the Advancement of Women (Plano de Acção Nacional para o Avanço da Mulher, PNAM).

These instruments clearly place access to natural resources (land, water, forests and fauna) and production (agricultural inputs, technologies, credit and markets) as the essential conditions for reducing gender inequalities still present in the agrarian sector . For example, although women participate in greatest number in agriculture (82.1% of female employment is in this sector, compared to 64.4% male), they are still marginalised with regard to land ownership, access to the public extension network and credit facilities, and agricultural markets.

5.6 Social Protection

5.6.1 Overview

The social protection system in Mozambique is managed by the National Social Action Institute (Instituto Nacional de Acção Social, INAS-IP). The public institute is the implementing body of the Ministry of Gender, Children, and Social Affairs (Ministério do Gênero, Criança e Acção Social, MGCAS) responsible for managing and organising basic social security programmes in the country. People in situations of poverty and vulnerability – especially women, children, the elderly, people with disabilities, and people with chronic and degenerative illnesses – are the priority beneficiaries of basic social security.

38 Fórum de Monitoria e Orçamento. (2018). Agricultura e desenvolvimento rural na proposta de OE 2019. https://omrmz.org/wp-content/uploads/Analise-_-FMO-_-OE-2018-_-Agricultura-_-draft-3.pdf

The current legislation distinguishes five main programmes, namely:

01

Basic Social Subsidy Programme (PSSB)

To reinforce the level of consumption, autonomy and resilience of households living in poverty and vulnerability, as well as to improve the nutrition of children;

02

Direct Social Action Programme (PASD)

Diverse support to individuals or households in poverty and vulnerability to recover from shocks and various emergencies affecting them;

03

Programme for Care in Social Units (PAUS)

Aimed at providing permanent or temporary accommodation for people in need or at risk in the family or community environment;

04

Productive Social Action Programme (PASP)

Consists of monetary transfers through productive activities for family households exposed to chronic food insecurity, aggravated by structural shocks and risks, and impacts of environmental changes and/or economic shocks; and

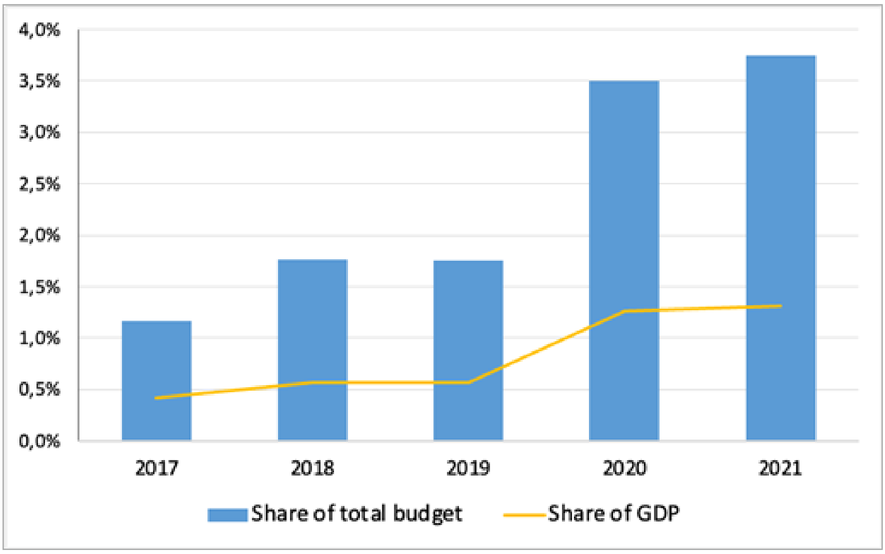
05

Social Action Services Programme (PROSAS)

Consists of a set of interventions with families and communities to promote the strengthening of protection capacity against social risks and social inclusion of the most vulnerable people (children, women, the elderly and people with disabilities).

These programmes are directly funded by the budget. As illustrated in Graph 5.9, before the COVID-19 pandemic, the total allocation to the social protection sector stagnated around an average of 1.5% of the national budget and 0.5% of the GDP.

Graph 5.9: Trends in the social protection budget allocations



Source: State Budget Account (Several years)

As several civil society organisations have been advocating[39], the national social protection sector is highly marginalised. The pandemic has exposed vulnerabilities in the country's social-protection system and created new challenges related to poverty, unemployment and food insecurity. In response, the Mozambican government has increased its budget allocations to social-protection programmes to an average of 3.5% of the national budget and 1.3% of the GDP. Notwithstanding this increase, the budget allocation remains below the target of 2.23% of the GDP set in the National Strategy for Basic Social Security (2016–2024).

5.6.2 Coverage and impact

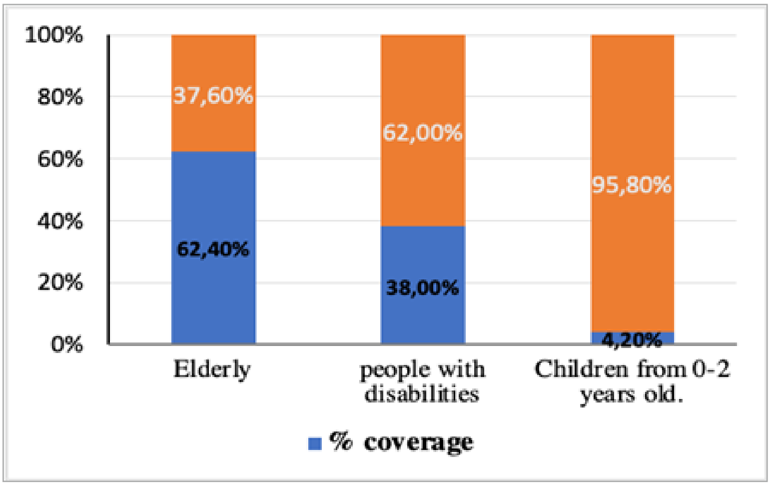
The social-protection sector remains underfunded. The shortage of funds, combined with implementation issues (poor mapping of potential beneficiaries), is such that it jeopardises compliance with the principles of universal free access to social protection in the National Basic Social Security Strategy (ENSSB). Owing to the lack of funds, the coverage of the different programmes ends up being inadequate to meet the needs of the targeted groups, particularly the most vulnerable, undermining the effectiveness of social programmes and limiting their ability to make a meaningful impact on poverty, inequality and social exclusion.

According to an analysis conducted by the United Nations Children's Fund (UNICEF,

39 Manguele, G. (2022). Entre expandir a cobertura e aumentar os subsídios: Protecção das famílias vulneráveis exigirá "jogo de cintura". https://fmo.org.mz/entre-expandir-a-cobertura-e-aumentar-os-subsidios-proteccao-das-familias-vulneraveis-exigira-jogo-de-cintura/

2023), not only is the coverage of the country's main program limited – particularly in the segment of people with disabilities and children aged 0–2 years (see Graph 5.10) – but there is also unequal coverage at the territory level. The proportion of the poor supported in urban areas of provinces such as Maputo City, Gaza and Tete are larger than proportion supported in the poorest provinces such as Zambezia, Nampula and Niassa.

Graph 5.10: Direct national coverage of target groups, PSSB



Source: State Budget Account (Several years)

In addition to significant gaps in coverage, particularly for people living in rural areas or facing multiple forms of vulnerability, the social programmes are unable to provide the necessary means for the survival of the targeted families. The monthly subsidies per household barely reach 20 USD, which is less than one third of the needed resources to keep them above the poverty line[40]. Although the National Basic Social Security Strategy recommends an annual update of the value of monetary subsidies distributed through programmes, taking into account the accumulated inflation during the period, these transfers are not systematically updated.

The impact is very limited, not only through cash transfers but also in food transfers to vulnerable populations that are made through various social-protection programmes, including the PSSB and PASD. The same may be said about the National School Feeding Programme (Programa Nacional de Alimentacão Escolar, PRONAE) launched in 2004, with technical and financial support from the World Food Programme (WFP) and other development partners, to provide meals to schoolchildren in primary education.

40 Manguele, G. (2022). Entre expandir a cobertura e aumentar os subsídios: Protecção das famílias vulneráveis exigirá "jogo de cintura". https://fmo.org.mz/entre-expandir-a-cobertura-e-aumentar-os-subsidios-proteccao-das-familias-vulneraveis-exigira-jogo-de-cintura/

Under PRONAE, children receive one meal per day during the school year, which is intended to improve their health, attendance and academic performance. The programme also supports local agriculture by sourcing food from small-scale farmers, and promotes community participation through the establishment of school feeding committees. However, the initiative faces sustainability issues, as it is mainly funded by external aid, constraining its impacts and expansion to other schools.

5.6.3 Gender budgeting

As part of the existing commitments to gender equality and the empowerment of women, the Mozambican government has made some efforts to promote gender-responsive budgeting in its social-protection policies and programmes. These efforts are reflected in the National Strategy for Basic Social Security II (2016–2024), which includes a gender mainstreaming strategy that seeks to ensure that all social-protection programmes are sensitive to gender issues and contribute to women's empowerment. Reflecting these efforts, a 2018 HelpAge International gender analysis revealed that 44% of older women had access to social assistance (above the 38% rate for older men), largely in the form of cash subsidies from the PSSB[41].

5.6.4 Social protection

The contributory pension schemes in Mozambique aim to guarantee the subsistence of workers in situations of lack or reduction of work capacity and surviving family members in the event of the death of the workers, as well as to providing supplementary survival conditions, under Article 2 of Law no. 4/2007 of 7 February. The country has a hybrid system: a compulsory and a voluntary system.

Compulsory social security in Mozambique includes the regimes of private-sector workers, namely, employees and self-employed workers, managed by the INSS; civil servants and state agents, managed by the National Institute of Social Welfare (Instituto Nacional de Previdência Social, INPS); and the cohort of workers of the Bank of Mozambique, managed by Kunhanha pension fund. In addition, there is also a voluntary pension scheme available to workers in the informal sector and those who are self-employed. This scheme is also managed by the INSS, and individuals may make contributions based on their capacity and financial situation.

Owing to the nature of the labour market in the country (marred by informality), only a small percentage of the population is covered by the mandatory contributory pension scheme, as it applies only to formal sector workers. According to demographic projections, in 2021 Mozambique had a population of 30.8 million

41 HelpAge International. (2019). Mozambique Gender Policy Brief. https://socialprotection.org/sites/default/files/publications_files/Mozambique%20Gender%20Policy%20Brief%20_%20OP.pdf

people, of which only 6.8% were covered by some type of social-protection system[42].

Only 5.6% of wage earners and 0.04% of self-employed workers contribute to a social-protection scheme in the country. The low coverage reveals that many individuals and families may face significant economic risks, such as poverty and food insecurity. This is not surprising, considering the high informality and poverty rates in the country – with more than half of the population below the poverty line[43]. However, these estimates also show the need for not only confronting affordability issues (with solutions adjusted to low income earners), but also improving outreach and communication, as many people who are eligible for social protection schemes may not be aware of their existence or may lack information about how to enrol.

5.6.5 Labor market regulations

The Labor Act in Mozambique (Law no. 23/2007 of 1 August) includes provisions related to non-discrimination, equal pay for equal work, workplace safety, and collective bargaining. In addition, the law prohibits forced labour, child labour, and discrimination based on gender, religion, race or sexual orientation. The government has also ratified several international conventions related to workers' rights, including the International Labour Organization (ILO) conventions.

However, as in the contributory pension schemes, the enforcement of these regulations proves to be a challenge as a result of the lack of financial and human resources in the Ministry of Labour and the high degree of informality in the labour market[44]. This has serious implications for workers, including lower wages, unsafe working conditions and discrimination (such as women's having limited control over household resources, lower wages than men, and lower school enrolment on all levels)[45].

5.7 Unpaid care work

As is the case in most of the world, women in Mozambique often perform most of the unpaid work, including household chores, caring for family members (mainly the elderly and children) and agricultural work, which is essential for food security.

42 Ministério do Trabalho e Segurança Social. (2022). 4º Boletim Estatístico sobre Protecção Social. https://www.inss.gov.mz/publicacoes/estatisticas/finish/7-estatisticas/110-4-boletim-estatistico-sobre-protecao-social/0.html

43 IGC. (2020). Poverty eradication in Mozambique: Progress and challenges amid COVID-19. https://www.theigc.org/blogs/progress-poverty-eradication/poverty-eradication-mozambique-progress-and-challenges-amid

44 Danish Trade Union Development Agency. (2017). Labour Market Profile 2017. https://www.ulandssekretariatet.dk/wp-content/uploads/2020/03/Mozambique_lmp_2017.pdf

45 Ibidem

This unpaid work often limits women's ability to participate in paid work or to pursue education or training, which perpetuates gender inequalities and further contributes to poverty.

The double burden of "reproductive" and "productive" labour faced by working women is well known by the government. This is a form of work that has been a fundamental part of the social reproduction of the workforce and the extraction of absolute surplus value by capital from the colonial period to the present. However, governmental policies still fail to deal with its disproportional effect on women. Instead of relief, it seems that the policies tend to reinforce the disparities and increase the burden on women. For example, the Labour Act of 2007 provides salaried women workers with 30 days of leave a year to take care of sick children. The limitation of this right to women, however, sharpens the sexual division of labour, placing the burden of care squarely on women's shoulders[46].

Furthermore, the underinvestment in key sectors (such as health, education and agriculture) is a determinant of the mitigation of the existing "reproductive" and "productive" burden faced by women. The government has recurrently failed to meet the expenditure commitments to these sectors[47]. The same underinvestment is seen in services for the care f elderly or disabled dependents, as it has too for childcare services – 96% of children are excluded from these services[48]. Greater investment in this strategic sector could help reduce the burden of unpaid work on women and promote gender equality. There is still a long way to go to achieve meaningful change.

5.8 Recommendations

Overall, the Mozambican government should prioritise its social-sector spending (education, health, social protection) to meet its international commitments – for example, currently only 6.8% of the Mozambican population is covered by some type of social-protection system. Another general challenge is the lack of publicly provided care services to reduce the burden of unpaid work on women and promote gender equality – for example, 96% of children are excluded from childcare services.

- MEF should reorient public expenditure to accelerate the decentralisation of resources to the local level and reduce regional asymmetries.

46 Castel-Branco, R. (2017). Beyond cash transfers: Social Protection, Social Services and the Socialisation of Care Work in Mozambique. Feminist Dialogue Series. https://library.fes.de/pdf-files/bueros/mosambik/13223.pdf

47 Fórum de Monitoria e Orçamento. (2022). Análise da Proposta do Plano Económico Social e Orçamento de Estado (PESOE) 2022. https://fmo.org.mz/wp-content/uploads/2021/12/Analise-da-Proposta-do-Plano-Economico-Social-e-Orcamento-de-Estado-PESOE-2022.pdf

48 Couto, M. G. (2020). A Educação Pré-Escolar em Moçambique. A Contribuição dos Atores Não-Estatais na Implementação de uma Educação Pré-Escolar Eficaz e Sustentável – Um Estudo de Caso (Master's thesis). https://repositorio.iscte-iul.pt/bitstream/10071/22342/1/master_maura_goncalves_couto.pdf

- The Mozambican government should strictly observe the budgetary rules associated with contracting public debt and redirect the debt to a sustainable path.
- The government should reinforce the capacity of the Gender Unit with regard to financial and human resources to ensure gender mainstreaming in the policies, strategies, plans and budgets of the different programmes.
- MEF should enhance the gender sensitivity of public expenditures by ensuring gender-equitable distribution of resources and by contributing to equal opportunities for all. PESOE, which is the main instrument in planning and budgeting activities, should present a gender analysis of the budgetary options and their impact on the management of, provision of, access to and use of public services.
- The government should adopt the collection of gender-disaggregated data as a standard in all ministries and state departments to effectively plan for programme-based projects that seek to redress gender inequalities.
- The government should increase spending on education to ensure universal and effective free access to quality education at the primary level and the first cycle of secondary education.
- MEF should explicitly consider the needs of vulnerable groups of society, especially those with special needs and disabilities, by allocating a greater share of the budget to attend to these needs.
- The government must increase spending on healthcare infrastructure (such as beds, wards and delivery beds) and the quality of public health services, as well as reduce the cost of these services to the marginalised population.
- The proportion of total governmental expenditure on agriculture should be allocated in line with the relative importance of the sector in the economy.
- The government should increase the budget allocation, cash and food transfers, and the coverage of social programmes to meet the needs of the targeted groups.
- The INSS should tackle affordability issues (with solutions adjusted to low income-earners) and improve outreach and communication to increase the coverage of social protection in the country.

CHAPTER 6: TRANSPARENCY AND ACCOUNTABILITY

This section assesses the availability and accessibility of information about Mozambique's tax system and spending. The report examines the production of impact-assessment studies of fiscal policies, which demonstrate strategic planning by public officials regarding taxation and public expenditure. It further assesses engagement by citizens and CSOs in decision-making procedures about fiscal policies.

6.1 Information availability

The legislation regulating access to information in Mozambique is enshrined in the Constitution of the Republic, in its Article 48 (Freedom of expression and information), and is materialised in Law no. 34/2014 of 31 December, known as the Right to Information Act[1]. The right of access to information imposes that state bodies and institutions, as well as private entities that, under the law or contract, carry out activities in the public interest, must receive and respond to requests for information and also disseminate information of public interest, proactively and routinely, regardless of specific requests[2].

However, access to information, especially in public institutions, is still at the discretion of state agents and employees[3]. This is associated, in part, with the problem of organising the public administration itself to make the availability of information more flexible. Many institutions have neither the proactive culture of providing information nor a minimum of organisation for easy access to it. At the local level, the situation is even worse; communities report the difficulty of obtaining the requested information on time, and sometimes the competent authorities do not provide it[4] .

In relation to the tax system, relevant governmental institutions publish information on their websites to inform the public about public spending (budgets) and the tax system (rates and collection). MEF publishes information on legislation, strategies and instruments for economic and social management, such as estimates of revenue and expenditure (including non-tax-revenues), annual budget performance reports, the economic and social plan, integrated investment plans, among other material[5]. Furthermore, the MEF is developing a Public Finance Transparency Portal, which aims to ensure that institutions and the general public have access to information on public finance, regardless of where they are located, without requiring a specific access profile or prior authorisation, thus allowing improved transparency of governance[6].

AT also provides information on the tax system (rates and collection), information

1 Actionaid (2020). Todos nós temos direito a informação. https://paane.co.mz/wp-content/uploads/2021/02/ActionAid-Resumo-LEDI.pdf

2 https://www.caicc.org.mz/images/documentos/Manual_de_Direito_a_Informacao.pdf

3 Guambe, E. (2021). Avaliação de transparência 2021: Análise dos cidadãos sobre a abertura dos governos na África Austral. MISA Moçambique. https://www.misa.org.mz/index.php/publicacoes/relatorios/direito-a-informacao-1/128-avaliacao-da-transparencia-em-mocambique-2021-analise-dos-cidadaos-sobre-a-abertura-dos-governos-na-africa-austral/file

4 Actionaid (2020). Todos nós temos direito a informação. https://paane.co.mz/wp-content/uploads/2021/02/ActionAid-Resumo-LEDI.pdf

5 https://mef.gov.mz/

6 MEF (2021). Relatório do balanço da implementação do plano estratégico das finanças públicas 2016 – 2019. https://www.mef.gov.mz/index.php/publicacoes/politicas/avaliacao-do-desempenho-da-gestao-de-financas-publicas/1215-relatorio-da-implementacao-pefp-2016-2019/file

on customs procedures and tax processes, tax return forms, and key performance statistics, such as annual revenue-performance reports.
However, some information is published late and does not allow civil society time to analyse and influence changes before it is submitted for approval by parliament (e.g. government budget proposals). Other information is published only when civil society organisations publicly complain about the issues.

Regarding the private sector, companies are required to disclose financial and non-financial information through the Right to Information Act, which imposes that private entities must disseminate information of public interest, and the Commercial Code, which has been updated to introduce new provisions on corporate governance, including requirements for companies to disclose certain information, such as their ownership structure and financial statements[7]. However, the enforcement of existing regulations is weak. For example, there are no promotional measures or sanctions related to the implementation and exercise of the Right to Information Law[8].

Consequently, in practice, there are challenges in the disclosure of company information, especially by SMEs[9], except those that are listed on the Mozambique Stock Exchange (Bolsa de Valores de Mocambique, BVM), which are required to comply with disclosure requirements (including publishing financial reports and other information on the BVM's website). The companies of the extractive sector, under EITI, are required to disclose information on their payments to the government, and the government to disclose information on its receipts from the sector.

The challenges are even greater with regard to the disclosure of information on the beneficial ownership of the companies. Despite the fact that Mozambique has claimed to act in line with good international practices and to combat "secrecy"[10], the lack of a specific legal and institutional framework that regulates the issue of beneficial ownership continues to constrain the identification and accountability of the individuals who ultimately own, control or benefit from companies and other legal entities.

Among the main existing gaps, the following stand out:
- There is no centralised national register that allows the identification of

7 https://rsa-lp.com/wp-content/uploads/2022/08/Ricardo-e-Carlos-VJjul_cor_online-copy_compressed.pdf

8 Teodósio, A. et al (2021). Transparência pública em Moçambique: Desafios e Perspectivas do Direito a Informação.

9 https://eiti.org/sites/default/files/attachments/mozambique_2017-2018_eiti_annual_progress_report_portuguese.pdf

10 Commitments, initially 2016 under the EITI, then in 2020 with the IMF (as part of access to funds through the Rapid Financing Facility) and, more recently, the inclusion of a chapter on beneficial ownership in the new commercial legislation are some examples of this trend of the country's compliance with international standards.

partners and beneficial owners of commercial companies.

- The information on the governmental portal of the published Bulletins of the Republic does not allow the identification of beneficial owners with regard to companies owned by other companies[11].

6.2 Auditing public accounts

The public accounts are subject to audit on an annual basis by the Administrative Court, which makes the results of the audits publicly accessible through its website. The parliament has three months to consider and approve the report and opinion of the auditor general.

The formally independent Administrative Court is the supreme institution for auditing public accounts in Mozambique. However, it has carried out annual audits that do not even cover half of the state budget[12]. The justification that this institution has provided for not carrying out audits that are well above 50% is related to the reduced number of qualified human resources and materials (lack of sufficient funds to carry out the audits). In fact, although the Administrative Court has an independent position from the government, in practice, the court does not enjoy complete financial autonomy. Also, staffing matters are centralised in the Government, namely, appointing staff, the definition of work content, approval of professional careers, and the definition of salaries, among other issues of functionalism[13].

According to the Open Budget Survey[14], in 2021 the legislature and supreme audit institution in Mozambique (Administrative Court and assembly of the republic) together provided limited oversight during the budget process, with a composite oversight score of 44 (out of 100).

At the parliamentary level, the analysis showed that the parliament provides limited oversight during the planning stage of the budget cycle and weak oversight during the implementation stage. In fact, the legislature is not consulted before the executive shifts funds specified in the enacted budget between administrative units, and spends any unanticipated revenue or reduces spending as a result of

11 GIFiM. (2022). Relatório da Avaliação Nacional dos Riscos de Branqueamento de Capitais e de Financiamento do Terrorismo. Gabinete de Informação Financeira de Moçambique. http://www.gifim.gov.mz/documents/138.pdf

12 CIP (2018). Baixo nível de cobertura das auditorias do tribunal administrativo "esconde" mais casos de má gestão de fundos públicos.https://cipmoz.org/wp-content/uploads/2018/03/Baixo_Nivel_de_Cobertura.pdf

13 https://www.oisccplp.org/wp-content/uploads/sites/5/2022/03/Tema-II-Mo_ambique-A-INDEPEND_NCIA-DOS-TRIBUNAIS-DE-CONTAS.pdf

14 International Budget Partnership (2021). Open Budget Survey 2021. Country Questionnaire: Mozambique (international budget.org)

revenue shortfalls during the budget year.

6.3 Open Budget Index

The Government Budget Proposal provides tax information such as the revenue and expenditure performance of the previous FY, highlighting the performance of various tax heads such as PIT, CIT, VAT and customs duties, among other revenues. In addition, it outlines tax-policy reforms and anticipated fiscal risks and their expected impact on revenue collection. It outlines the revenue and expenditure projections of the next FY, highlighting the contribution of each type of tax. The same applies to non-tax revenues, but information about extra-budgetary funds and tax expenditures is not presented.

Failure to report extra-budgetary funds can lead to a lack of transparency and accountability. This lack of transparency can undermine public trust and confidence in the government or organisation. Furthermore, extra-budgetary funds may be used to fund activities that are not aligned with the government's policies. If these funds are not reported or monitored, there is a risk that they will be misused or misappropriated.

6.4 Impact assessment

The Mozambican government does not conduct impact assessments by gender, income or other groups to identify the direct and indirect effects of taxes or budget choices, with particular attention to the impacts of both taxes and public spending on the poor, women and vulnerable groups. Instead, the government favours the use of social-protection programmes to tackle inequalities and attend to the needs of vulnerable members of society.

The country has benefited from several gender-budgeting initiatives. Between 2003 and 2012, Mozambique was one of the priority countries for the support given by UNIFEM's Global Gender Budgeting Program (now UN Women). Mozambique was also one of the five pilot countries of a joint UN Women and UNCDF project called Gender Equitable Local Development (GELD)[15]. These programmes focused on raising awareness and capacity-building, targeting planning and budgeting activities from an expenditure perspective. At this stage, the country should already have the experience to replicate this process for taxation, but no serious discussions of undertaking gender-responsive taxation have occurred.

15 Ministério do Género, Criança e Acção Social (2016). Perfil de gênero de Moçambique https://www.ophenta.org.mz/wp-content/uploads/2019/01/Perfil-de-genero-mocambique.pdf.

6.5 Citizens' engagement

Civil society can participate in shaping fiscal/budget policies on two levels, though participatory processes are not gender-sensitive.

The MEF has established public hearings during budget formulation. In practice, MEF prepares the economic and social plan and the government budget and invites civil society to a meeting in order to gather their sensitivities. However, this practice seems more like a "tick-box exercise" to satisfy regulations, as the documents and invitations are sent at the last minute, not allowing the CSOs to analyse them in time for them to actually contribute and influence changes. Furthermore, during the budget implementation, there is no formal space given to CSOs.

On another level, the parliament has established submissions related to the approval of the annual budget and submissions related to the review of the audit report. In addition, CSOs are invited by the Parliamentary Planning and Budget Committee to share their views on the budget proposal, but these consultations are not public hearings; the invitation is addressed to some organised groups only[16].

6.6 Recommendations

- The Ministry of Justice, Constitutional and Religious Affairs should establish a law that requires all companies to disclose their actual human beneficial owner(s) at registration, without exemption. This should include a publicly accessible centralised national register that allows the identification of partners and beneficial owners of companies and other legal entities.
- The MEF should extend public hearings into the budget execution period. This space provides an opportunity for CSOs to provide feedback on the running budget and governmental programmes during the year, and to advocate greater transparency and accountability in the use of public funds.
- MEF should conduct impact assessments by gender, income and other groups, to identify the direct and indirect effects of taxes/budget choices, paying particular attention to the impacts of both taxes and public spending on poor people, women and vulnerable groups.
- MEF should conduct and publish reports on extra-budgetary and tax expenditures, that is, estimating the revenue loss associated with provisions that provide preferential treatment to certain individuals, businesses or activities. In this way, citizens and policy-makers will be provided with information about the costs and benefits, therefore enabling a discussion on the effectiveness of these provisions, identifying areas for reform, and allowing them to make informed decisions about tax policy.
- MEF and AT should ensure effective transparency, not only disclosing information of public interest but also making it available in due time.

16 International Budget Partnership (2021). Open Budget Survey 2021. Country Questionnaire: Mozambique (internationalbudget.org)

- The auditor general currently provides only limited oversight during the budget process, as a result of limited access to financial and human resources. The government should adequately fund and respect the auditor general so as to ensure its independence and ability to provide valuable independent and nonpartisan information to the government and parliament during the budget process.

CHAPTER 7: TAXING MOZAMBIQUE'S NATURAL RESOURCE WEALTH

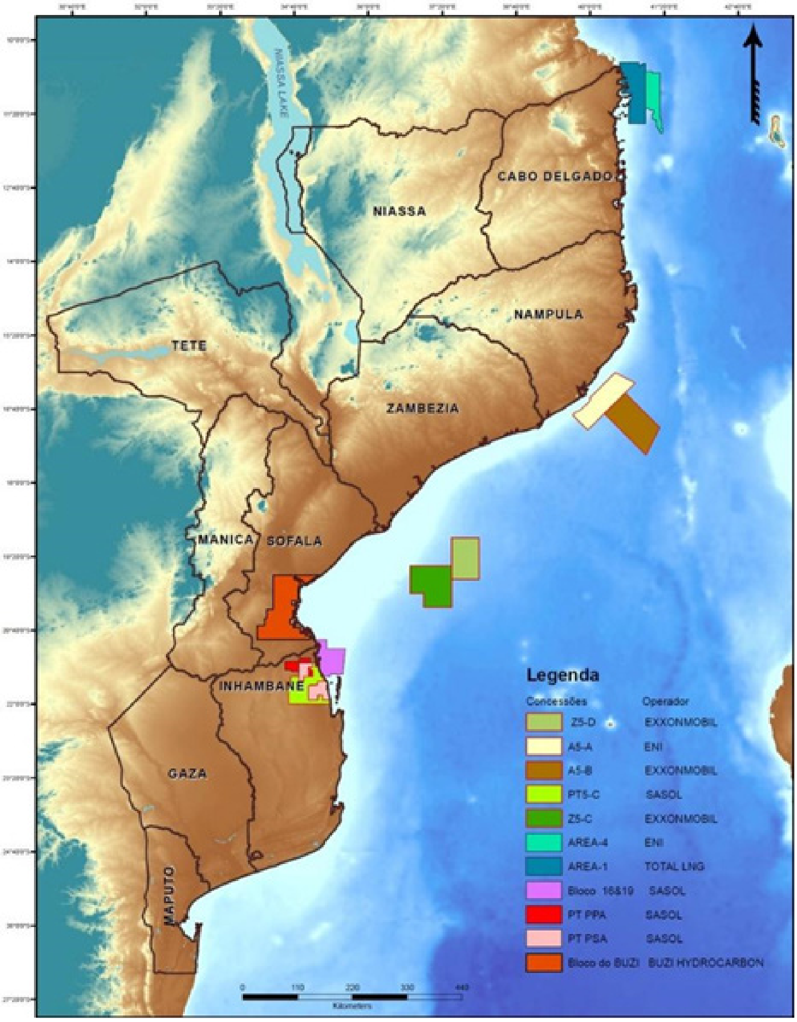
7.1 Mapping of the extractive sector in Mozambique

Mozambique boasts a wealth of natural resources, including coal, natural gas, oil, and a range of minerals such as gold, titanium, copper, iron, bauxite and graphite. Among these resources, coal is one of the most significant for the country, with an estimated reserve of over 20 billion tons, mainly concentrated in the Tete province. This region has attracted major international companies such as Vulkan (formerly owned by Vale) and Jindal Steel and Power. Ruby mining is also a growing industry in the country, with Gemfields, a renowned international company, investing in the Montepuez region of the Cabo Delgado province. Mozambique also boasts significant reserves of heavy sands containing valuable minerals such as ilmenite, zircon and rutile, which have the potential to contribute significantly to the country's economy.

Table 7.1: Extractive industry activities in Mozambique

Resources	Location (Province)
Coal	Tete, Manica and Niassa
Bentonite	Maputo
Copper	Tete and Manica
Bauxite	Manica, Tete, Zambézia and Niassa
Marble	Cabo Delgado
Graphite	Cabo Delgado and Tete
Granite and gravel	All provinces
Salt	Coastal region
Asbestos	Manica, Zambezia and Tete
Heavy sands	Gaza and Nampula
Natural gas	Inhambane (Pande and Temane) and Sofala (Buzi), Rovuma Basin
Feldspar	Zambézia, Manica, Tete and Nampula
Tantalum	Zambézia, Tete, Manica and Sofala
Petroleum	Rovuma and Zambezi Basin
Columbite, beryl, gemstones and kaolin	Niassa, Manica, Tete, Zambezia, Nampula
Mica	Sofala, Zambézia, Manica, Tete and Nampula

Map: Active Hydrocarbon Concession Areas



Source: INP (2023). [*http://www.inp.gov.mz/pt*](http://www.inp.gov.mz/pt)

Mozambique's most valuable resource is natural gas, with reserves estimated at over 277 trillion cubic feet[1]. The province of Cabo Delgado is particularly rich in natural gas and has attracted significant foreign investment. The Mozambique LNG project, led by Total, is one of the largest LNG projects under development in the world, while the Coral FLNG project, led by Eni, also has a major presence in the region.

The largest hydrocarbon exploration areas in Mozambique are concentrated in the Rovuma Basin, off the north coast of the country. Area 1, operated by Total,

1 GoM (2014). Natural Gas Master Plan. Maputo: Government of Mozambique

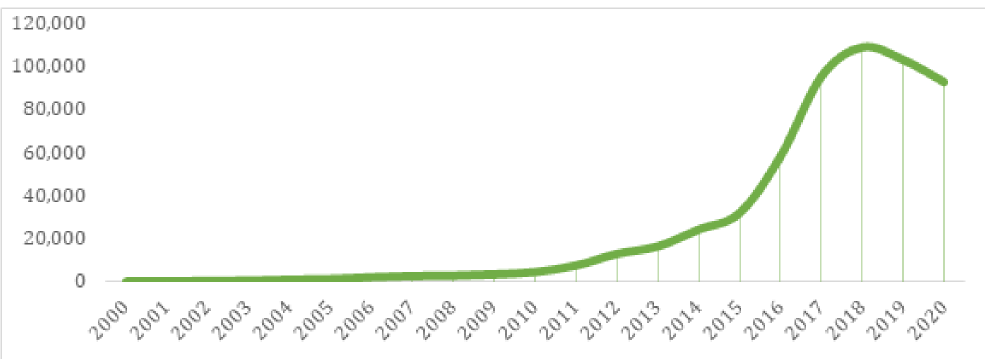
is considered one of the largest discoveries of natural gas on land in the world. Similarly, Area 4, operated by Eni and with shares held by CNPC, Kogas and Galp Energia, has also shown significant potential for natural gas production. In addition to these areas, Búzi, located in Sofala province in central Mozambique, is an important natural gas exploratory area led by Sasol. The Temane area, located in the province of Inhambane in southern Mozambique, is another key natural gas production site, also led by Sasol.

7.1.1 How big is the extractive industry in Mozambique?

Over the past two decades, the extractive industry in Mozambique has experienced significant growth in production, as demonstrated by Graph 7.1. While coal production has notably increased, natural gas production has the potential to expand even further with the development of the Mozambique LNG project. However, the instability in the Cabo Delgado region has presented a challenge for the industry and has caused delays in the start of the Mozambique LNG project, originally scheduled for 2024.

Despite being affected by declining commodity prices, Mozambique's extractive industry production has increased twentyfold since 2010. Although there was a reduction in production (in nominal terms) from 2018 to 2020, caused by declining commodity prices, prices have risen sharply since 2020. In addition, commodity prices across the board are expected to rise further in the coming years. Despite the temporary setback caused by declining prices in the recent past, Mozambique's extractive industry is poised for growth and expansion in the future.

Graph 7.1: Evolution of production of extractive industries (in million MZN)



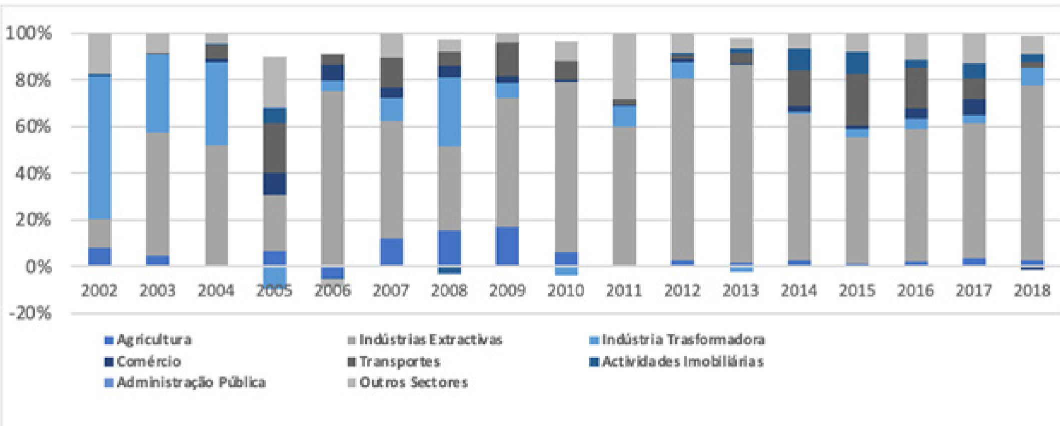
Source: National Institute of Statistics (2021)

The boom in Mozambique's extractive sector coincided with Mozambique's "age of megaprojects", which began in the early 2000s. During this period, the country experienced a surge in large investment projects in both the manufacturing and extractive industries. Notably, in 2004, Sasol's Pande and Temane natural-gas projects in the Inhambane province marked the start of major natural-gas developments. This was followed by the Kenmare Moma Mining Company's heavy-sands project in the Nampula province in 2007, as well as the coal projects of Rio Tinto and Vale in the Tete province[2]. These projects were instrumental in driving the growth of Mozambique's extractive industry over the last two decades.

The effects of these projects were predictable, as the extractive industry more than doubled its contribution to Mozambique's overall GDP. This growth was accompanied by a high level of foreign direct investment (FDI), which was concentrated in the extractive industry. This is evident in Graph 7.2, which shows the evolution of FDI distribution by sectors of economic activity from 2002 to 2018.

The analysis of the figure allows us to draw the following conclusions: First, at the beginning of the period under analysis, FDI was focused on the manufacturing industry, primarily as a result of the implementation of the Mozal project. Second, between 2010 and 2018, the extractive industry absorbed an average of 70% of the FDI inflow in Mozambique.

Graph 7.2: FDI in Mozambique, 2002–2018



Source: Bank of Mozambique (2021); National Statistics Institute (2021)

7.1.2 Direct impact of extractive industries on economic growth

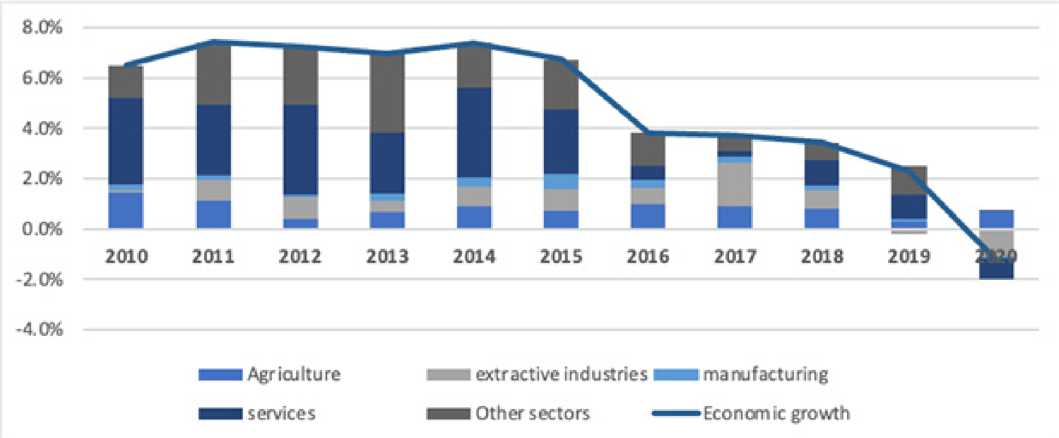
Despite the extractive industry's rapid expansion, its relatively small share of GDP has hindered its ability to drive sustainable economic growth in Mozambique. Nevertheless, in 2017, the extractive sector made a noteworthy contribution to

2 Deloitte & EITI. (2018). Final Report. EITI Mozambique. Maputo: EITI Mozambique.

the country's economic growth, despite facing multiple challenges such as high levels of external debt and underperformance of other sectors, serving as a crucial foundation for economic growth.

As new projects are implemented and commodity prices improve, revenues from the extractive sector are expected to continue to grow.

Graph 7.3: Contribution of sectors to economic growth, 2010–2020



Source: National Institute of Statistics (2021)

7.2 Revenue-sharing mechanisms in the extractive industries in Mozambique

The legal basis for the distribution of revenues from the extractive industry to the development of the hosting communities in Mozambique was initially grounded on the Laws no. 11/2007 (Mining Law) and no. 12/2007 (Petroleum Law) of June 27. Although not specific, these laws determined that "a percentage" of the royalties should be allocated to the development of local communities. The legal void about the exact percentage to be allocated remained for almost six years.

Only in 2013, through the Budget Law (Law no. 1/2013 of 7 January), did the government decide to set a percentage of 2.75% of the royalties to be allocated to the affected communities. In the same year, the criteria to be observed in the implementation of projects financed by such revenues were defined through Circular no. 01/MPD-MEF/2013. Under this instrument, projects aimed at building socio-economic infrastructure (education, health, agriculture, forestry, services, roads and bridges of local interest, and water supply and sanitation systems) are eligible.

The 2.75% rate was arbitrarily fixed by the government without the public participation of the affected communities. As a result, since its establishment, the percentage has been recurrently contested by civil society, which demanded an upward revision to enable the affected communities' right to development. In 2022, after years of advocacy work by CSOs, the percentage was finally revised to 10% of the natural-resource royalties to the development of provinces, districts and local communities where extraction takes place[3]. The measure was announced in August last year as one of the 20 reforms proposed under the Economic Acceleration Package (PAC).

However, the upward revision is just the first step toward assuring a more sustainable and equitable distribution of the benefits and costs of resource extraction. Only with effective enforcement of the approved legislation may Mozambique have an efficient, fair and stable mechanism for sharing the revenues from the extractive industry. This concern is legitimate, since, even under the lower percentage of 2.75%, there were many reports that the resources were not reaching the communities[4].

In line with the announced measure and the subsequent revision made to the Mining Law (no. 15/2022 of 19 December) and the Petroleum Law (no. 16/2022, also of 19 December), the proposal for a governmental decree for the allocation and management of revenues from the extractive industry defines a percentage of 10% of revenues from the tax on mining and oil production for producing regions. Of the 10% of royalties, 7.25% is allocated to provinces and districts, and the remaining 2.75% is allocated to local communities in the areas in which the respective projects are located.

At the time of writing of this report, the government was in the process of soliciting inputs from key stakeholders concerning a new decree that will govern a new system of revenue-sharing within the country. In general, the sections pertaining to the reference year, tax base, allocation of revenues, eligibility criteria for local community projects, and the rules governing revenue distribution emerged as particularly challenging aspects.

- **Reference year**: The government's initial proposal establishes the use of the revenues collected in the programming year (year n) as a reference for distributing resources to provinces, districts and local communities. While desirable, this approach was deemed to be ineffective and impractical, leading to recurrent issues of underestimation or overestimation of resources. To ensure predictability amid volatile commodity prices, alternatives such as using

3 Carta de Moçambique. (2022, November 9). Governo revê leis de minas e de petróleos. https://cartamz.com/index.php/politica/item/12278-governo-reve-leis-de-minas-e-de-petrolIeos

4 CDD. (2022). Frustrated expectations: People demand measures against the high cost of living, Government reacts with a list of intentions that is mistaken for an election manifesto. https://cddmoz.org/frustrated-expectations-people-demand-measures-against-high-cost-of-living-government-reacts-with-a-list-of-intentions-that-is-mistaken-for-an-election-manifesto-2/

n – 2, which has been in effect since 2017, or n – 1 as the reference year were recommended.

- **Uniform rate to all EIs**: Both the mining and petroleum laws stipulate that 10% of the royalties should be transferred to support province, district and local community development. However, by imposing the same rate for both the mining and hydrocarbon sectors, the proposed regime fails to acknowledge their inherent differences. It is important to recognize that these sectors are distinct and should be treated accordingly. Suggestions have been made to differentiate the royalty rates based on the specific characteristics and value of the resources being exploited in each sector.
- **Tax base**: The proposal outlines the Tax on Mining Production and the Tax on Petroleum Production as the basis for transferring 10% of revenues to support province, district and local community development. However, the regulation lacks specific details to align it with current state–company dynamics in the extractive sector, especially regarding payment methods for royalties. The regulation fails to outline procedures for in-kind payments, despite being a common practice and already provided for in tax legislation.
- **Consignment of revenues**: The proposal lacks clarity in specifying distribution rules (between the provincial and district organs) for the allocation of the 7.25%, as well as the point at which a region becomes eligible to receive 2.75% or 7.25%. Clear criteria are needed to determine eligibility and define distribution rules, ensuring the intended development objectives are met and dealing with the impact of resource exploitation on directly and indirectly affected regions.
- **Eligible local community projects**: The decree outlines eligible project areas for local communities, including education, health, agriculture and infrastructure. However, the regulation lacks realistic eligibility criteria considering the limited resources available. Indeed, it is unrealistic to expect that the funds alone (for mining communities, for example) can cover the construction of health centres and infrastructure. The transfers of 2.75% should not replace the state's responsibility to provide public goods and services to communities affected by resource exploitation. It was suggested that the eligibility criteria and support for subnational governments should be revised to align with community development objectives and attend to their specific challenges. In addition, it is important to promote strong citizen involvement (especially for the marginalised groups of women and youth) to influence the decision-making for the way in which the 10% is used to ensure that it delivers genuine improvement that reflects community needs.

Nonetheless, the proposed mechanism for revenue sharing with producing regions is viewed as a step forward, when compared with the current regime. However, there remains a need to ensure that these regions have true ownership of the annual transfers they receive.

Apart from the previously mentioned matters, another issue that needs consideration is the connection between the total 10% and the regular execution operations within the state budget. Currently, unutilised funds are returned to the treasury, and there are often delays in the disbursement of funds to subnational governments. These delays create pressure to execute projects within the calendar year, typically by 31 December.

To solve this, it is important to detach the 10% from the regular budget implementation rules. By doing so, projects can be better aligned with a broader perspective of integrated development. Producing regions would have the freedom to explore savings mechanisms and make long-term investments that are in line with their development objectives. This flexibility allows for strategic planning and the pursuit of larger-scale projects that contribute to sustainable development in these regions.

7.3 Illicit financial flows and Mozambique's double taxation agreements in the extractive industries

Illicit financial flows (IFFs) pose a significant threat to the development of Mozambique's economy, particularly in the extractive industries. As highlighted in Chapter 2, Mozambique has relatively higher losses than other African countries owing to tax inefficiencies, with particular reference to the abuse of legal entities. This inefficiency arises from the misalignment between the location of profits and the location of economic activity, which results in direct tax losses for companies. However, this corporate profit misalignment is just the tip of the iceberg, as IFFs are overwhelmingly hidden and unreported.

The Rovuma Basin LNG projects present an opportunity for Mozambique to generate much-needed public revenue. However, violent extremism in the northern region has delayed the expected benefits, and the short- and medium-term benefits depend mainly on the Coral South FLNG project. The project could generate tax revenues of about 12 billion MZN over the next four years, representing a 5.5% increase in total current tax revenues. However, the Mozambican government must remedy inefficiencies in the revenue-collection process to maximise tax collections from this project and other EI activities.

As one of the inefficiencies to be dealt with, the Mozambican government should reassess existing treaties to ensure that they are not being abused by MNCs. Mozambique is currently negotiating a tax treaty with the Netherlands, which may pose additional risks to the country on account of the role the Netherlands plays as a tax haven in international tax-avoidance schemes by MNCs.

Companies in the extractive industry in Mozambique often use mechanisms to avoid taxes, such as installing special-purpose vehicles in tax havens to take advantage of tax benefits and exemptions from withholding taxes. For example, the Area 4 partners[5] established a separate company in the UAE, registered with the Dubai Multi

5 Mozambique Rovuma Venture (a joint venture of Eni, ExxonMobil and CNPC with 70%) + ENH

Commodities Centre, to facilitate third-party debt financing for the construction of the FLNG vessel. This company benefits from withholding tax exemptions on dividend and interest payments under the UAE DTA with Mozambique.

The government must urgently confront such inefficiencies in the revenue-collection process, reassess the tax treaties in force, and crack down on tax-avoidance mechanisms used by companies in the EI and other sectors, as advocated in Chapter 3. In doing so, Mozambique can maximise tax collection from EI activities and use those revenues to drive economic development and reduce poverty.

7.4 Governance of the extractive sector in Mozambique

7.4.1 Legal and regulatory framework for the extractive industry

The Mozambican government does not have an official EI policy. Instead, the legal frame-work is composed of specific legislation that regulates the mining and hydrocarbon sectors separately.

In the mining sector, INAMI[6] is the governmental agency responsible for regulating and supervising the exploitation of mineral resources in Mozambique. In the oil and gas area, the National Petroleum Institute (Instituto Nacional de Petróleo, INP) [7]is the regulatory agency responsible for issuing exploration licences, overseeing the operations of oil companies and promoting the development of the oil and gas sector in the country. The Ministry of Mineral Resources and Energy (Ministério dos Recursos Minerais e Energia, MIREME) is the main body responsible for extractive-sector policy and planning in Mozambique.

For the mining sector, there is the Mining Law, approved by the Law no. 21/2014 of 18 August, and its associated regulations[8], which establish the legal and regulatory framework for granting concessions and licences, as well as for the management, inspection and control of mining activities in the country. In addition, Resolution No. 89/2013 of 31 December defines the principles and main actions for the management and exploitation of mineral resources to contribute to the economic and social development of Mozambique.

(10%) + Galp (10%) + KOGAS (10%); According to INP (2023) Active Concessions. http://www.inp.gov.mz/en/Exploration-Production/Active-Concessions

6 INAMI was created by Law no. 20/2014 of 18 August (Mining Law) as a legal person governed by public law with legal personality, administrative and financial autonomy, and is supervised by the minister who oversees the area of mineral resources. INAMI commenced its activities in October 2015.

7 The INP was created under Decree no. 25/2004 of 20 August as a regulatory entity responsible for the administration and promotion of petroleum operations. http://www.inp.gov.mz/pt/Media/Files/Decreto-25-2004-de-20-de-Agosto

8 The Mines Regulation approved by the Decree no. 31/2015 of 31 December, further amended by Decree no. 34/2019 of 2 May.

As for the hydrocarbon sector, the legal and regulatory framework for the exploration, production, transportation, processing and commercialisation of oil and natural gas is governed by the Petroleum Law (Law no. 21/2014 of 18 August). A separate legal framework applies to the megaprojects of the Rovuma Basin[9]. In addition, the hydrocarbon sector in Mozambique operates under the Gas Master Plan (GMP), which falls under the responsibility of MIREME. The GMP plays a crucial role in the strategic definition of policies, strategies and guidelines for the exploration and development of the natural-gas sector in the country. However, despite its importance, the Mozambican government often fails to properly utilise or reference this crucial document for the effective management of the gas sector.

The GMP was approved in 2014 by a previous administration, and not only is it outdated, but it also faces political opposition from the current administration.

Several factors contribute to its outdated nature, notably including:

- The conflict in the northern region of Mozambique and its associated costs have had a significant impact on the hydrocarbon sector. This ongoing conflict has introduced new challenges and dynamics that were not accounted for in the 2014 GMP.
- The legal framework governing the sector has undergone substantial adjustments since the approval of the GMP. New laws and regulations have been implemented to reflect changing circumstances and deal with emerging concerns. These updates require a comprehensive review and revision of the GMP.
- CDD and Oxfam advocate prioritising the use of domestic gas, particularly for purposes such as fertiliser production and boosting the agricultural sector, which contributes significantly to employment and the livelihoods of Mozambican families, and comprising about one third of the GDP. While this aspect is dealt with in the GMP, the government has sidelined it, and any GMP update must include concrete measures to ensure the effectiveness of this crucial aspect.

Therefore, it is imperative for the Mozambican government to recognise the importance of the GMP and take necessary actions to update and align it with the current realities of the hydrocarbon sector. The same can be said about the shelved Local Content Law proposal[10] , approved in August 2019 by the Economic Council, which would create a legal framework enabling connections between major natural resource exploration projects, particularly in the hydrocarbon sector, and the Mozambican private sector.

Moreover, the High Authority of the Extractive Industry, which was established by the parliament in 2014 to oversee Petroleum Operations but is currently non-

9 Law of legislative authorisation referring to the Liquefaction of Natural Gas projects in Areas 1 and 4 of the Rovuma Basin, approved by Decree no. 25/2014 of 23 September.

10 Centro para Democracia e Desenvolvimento. (2020, 19 de Outubro). O lobby que encrava a Proposta de Lei de Conteúdo Local. https://cddmoz.org/wp-content/uploads/2020/10/O-lobby-que-encrava-a-Proposta-de-Lei-de-Conte%C3%BAdo-Local.pdf

operational, has the potential to play a significant role in the mission of promoting the connection between the Extractive Industry and the rest of the Mozambican economy.

7.4.2 Natural resource governance has not allowed the strengthening of other sectors and the country is moving towards an extractive economy

The discovery of significant natural gas reserves in the Rovuma Basin, with the potential to generate state revenues of up to 50 billion USD by 2050[11], has placed Mozambique among a select group of countries rich in natural resources. While this discovery initially sparked national enthusiasm, concerns have emerged that Mozambique could become overly reliant on extractive industries, and suffer the from the resource curse, as has happened in other countries with abundant mineral resources, such as Nigeria, the Democratic Republic of Congo and Venezuela.

Without strong connections to other sectors of the economy, particularly agriculture, which employs the majority of Mozambique's population, extractive industries may worsen the life and politics of people instead of generating sustainable development for the country.

Despite agriculture's decreasing contribution to Mozambique's GDP (currently about 25%), it remains the primary source of employment for most Mozambicans. Paradoxically, the growing importance of the extractive industry in GDP is not reflected in employment, as it accounts for less than 1% of total employment. Therefore, it contributes very little to direct income and employment among Mozambicans[12].

Furthermore, data from the ILO indicates that low productivity is one of the Mozambican economy's most significant structural issues. The manufacturing industry is nearly non-existent, and services mostly sell imported products with little added value to the country's GDP. In fact, over 66.8% of Mozambique's population lives in rural areas, making it difficult to access basic services such as education, health and water. Over 50% of the population lives in extreme poverty, with high levels of food insecurity and malnutrition, particularly in the central and northern regions.

11 Republic of Mozambique. (2018). Projected Government Revenues From Gas Projects. Maputo: Ministry of Economy and Finance.

12 CDD. (2021). Que caminhos Moçambique deve seguir para assegurar maior contributo da indústria extractiva no crescimento e transformação económica estrutural? https://cddmoz.org/wp-content/uploads/2021/08/Que-caminhos-Mocambique-deve-seguir-para-assegurar-maior-contributo-da-industria-extractiva-no-crescimento-e-transformacao-economica-estrutural.pdf

7.5 A sovereign wealth fund in Mozambique?

Mozambique has already made good progress towards the establishment and operationalisation of the sovereign wealth fund (SWF). It took about two and a half years of heated discussions and advocacy work for the country to find an "ideal" and contextualised model for the fund. From the technical proposal initially presented by the Central Bank in September 2020, it evolved into the bill approved by the government at the end of 2022 and subsequently submitted to the Parliament, having known important changes to accommodate the different views and perceptions that were being expressed in the different multisectoral forums promoted for its discussion.

The rationale for the election of the SWF as a management strategy for the potential substantial revenues that are expected from the discovery of large natural gas deposits in 2010 in the northern province of Cabo Delgado lies in the role that it usually plays in countries with abundant natural resources[13], helping to smooth government spending and dissociate it from the short-term volatility of revenues from the exploitation of the resources , thereby avoiding the "Dutch disease"[14] or resource curse. For a country that has been portrayed as a case of "good gas and bad governance"[15], the existence of an effective, accountable, and transparent SWF framework emerged as a determinism to ensure the transformation of the resources into sustainable and inclusive economic and social development.

13 Ochirkhuu, E., & Takahashi, K. (2010). Papua New Guinea: Selected Issues Paper and Statistical Appendix. International Monetary Fund. https://www.imf.org/external/pubs/ft/scr/2010/cr10163.pdf

14 The Economist. (2015, November 15). What Dutch disease is, and why it's bad. https://www.economist.com/the-economist-explains/2014/11/05/what-dutch-disease-is-and-why-its-bad

15 Africa Confidential. (2016, October 21). Good gas and bad governance . https://www.africa-confidential.com/home/issue/id/1142

Table 7.1: Summary of the main features of the proposed SWF[16]

Feature	Proposal submitted by the government
Objectives	The proposal establishes a general objective to contribute to leveraging economic and social development through the stabilisation of the state budget and accumulation of savings.
Governing structure	The proposal establishes a general objective to contribute to leveraging economic and social development through the stabilisation of the state budget and accumulation of savings.
Entry and exit rules	During the first 15 years of the fund's operation, 40% of the oil and gas revenues will be channelled to the SWF account (Conta Única do Fundo Soberano, CUF) and 60% to the state budget (Conta Única do Tesouro, CUT). The rules change to 50%/50% from the 16th year of operation.
Transperancy and Accountability	In addition to the oversight carried out directly in the governing structure by the supervisory committee and the parliament, the proposal provides for reporting and accountability mechanisms on SWF matters.

In the various forums created to reflect on the country's strategy to manage the highly expected hydrocarbon revenues, the ideas converged on the need of creating a hybrid SWF, combining economic development, stabilisation and savings, as well as catalysing good governance and fiscal transparency[17]. This is a process that, for the main stakeholders, involves not only structuring the fund around the 24 Santiago Principles[18] but, most importantly, ensure the effective participation of the Mozambican society in the creation and operationalisation of the fund.

The transition from a fund that was heavily centralised and with weak oversight mechanisms to a model that recognises the role of the civil society in the governance structure, in line with the Santiago Principles, was, without a doubt, the main achievement of the discussions carried out in the past two and a half years. Despite the progress, the prevailing opinion is that the bill submitted by the

16 Based on the fourth version of the Government proposal.

17 https://cddmoz.org/wp-content/uploads/2020/07/Sovereign-wealth-fund-to-stabilize-the-economy-and-catalyze-good-governance-and-fiscal-transparency.pdf

18 The Santiago Principles are 24 generally accepted principles that guide SWFs. They are a kind of code of conduct and are broadly organised into three "pillars", namely, (1) legal framework, objectives and coordination with macroeconomic policies; (2) institutional structure and governance structure; and (3) investment structure and risk management. See more at https://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf

government to the parliament still suffers from deficiencies. Among these deficiencies, the lack of clarity and the relegation of the pursuit of economic and social development through the SWF stands out for its importance. Although the objective of economic and social development is mentioned, the main focus of the 34 articles of the proposal is the stabilisation of the state budget and accumulation of savings.

The important objective of socio-economic development was minimised and relegated to the state budget. This is the same budget that historically has prioritised the channelling of resources towards unproductive expenses, such as operating expenses and debt service, to the detriment of expenses that have a positive and multiplier impact on economic growth, and investment expenses, which currently represent less than a quarter of annual expenses.

Equally worrying is the fact that the proposed law was structured with omissions that promote considerable dependence on the discretionary power of the government, referring various matters to regulation. The failure to determine general principles to guide the investment policy to be approved by the executive, the lack of clarity regarding the powers of the Investment Advisory Board, and what is meant by confidential information in the proposed law are some of the examples of these omissions.

Other gaps are even more worrying in that, if they are not properly dealt with, they could potentially cause the fund to be depleted. An example of this is Article 9 of the proposal, which opens the possibility of taking place, under the government's proposal, "extraordinary" withdrawals from the Fund in emergency situations[19] without, however, setting maximum ceilings or control mechanisms for said withdrawals.

This is a disturbing omission for a country that is experiencing emergency situations. Incidentally, the provision in question constitutes a step backward if we consider that the Central Bank's technical proposal had set the resources to be channelled to the state budget in emergency cases at 2% of the fund, calculated at the end of the preceding FY.

These are just some of the various shortcomings or gaps that were raised throughout the consultation process carried out at the national level by the parliament and continue to be the focus of the discussions that have been carried out in this small window of time provided by the decision to postpone the debate of the proposal in plenary, initially scheduled for April 2023.

At the time of writing this report, the proposal had not yet been discussed in the parliament. The upcoming plenary will practically end the cycle of about two and a half years of discussions and advocacy for the institution of an effective, responsible,

19 Whenever a public calamity occurs that leads to the declaration of a State of Siege, State of Emergency and/or War.

transparent and inclusive legal framework for the SWF. Overall, the expectation is that the parliamentarians make use of the extensive work of the consultation process and debating with civil society and other stakeholders to ensure that the proposal that will be approved reflects the prospects of Mozambicans. Only then will the future fund be able to truly promote the transformation of natural resources into sustainable and inclusive economic and social development.

7.6 Granting of EI concessions, extraction contracts, investments agreements

In Mozambique, the granting of EI concessions, extraction contracts, and investment agreements are subject to a complex legal framework and an approval process that involves multiple institutions.

MIREME is the main institution responsible for granting EI concessions and extraction contracts. The granting of these concessions is governed by the Mining Law and the Petroleum Law, which establish the criteria for granting concessions, the concessionaires' rights and obligations, and the procedures for the exploration, development and production of mineral and hydrocarbon resources.

Investment agreements, in contrast, are generally negotiated and approved by the Ministry of Industry and Commerce and the Centre for the Promotion of Investments (CPI), which is responsible for promoting and facilitating foreign investment in Mozambique. These contracts are governed by the Investment Law and the Investment Regulation, which establish the conditions and incentives for investments, as well as the rights and obligations of investors and the government.

The approval process for EI concessions, extraction contracts and investment agreements involves several institutions, including relevant ministries, INP, INAMI, and the National Directorate of Mines (DNM). Although the approval process varies according to the type and scope of the concession or agreement, it generally involves a technical assessment and recommendation by the competent institution, followed by approval by the relevant ministry or governmental body.

Furthermore, reporting mechanisms are in place to ensure transparency and accountability in the granting of EI concessions, extraction contracts and investment agreements. For example, MIREME is required to publish on its website the list of all mining and oil concessions granted, as well as their terms and conditions. INP and INAMI are also obliged to provide regular reports on the activity of concessionaires in the oil and mining sectors, respectively.

7.7 Tax incentives in the extractive industries

In addition to the numerous fiscal benefits described in Chapter 3, the government has approved specific regimes for the extractive sector as part of national legislation, differentiating specific benefits for the mining and hydrocarbon sectors, as described below.

7.7.1 Tax benefits in mining

The Specific Regime for Taxation and Tax Benefits for Mining Activity was approved by Law no. 28/2014 of 23 September and amended by Law no. 15/2017 of 28 December. The regulation was approved by Decree no. 28/2015 of 28 December, which came into force on 1 January 2016. According to the provisions of the regime, undertakings under the Mining Law benefit for five FYs, from the date of commencement of mining exploration, from total exemption from customs duties due on the importation of

- equipment for prospecting and mining operations, classified in Class K of the Customs Tariff; and
- goods listed in Annex II of Law no. 28/2014, equivalent to goods in Class K of the Customs Tariff.

Such benefits are granted only when the goods to be imported are not produced in the national territory or, if produced, do not meet the characteristics, specific purpose, and functionality required or inherent to the nature of the activity to be developed and explored.

7.7.2 Tax benefits in hydrocarbons

The Specific Regime for Taxation and Tax Benefits for Petroleum Operations was approved by Law no. 27/2014 of 23 September, and was amended by Law no. 14/2017 of 28 December. Its regulation was approved by Decree no. 32/2015 of 31 December. Following this regime, investments covered by the petroleum law benefit, for five FYs from the date of approval of a development plan, from total exemption from customs duties due on the importation of
equipment intended to be used in oil operations, classified in class K of the Customs Tariff; and

- customs duties due on the importation of goods listed in Annex II of Law 27/2014, which are equivalent to goods in class K of the Customs Tariff.
- Such benefits are granted only when the goods to be imported are not produced in the national territory or, if produced, do not meet the characteristics, specific purpose, and functionality required or inherent to the nature of the activity to be developed and explored.

7.7.3 The lack of disclosure of tax incentives granted to the extractive sector in Mozambique

The lack of systematic publication of the total revenue lost as a result of tax incentives granted to the extractive sector is a matter of concern. It is crucial to understand the costs associated with these incentives to ensure that they are outweighed by benefits to the country's economy.

The lack of transparency in this area makes it difficult to assess the impact of these incentives on the economy and fiscal sustainability. Cost–benefit analyses of tax incentives are not publicly available, which raises questions about their effectiveness. Without this information, it is challenging to determine whether tax incentives granted to the extractive sector are producing the intended results.

Therefore, it is strongly recommended that the Mozambican government increase transparency in the extractive sector by regularly publishing the total revenue lost on account of tax incentives granted to the extractive sector. This transparency will enable stakeholders to understand the loss of tax revenue associated with these incentives and determine their effectiveness in promoting economic growth and development. It is unacceptable to have tax incentives granted to the extractive sector that have not been proven and monitored, leading to losses that jeopardise public spending in priority sectors and other policy objectives, such as recovering fiscal sustainability.

7.8 Transparency

Mozambique has made meaningful progress in enhancing transparency in the extractive industry, but there are still shortcomings and gaps that must be filled. Furthermore, transparency cannot be taken for granted because, as transparency mechanisms improve, deviation mechanisms can also become more sophisticated and aggressive. Therefore, the quest for transparency in the extractive sector must be a continuous action by mechanisms such as EITI and civil-society actors, as well as the companies and the government, in order to sustain the results achieved so far and improve them even further.

It is apparent that the government has implemented reforms to enhance the disclosure of information, such as the introduction of online portals[20] that provide the public access to extractive industry contracts, licences and revenue flows, as part of the country's adherence to EITI. Notwithstanding these efforts, challenges remain with regard to transparency in the allocation of these revenues.

Regarding the allocation of public revenues, within the scope of the preparation

20 Institute of National Petroleum (INP) portal: http://www.inp.gov.mz/pt/Politicas-Regime-Legal/Contratos-de-Pesquisa-Producao-de-Hidrocarbonetos

and execution of the government budget, principles of unity[21] and non-earmarking [22]are obeyed[23]. Thus, it is not possible to identify the allocation of revenues (expenses) from the extractive sector or any other sector. Exceptionally, 10% of the revenues from the tax on mining production and surface tax are allocated to the INAMI[24], as well as 10% of the revenues from the tax on mining and oil production allocated to development projects for communities in the areas where the respective undertakings are located[25]. In addition, companies in this sector channel contributions to INP and the National Hydrocarbon Company (ENH), in the form of contribution to institutional support, the Social Projects Fund, and Fund for Institutional Capacity-Building. Among these exceptions, expenditures carried out within the scope of development projects for affected communities and the Social Projects Fund allocated to INP are publicly accessible through PESOE, budget-execution report and the EITI report. However, it is a regular occurrence that the funds allocated are lower than the funds actually received, with no explanation as to the application of the remaining funds[26]. Furthermore, information on the allocation of institutional and social support funds for the promotion, research and management of petroleum operations is not publicly accessible.

Failure to report the allocation of earmarked funds can lead to a lack of accountability or even opportunities for funds to be used to finance activities that are not aligned with the initially proposed objectives. If these funds are not reported or monitored, there is a risk of misuse or misappropriation.

Challenges also persist in relation to the culture of a lack of disclosing information by companies operating in this sector. A recent study on the transparency of companies in the extractive sector in Mozambique pointed out that the sector still has low levels of transparency, with a score of 21 (out of 100). A significant number of corporations operating in the extractive sector are still not providing information of public interest, for instance, information of a fiscal and environmental nature and on local content programmes. Furthermore, some companies do not even have a website[27] to disclose basic information about their operations, with such information only found in the EITI reports.

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21 It determines that the state budget is only one.

22 By force from which the proceeds of any receipts cannot be allocated to cover specific expenses.

23 Law no. 14/2020 establishes the principles and norms for the organisation and operation of the state's financial administration system

24 Decree no. 7/2013 of 7 April, which creates the National Mining Institute

25 As designated in Article 20 of Law no. 20/2014 (Mining Law) and Article 48 of Law no. 21/2014 (Petroleum Law)

26 Center for Public Integrity. (n/d). Processo de Licenciamento apresenta sérios riscos de corrupção. https://cipmoz.org/wp-content/uploads/2018/06/Processo_.pdf
EITI (2020). Relatório Independente da Iniciativa de Transparência da Indústria Extractiva ano de 2019. https://eiti.org/sites/default/files/attachments/mozambique_eiti_2019_report_-_portuguese.pdf

27 Center for Public Integrity. (2023). Extractive Sector Transparency Index (2021/2022). https://www.cipmoz.org/wp-content/uploads/2023/03/EXTRACTIVE-SECTOR-TRANSPARENCY-INDEX-20212022.pdf

In 2009 Mozambique joined EITI – an international, multi-stakeholder initiative that promotes transparency and accountability in the oil, gas and mining sectors through the disclosure of government and company data in resource-rich countries[28]. Initially, the primary objective of EITI was to increase the transparency of revenue generation and expenditure in the hydrocarbon and mining sectors. Consequently, the EITI reports were limited to reconciling the payments made by companies and the receipts confirmed by the state, known as the Reconciliation Report. However, as EITI evolved, the reports began to include a wider range of contextual information (e.g. the extractive industry's contribution to the economy and social and quasi-fiscal expenditures)[29].

Under the EITI, companies operating in the extractive sector must disclose government payments, including taxes, royalties and bonuses. In addition, the EITI requires the disclosure of information related to production volumes, exports, and licences, among other relevant details[30]. The disclosed information is then subject to verification against the corresponding information declared by the government.

The reduction of the level of discrepancy between the payments made by the companies in the gas and mining sector and the receipts confirmed by the government is one of the major positive impacts that has been observed since the implementation of EITI in the country. Through a retrospective analysis of the published EITI reports, we found that the discrepancy levels between the payments made by companies in the extractive industry and receipts confirmed by the government have not only been below the 3% threshold since the publication of the second EITI report (covering 2009) but have also been decreasing over time.

One of the remaining shortcomings is related to the registration of the beneficial owners of EI companies. As in other sectors of the economy, the extractive industry of Mozambique faces a significant challenge in disclosing its beneficial owners. Despite the EITI standard recommending the disclosure of extractive-sector-entity ownership (Requirement 2.5), Mozambique still encounters legal and institutional obstacles in making this information accessible. As mentioned in the previous chapter, the country does not have a specific law that regulates the matter of beneficial ownership[31]. This absence of ownership trans-parency in the EI makes companies in the sector susceptible to being exploited for the purpose of facilitating corruption, money laundering and IFFs.

28 Natural Resource Governance Institute. (2015). The Extractive Sector Transparency Initiative (EITI). Using the EITI to Promote Policy Reform. https://resourcegovernance.org/sites/default/files/nrgi_EITI.pdf

29 Nuvunga, A., Sitoe, E. and Gwemende, T. (2021). Extractive Sector Governance and Violent Conflict in Mozambique. Maputo: CDD

30 EITI (2022). Independent Report of the Extractive Industry Transparency Initiative Year: 2020. https://eiti.org/sites/default/files/2023-01/ITIE%20Moc%CC%A7ambique_10o%20Relato%CC%81rio_ENG_1.pdf

31 EITI. (2020). Relatório Independente da Iniciativa de Transparência na Indústria Extractiva – Ano de 2019. https://mireme.gov.mz/?documentos=relatorios

7.9 Institutional capacity and administrative effectiveness

All extractive sector taxes are classified as national taxes and are therefore collected by the AT. Within the structure of the AT, there is the Extractive Industry Taxation Unit, which was created in 2017 with the aim of reducing the tax losses that the country incurred from mining and hydrocarbon activities, through the training of specialists and inspectors who would integrate this unit[32].

The Extractive Industry Taxation Unit was set up to undertake risk analysis, inspections and specialised audits, participate in proposal design for law and regulation review with impact in the extractive industry, provide clarification and ensure the uniform enforcement of specific legislation and prevent and fight tax evasion in the extractive sector[33].

As mentioned in Chapter 5, owing to the lack of reliable and up-to-date data, assessing the effective capacity of AT, the Extractive Industry Taxation Unit in particular, prevails as a wicked task. Overall, there has not been a systematic assessment of the performance of key institutions related to the EI[34].

The Administrative Court[35], which plays the role of the auditor general, recently publicly declared that the Mozambican government has limited capacity to supervise the operations of EI companies[36]. The Administrative Court has regularly reported the failure of the governmental supervisory institutions to audit and certify EI recoverable costs[37]. As the fiscal legislation allows companies to recover a portion of the costs of their investments, and these costs have not been properly certified, the companies can easily inflate them, thus reducing the revenues to be collected.

32 Diário Económico (15/09/2021). AT cria Unidade de Tributação de Indústrias Extractivas para Aumentar Receitas do Sector. https://www.diarioeconomico.co.mz/2021/09/15/negocios/extractivas/at-cria-unidade-de-tributacao-de-industrias-extractivas-para-aumentar-as-receitas-do-sector/

33 Mozambique Revenue Authority (n/d). Main Reforms Within Mozambique Revenue Authority 2015 - 2018.

34 Macuane, J. e Muianga, C. (2020). Natural resources, institutions, and economic transformation in Mozambique. https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-136.pdf

35 The Administrative Court is the entity responsible for auditing oil contracts and all operations related to revenues, including auditing on an annual basis the revenues from extractive industries received by public entities.

36 Mozambique Insights (13/03/2023). State with no muscules to supervise extractive industries. https://www.mozambiqueinsights.com/state-with-no-muscles-to-supervise-extractive-industries/

37 Tribunal Administrativo (2021). Relatório e Parecer sobre Conta Geral do Estado 2020. https://www.ta.gov.mz/api/api/Certificao%20de%20contas/Relat%C3%B3rio%20e%20Parecer%20CGE/Relat%C3%B3rio%20e%20Parecer%20CGE%202021/Parecer. pdf

7.10 Progressivity and securing revenue

7.10.1 Hydrocarbon sector

The taxation of petroleum operations in Mozambique is governed by the Specific Regime of Tax and Fiscal Benefits approved by Law no. 27/2014 of 23 September, amended by Law no. 14/2017 of 28 December[38]. According to this regime, petroleum operations are subject to both the general taxes that make up the Mozambican tax system[39] and sector-specific taxes provided for in the regime.

The regime provides for a combination of production-based revenue-raising mechanisms and profit-based taxes, resulting in a consistent flow of tax revenue for the government. In addition to the taxes generally provided for in the general tax system, petroleum operations are also subject to Petroleum Production Tax (IPP), specific income-tax rules, and production-sharing mechanisms.

In practical terms, the initial step involves deducting a fixed percentage for royalty payments from the gross production. Following that, the oil company recovers its incurred expenses, known as "cost oil", up to a maximum limit of 60% of the petroleum produced after royalties in a given year. The remaining difference is then used to subtract other eligible costs, resulting in the "profit oil" that is shared between the state and the company.

The fiscal regime applied to the hydrocarbon sector is recognised as progressive, as it allows the government to collect more and more revenue over the production period of petroleum projects. However, a significant number of the contracts in the hydrocarbon sector were signed long before the approval of this regime, and therefore contain provisions that hinder revenue collection.

Overall, the existing contracts revolve around three main sources of state revenue in this system: (1) royalties, which constitute a small fixed value per ton of gas/oil produced; (2) corporate income tax, which is assessed based on annual profits; and (3) the most significant source of revenue, known as the "profit oil", resulting from the state's share of total production[40].

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38 In 2017 the government introduced some amendments to the Specific Regime of Tax and Fiscal Benefits from Petroleum Operations, through Law no. 14/2017 of 28 December.

39 See Chapter 1.

40 Other sources of state revenue include Production Bonuses and commitments from the companies regarding Institutional Support, Training, and Social Investment. I2A Consultoria e Serviços. (2023). Independent Report of the Extractive. Industry Transparency Initiative: Year 2020. http://www.itie.org.mz/download/decimo-relatorio-itie-mocambique-english/?wpdmdl=3385&refresh=63fa77d20135b1677359058

Table 7.2: Table: Summary of the specific tax and fiscal benefits regime for petroleum operations

Petroleum Production Tax (royalities)

Calculated (monthly) based on the value of the petroleum produced. IPP is usually paid in cash, but the government can require taxpayers to pay part or all of their tax in kind.

The IPP rates as follows:
- ☐ Crude Oil: 10%
- ☐ Natural Gas: 6%

Note: A 50% reduction is forseen in the law for mining products used in the development of local industry.

Income tax rules

The CIT rate is the same as the general tax system (32%). But the regime provides for specific income tax rules.
- ☐ The tax profit mus be ascertained for each concession agreement, i.e., on an individual basis
- ☐ Each area of the concession agreement must obtain a NUIT
- ☐ Specific non-deductible costs (article 22). Among others, the IPP is not deductible.
- ☐ Specific amortization rates (article 23):

Expenditure Category	Rate (_%)
Exploration Costs	100
Development expenditures	25
Petroleum Production Assets	20
Acquisition of Petroleum Rights	10
Other Assets	10

Transfer taxes and capital gains

The gains obtained by non-residents from the sale of petroleum rights in the national territory are taxable at a rate of 32%.

Transfer taxes and capital gains

The gains obtained by non-residents from the sale of petroleum rights in the national territory are taxable at a rate of 32%.

Production-sharing mechanism

The distribution of the "profit-oil"follows a decreasing scale (based on the R Factor[1]) that strongly favors the company at the beggining.

	Government(_%)	Multinationals(_%)
R<1	15	85
R1 - 1.5	25	75
R1.5 - 2	35	65
R2 - 2.5	50	50
R2.5+	60	40

Fiscal Stability Agreements

With a maximum duration of 10 years, which may be extended until the term of the concession in the exchange for a 2% annual increase in the production tax rate.

The first regular source of state revenue resulting from the production of petroleum is the payment of royalties. This payment, based on the value of the gas/oil produced, does not require the presence of profits and is made to the state from the day of the start of production and provides a guaranteed income for the state in the early years of production. It is commonly assumed that the royalty rate for natural gas production in Mozambique is 6%. However, as illustrated in the table below, the contracts signed before the entry into force of Law no. 12/2007 of 27 June benefit from reduced rates, some as low as 2%, undermining the revenue collected from this source.

Table 7.3: Revenue sources for petroleum operations

Revenue Source	Sasol	Total Energies	ENI	Statoil	Petronas
Royalty Rate	5%	2%	2%	2%	6%
Income Tax Rate	17,5% - 35%	24% - 32%	24% - 32%	24% - 32%	32%

Source: Main Hydrocarbon's Sector Contracts[41]

The second source of revenue, which is relatively more significant than royalties, is CIT. The CIT rate in Mozambique is fixed at 32%. In the case of oil operations, the taxable income is composed of total income from which eligible exploration expenses, capital expenditures and operating expenses can be deducted. The government offered wasteful incentives starting in early 2007, including a reduction in the CIT rate to 24% for the first eight years of production. Given the wide range of deductions allowed, CIT has a limited impact on state revenue in the early years of production[42].

The last and most significant source of revenue results from the production-sharing mechanism. However, these revenues come in later stages of the production schedule and start strongly in favour of the MNCs. This source of revenue is heavily reliant on cost recovery, and the relative percentages of its sharing change depending on the ratio of cumulative income to cumulative expenses known as an R-factor, as illustrated in Table 7.4. For example, in the first years of production, 90% of the "gas profit" of TotalEnergies' concession will be to the company and only 10% will go to the state. Only in the long term will the gas profit be divided equally,

41 National Institute of Petroleums - http://www.inp.gov.mz/pt/Politicas-Regime-Legal/Contratos-de-Pesquisa-Producao-de-Hidrocarbonetos

42 Manguele, G. (2023, 19 February). Condicionalismo de custos é um falso argumento que a TotalEnergies quer usar para atrasar a retoma do projecto Mozambique LNG. Centro para Democracia e Desenvolvimento. https://cddmoz.org/wp-content/uploads/2020/07/Condicionalismo_de_custos_e_um_falso_argumento_que_a_TotalEnergies_quer_usar_para_atrasar_a_retoma_do_projecto_Mozambique_LNG1.pdf

Table 7.4: Percentage of revenue destined for the state in the production-sharing agreement or a relatively larger portion will go to the state.

R-Factor Scale	Total Energies	ENI	Statoil	Petronas
R < 1	10%	15%	10%	10%
R 1 - 2	20%	25%	20%	25%
R 2 - 3	30%	35%	30%	50%
R 3 - 4	50%	45%	40%	60%
R 4+	60%	55%	50%	70%

Source: Rovuma Basin Contracts[43]

The percentages for the division of gas between the oil company and the state, as well as the rate of profit taxation, are ultimately calculated based on an agreed price for natural gas, which increases the government's share in times of boom. However, from the above, it can be concluded that the fiscal regime of the petroleum operations is heavily rear-loaded: all terms affecting the revenue-allocation schedule (royalties, cost recovery limits and R-factor scales) are heavily skewed in favour of the oil companies. The state will receive its share of the overall revenue only much later in the production schedule[44].

7.10.2 Mining Sector

Similarly to the hydrocarbon industry, mining entities operating in the country are required to comply with both the general tax regime and the Specific Tax Regime and Tax Benefits for Mining Activities[45]. While the general tax regime mainly provides for a profit-based tax (CIT payable at a rate of 32%)[46], the special regime establishes the basis for a tax mix that favours production-based revenue-raising mechanisms.

The Specific Tax and Fiscal Benefits Regime for Mining Activities provides for three main sources of revenue, namely: Tax on Mining Production (IPM), the Surface Tax (ISS), and the Windfall Profits Tax (Imposto sobre a Renda de Recurso Mineiro,

43 National Institute of Petroleums - http://www.inp.gov.mz/pt/Politicas-Regime-Legal/Contratos-de-Pesquisa-Producao-de-Hidrocarbonetos

44 Manguele, G. (2023, 19 February). Condicionalismo de custos é um falso argumento que a TotalEnergies quer usar para atrasar a retoma do projecto Mozambique LNG. Centro para Democracia e Desenvolvimento. https://cddmoz.org/wp-content/uploads/2020/07/Condicionalismo_de_custos_e_um_falso_argumento_que_a_TotalEnergies_quer_usar_para_atrasar_a_retoma_do_projecto_Mozambique_LNG1.pdf

45 Law no. 28/2014 of 23 September, in force since January 2015.

46 See the section on Corporate Income Tax in Chapter 1.

IRRM). In addition, this regime has specific provisions for income taxes. Overall, this combination of production-based revenue-raising mechanisms and profit-based taxes results in a regular flow of tax revenue for governments over the entire life of the projects in the mining industry, even at the early stages of a mine's life cycle, when there is no profit. However, at the disaggregated level, there is room for improvement of the tax mix in the mining activities, especially regarding the way in which royalties are calculated.

Table 7.5: Summary of the specific tax and fiscal benefits regime for mining activities

Tax on Mining Production (royalties)

Calculated (monthly) based on the value of the mineral extracted. The royalty rate varies across minerals:

1) Diamonds: 8%
2) Precious metals, precious and semi-precious stones, and heavy sand: 6%
3) Sand and stone: 1.5%
4) Base minerals, coal, ornamental rocks, and other mineral products: 3%

Note: A 50% reduction in forseen in the law for mining products used in the development of local industry.

Transfer taxes and capital gains

The transfer of minerals rights or licenses is subject to a 32% capital gain tax.

Windfall profits tax

Mining concessions or mining certificates with a precorporate income tax net return in excess of 18% are subject to a windfall profits tax levied on the accumulated net cash flow. The statutory rate of the windfall profits tax is set at 20%

Specific Income tax rules

The CIT rate is the same as the general tax system (32%). But the regime provides for specific income tax rules.

Distinction between domestic and foreign parties

There is not any distinction between the duties, royalties and taxes payable by domestic parties and those payable by foreign parties.

Surface Tax

Calculated in accordance with the fixed amount per hectare (ha) of land and included in the mining title.

The amount is payable annually in meticais per hectare and ranges from 17,50MT/ha to 210,00/ha.

Fiscal stability agreements

With a maximum duration of 10 years, which may be extended until the term of the concession in exchange for a 2% annual increase in the production rate.

Under the current regime, the Tax on Mining Production (royalty) is computed by multiplying the extracted mineral's value by a fixed rate according to the mineral type. The value of the mineral is determined by either the preceding consignment's sale price of the relevant mineral or, in case the mineral has not been previously sold, its market value.

The existing production tax regime has its advantages with regard to ensuring some kind of progressivity by imposing varying rates for different mineral categories and promoting beneficiation by providing for a 50% reduction in the royalty rate for mining products used in the development of the local industry. Nevertheless, the flat-rate regime has been undermining the ability of the Mozambican state to acquire the maximum benefit from its mineral resources.

Mozambique could learn from its neighbour South Africa and adopt variable royalties to improve mining revenue collection while accommodating an investment-friendly mining policy[47]. If properly designed, variable royalties allow the collection of more revenue when companies have the highest ability to pay and less in more challenging economic contexts, thus, having a stabilising effect on the fiscal regime. This is increasingly important due to the volatility of mineral prices, which is expected to persist as the global economy shifts towards low-carbon energy use.

7.11 Recommendations

- The Gas Master Plan – originally implemented in 2014 – should be reviewed and updated according to recent changes in Mozambique's economic, political, security and social context. Following an update of the plan, it should be fully implemented and used by the Mozambican government. This includes prioritising the use of domestic gas, establishing a regulatory framework for gas infrastructure, and developing a comprehensive legal and institutional framework for the sector.
- Mozambique must increase transparency in the extractive industry, including on final beneficiary. This includes full and comprehensive transparency of beneficial ownership, disclosure of revenues and payments made by companies, and the establishment of an independent mechanism to monitor and report on the industry's impact on the environment, communities and human rights.
- Evaluate and reduce fiscal incentives in Mozambique's extractive industries. Mozambique does not publish the total amount of revenue lost to tax incentives granted to the extractive sector, which prevents proper analysis and evaluation of the impact of these incentives on the economy and their fiscal sustainability. It is recommended that the government increase overall transparency in the extractive sector by publishing reports focusing on the fiscal incentives granted to the sector, as well as cost–benefit analyses of this public spending.
- The Mozambican government should ensure that the benefits of the extractive industry are equitably distributed among the population, especially in the areas in which the industry operates. Mozambique currently has in place a 10% allocation of natural resource royalties for the development of the provinces,

47 International Institute for Sustainable Development (IISD) & International Institute for Environment and Development (IIED). (2022, November). Variable royalties: An answer to volatile mineral prices. International Institute for Sustainable Development (IISD). https://www.igfmining.org/wp-content/uploads/2022/11/variable-royalties-an-answer-to-volatile-mineral-prices.pdf

districts, and local communities where extraction takes place. It is essential that the government actually apply this allocation, as previous reports have noted that the resources were not reaching the communities. As part of the new decree being drafted to govern a new revenue-sharing system in Mozambique, it is recommended that the government establish clear mechanisms for the allocation of funds and ensure transparency so that civil society and the media can adequately verify the operation of the regime. Finally, it is important to decouple the 10% from regular budget execution rules so that local governments can consider strategic planning and the pursuit of larger scale projects that contribute to the sustainable development of these regions.

- Mozambique's outdated network of tax treaties is often abused by multinational enterprises and results in enormous revenue-collection losses. It is recommended that Mozambique terminate and/or renegotiate its tax treaties with Mauritius and the UAE, as well as review its other tax treaties. Mozambique should also consider the growing risk of tax evasion and tax avoidance in its current negotiations with the Netherlands. The government should urgently attend to current inefficiencies in the revenue-collection process, reassess all existing tax treaties, and crack down on tax-avoidance and -evasion mechanisms used by companies in the extractive and other sectors.
- The legal and regulatory frameworks for the mining and hydrocarbon sectors must be strengthened and effectively enforced. This includes ensuring that the government agencies responsible for regulation and oversight – including Mozambique's INP and INAMI – are adequately resourced from revenues collected by the sector, trained by sharing knowledge and experience from international partners and jurisdictions with extractive sectors, and independently led by public officials appointed to established mandates that ensure autonomy from political influence.
- The government should prioritise the promotion of local content and value addition in the EI. This can be achieved by passing the embattled Local Content Law and encouraging companies to use local suppliers and services, promoting local workforce development, and encouraging the establishment of downstream industries.
- The SWF should be effectively implemented according to international best practices, combining economic development, stabilisation, and savings, as well as catalysing good governance and fiscal transparency. The fund should be used to finance strategic investments to foster economic growth, diversify, and improve the living conditions of Mozambicans.