CDD
CENTRO PARA DEMOCRACIA E DESENVOLVIMENTO

POLICY *UPDATE*

GUARDIÃO DA DEMOCRACIA | **www.cddmoz.org**

Thursday, August 11, 2022 | Year 4, Number 81 | **Director:** Prof. Adriano Nuvunga | **English**

Frustrated expectations: People demand measures against high cost of living, Government reacts with a list of intentions that is mistaken for an election manifesto

- A list of good intentions is what one can call the package of measures announced on Tuesday by the President of the Republic. These are measures without any immediate impact on reducing the growing cost of living that is continuously deteriorating the standard of living of Mozambicans. Two days after the announcement of these measures, the price of bread has not fallen, the price of transport has not fallen, the price of food has not fallen, the price of fuel has not fallen, and the price of tolls has not fallen. In other words, prices will continue to rise and the people will continue to suffer the consequences of the high cost of living.

Créditos: O País

When millions of Mozambicans were desperately waiting for the announcement of concrete measures to alleviate the high cost of living, Filipe Nyusi presented a long and ambitious list of 20 fiscal and macroeconomic reforms, whose impact will only be felt after 2024. In fact, his speech sounded like an early electoral manifesto focused on the Frelimo Congress, which will take place in a month's time.

Of the measures announced, the highlight goes to the reduction of VAT by one percentage point (from 17% to 16%) and the exemption of this same tax in the import of inputs for agriculture and electrification; the reduction of the IRPC rate from 32% to 10% in agriculture, aquaculture and urban transport; the increase by 7.25 percentage points of the tax rate on natural resource revenues allocated to the development of provinces where extraction occurs, from 2.75% to 10%; and the creation of a USD 250 million loan guarantee fund to promote the financing of micro, small and medium enterprises operating in the agriculture, fish farming, agricultural marketing and processing, tourism and housing sectors.

These reforms have a common denominator: none addresses the concerns of the current crisis context, especially the high cost of transportation and food. At a time when citizens were anticipating concrete measures to reduce the high cost of living, the government, defying the expectations created, appeared and proposed measures to "accelerate" the economy.

In short, the long-awaited measures do not come as a prompt response to the current crisis context. Rather, they are an updating/addition to the Government's policies with medium and long-term effects. In the short term, while the government creates the conditions for putting these measures into practice, Mozambicans will continue to be suffocated by the rising cost of living, which, as the National Statistics Institute (INE) has repeatedly reported, has been reaching all-time highs since the beginning of the year.

A brief analysis of the main measures announced

Despite having failed to meet expectations in terms of mitigating the high cost of living, some of the announced reforms have some merit. If on the one hand they have failed to provide a concrete solution to the current crisis, on the other they address structural problems that have held back investment and private sector growth in the national economy.

These reforms are not exactly new in debates about the business environment in Mozambique. Examples include the measure of reducing VAT to 16% that had already been proposed in 2018 by the International Monetary Fund [1] as a way to protect the poor and increase the tax base, as well as a set of seven measures that had already been proposed by the private sector.

Some measures, if effectively implemented, should help boost investment in the productive sector and the development of the economy. Examples of these are the reduction of the IRPC in the agricultural sector; the reduction of the VAT and exemption in imported agricultural inputs; the increase of shared revenues with the communities where the extraction of natural resources occurs; and the constitution of a loan guarantee fund. However, alongside the expected benefits, there are also challenges, most notably:

1) **Increase in the fee shared with communities raises default risks**

The government has announced a greater distribution of extractive industry revenues for the development of communities hosting extractive industry projects in Mozambique.

Recall that in 2013, through the Budget Law (Law 1/2013, January 7), the Government decided to set a percentage of 2.75% of Royalties/Taxes on production. In 2014, the new mining

[1] https://www.dn.pt/lusa/fmi-propoe-reducao-de-1-no-iva-ao-governo-mocambicano-9676572.html

and petroleum laws were approved, and both also advocate the channeling of a percentage of resource revenues to the State Budget for community development.

As part of the recently announced reforms, the tax will be revised from the current 2.75% to 10%. This measure has a high potential to contribute to the development of the affected communities and to compensate for the economic and social damage and costs generated by the exploitation of the resources in the communities around the projects.

However, its success relies on the effective channelling of revenues to the communities. This aspect is challenging one, especially when one takes into account the experience in the allocation of the 2.75% fee, where communities rarely receive the corresponding amounts.

As an example, in the fiscal year 2019, of the 116.59 million meticais that should go to the communities, only 83.40 million meticais were allocated, making a difference of just over 33 million meticais. That is, there was an inconsistency between the percentage forecast and the amount that was actually channeled to the communities.

Table - Revenue Sharing in Mozambique

Description	Amount (millions of MT)
Mining Production Tax (2017)	3.622,05
Oil Production Tax (2017)	617,64
TOTAL	4.239,69
Corresponding figure in 2019 considering (n-2 * 2,75%) [1]	116,59
Amount actually allocated (2019) [2]	83,40
THE DIFFERENCE [2-1]	- 33,19

Source: EITI (2020), REOE (2017)

In this context, while on the one hand this new measure has the potential to provide more resources for local governments to finance the development of their communities, on the other hand its effectiveness will require an increased effort by the government. The lack of effectiveness of the measure has the potential to generate indignation in the communities.

2. **Measures adopted for the agricultural sector do not directly benefit small farmers already in an unsustainable situation**

The agricultural sector is recognized as the basis for the development of Mozambique. This sector deserved prominence in the announced reform package, having benefited from a reduction of the IRPC from the current 32% to 10%, an incentive that had been discontinued by the Government in 2015, and an exemption from this same tax on the import of inputs for the sector.

Despite their importance for the development of the sector, these measures will not have an immediate impact on small informal farmers, who are already in an unsustainable situation due to the overlapping crises.

The current scenario of repeated fuel price increases is frightening for small farmers who have fuel as an important production factor. Due to the lack of formal registration, small farmers cannot benefit from any fiscal incentive, and are subject to high fuel costs in rural areas, as seen in small farmers in the Zambezi Valley [2].

Only this year, the Energy Regulatory Authority (ARENE) has already announced three times the readjustment of fuel prices, whose increases were justified by the behavior of crude oil prices on the international market and the shortage in the supply of oil on the international market, in a context where high fuel costs also impact on transport costs and increase the difficulty of access to the market by small farmers. With this, the Government must introduce concrete measures that aim to help small farmers recover, considering their position of vulnerability.

3. **Transparency will be crucial for the success of the Mutual Guarantee Fund**

Another potentially relevant measure for boosting the productive sector is the USD 250 million loan guarantee fund, as it should promote access to finance by micro, small and medium-sized enterprises, especially those in the agriculture, fish farming, agricultural marketing and processing, tourism and housing sectors.

Here transparency will be a key element, especially considering the past experiences of channeling public resources to finance the productive sector. It is enough to recall the case of the now extinct Banco Austral, which, due to the lack of mechanisms to ensure transparency and accountability about the concessional credits it channeled to the private sector, ended up harming the state and benefiting mainly companies linked to the Frelimo political elite[3].

The "intentions" presented should be put into a concrete plan and effectively implemented

Considered to be " audacious and profound" by the Executive, these measures are fundamentally centred on improving the business environment for boosting private investment in Mozambique. If effectively implemented, and as these are reforms that have been demanded for some time by the national business community, they should certainly contribute to the promotion of investments in the country. However, everything will depend on the degree of the Government's commitment in implementing the reforms now launched. And here we must avoid a second disappointment of expectations, this time from the national business community that, it seems, is "satisfied" with the announced measures[4].

This is a legitimate concern, especially considering the timing of the launch of the measures that are expected to create the basis for a "paradigm shift" in Mozambique's development. The period for the operationalization of the reforms goes far beyond 2024, the year in which the second and last mandate of President Filipe Nyusi ends, which makes its announcement to be confused with a new political-economic cycle at the level of the ruling party[5].

In fact, the existing perception is that a significant part of the measures is still in a conceptual phase at the Government's own level, that is, it is nothing more than a list of intentions, in such a way that, besides not being assured of the amount, still to be disclosed, for its operationalization, there is also no plan with defined goals and susceptible to a monitoring and follow-up process.

[2] https://cddmoz.org/wp-content/uploads/2022/07/Governo-deve-tomar-medidas-para-reduzir-o-custo-de-combustivel-no-sector-agrario-e-evitar-o-agravamento-da-crise-alimentar.pdf

[3] https://cddmoz.org/wp-content/uploads/2020/07/At%C3%A9-que-ponto-o-BNI-n%C3%A3o-ir%C3%A1-repetir-a-triste-experi%C3%AAncia-dos-cr%-C3%A9ditos-malparados-do-Tesouro-e-do-extinto-Banco-Austral.pdf

[4] https://cartamz.com/index.php/politica/item/11488-empresarios-elogiam-medidas-economicas-anunciadas-pelo-governo

[5] O termo ciclo político-económico é usado principalmente para descrever o estímulo à economia, com recurso a políticas fiscais e monetárias, imediatamente antes da eleição, a fim de melhorar as perspectivas de reeleição do governo em exercício.

EDITORIAL INFORMATION

Property: CDD – Centro para Democracia e Desenvolvimento
Director: Prof. Adriano Nuvunga
Editor: Emídio Beula
Author: CDD
Team: Emídio Beula, Dimas Sinoa, Américo Maluana
Layout: CDD

Address:
Rua Dar-Es-Salaam Nº 279, Bairro da Sommerschield, Cidade de Maputo.
Telefone: +258 21 085 797

CDD_moz
E-mail: info@cddmoz.org
Website: http://www.cddmoz.org

PROGRAMMATIC PARTNER

FINANCING PARTNERS