POLICY BRIEF ON REVENUE SHARING IN THE EXTRACTIVE SECTOR: NEW PARADIGM WITH THE ECONOMIC ACCELERATION PACKAGE

“The current allocation model concentrates revenues only in producing regions, excluding vulnerable provinces with high levels of poverty, reinforcing regional disparities”

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TITLE: ***POLICY BRIEF ON REVENUE SHARING IN THE EXTRACTIVE SECTOR:*** *NEW PARADIGM WITH THE ECONOMIC ACCELERATION PACKAGE CHALLENGES AND OPPORTUNITIES*

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This article was published by CDD and is part of the Africa Policy Dialogues (APD) project, implemented under the INCLUDE Platform. The project focuses on existing policies and governance structures (at local, provincial and national level) and conducts research into ways of maximising the gains from natural gas revenues, as well as appropriate revenue-sharing mechanisms for integrating producing regions into the local development agenda. The project also aims to strengthen the capacity of civil society and state actors working with the extractive industry in Mozambique to advocate and implement policy reforms and best practices in the transparent and accountable management and benefit-sharing of extractive sector revenues, ensuring that the poorest and most vulnerable Mozambicans, especially in the producing regions, benefit from extractive industry-led economic growth.

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LEGAL, REGULATORY AND INSTITUTIONAL FRAMEWORK

The legal framework that guides benefit sharing in the extractive sector in Mozambique is underpinned by several pieces of legislation, including the **Mining Law (Law No. 20/2014), Law No. 15/2022** and the Petroleum Law **(Law No. 21/2014), Law No. 16/2022**. These laws define the principles for exploiting natural resources, emphasizing the need to redistribute part of the profits generated, with local communities. The regulatory framework aims to promote economic justice, ensuring that the benefits arising from exploitation are not restricted to the central government and extractive companies, but also reach the affected populations directly.

Laws 20/2014 and 21/2014 establish that a percentage of revenues generated for the State from extractive operations, set in the State Budget Law based on expected revenues, must be allocated to local communities, a measure designed to offset the impact of exploration activities and foster regional development. The Budget Law has set the rate at 2.75% since 2013 and has been replicated by its predecessors. In addition, companies are legally required to contribute to corporate social responsibility programs, such as the construction of infrastructure, the provision of basic services and the training of local populations. This set of provisions seeks to ensure a more equitable distribution of wealth and the mitigation of environmental and social impacts. However, studies carried out by **Civil Society Organizations (CSOs) [1]** Show that this transfer has not been made in a transparent, equitable and fair manner, to the extent that, there are situations of non-admission to receive funds, non-receipt of funds, delays, and receipt of amounts below that provided for by law.

After years of silence and failure to address questions and complaints about the disproportionately low percentage of revenue allocated to communities compared to the environmental and social impacts they endure, the response finally came under the pressure of addressing economic challenges exacerbated by Covid-19, in 2022, the Government implemented a Package of Economic Acceleration Measures that in its eighth measure proposed to allocate 10% of tax revenues from natural resources to the development of provinces, districts and places where extraction occurs, which was implemented in **Laws No. 15/2022 and No. 16/2022**, introducing significant revisions that expand the obligations of companies in terms of transparency and accountability. In addition to reviewing the percentage allocated to communities from 2.75% to 10% and extending the beneficiaries, not only the communities where the resources are extracted (2.75%) benefit but also the province and districts (7.25%), thus opening space for non-producing districts to benefit from these resources. These changes address criticism of the previous framework, where the percentage exceeded expectations, with the new rate anticipated to[2] be 5.75%, where 2.75% would be direct transfers to communities affected by extractive projects and 3% would be transfers to communities not directly affected by the projects.

However, the question of the basis behind this percentage and its uniformity associated with mining and oil has not yet been answere. The new regulation left the application of the 10% in the hands of the government, with Circular **01/MPD-MF/2013** remaining in force, which establishes the criteria for allocating resources, the nature of eligible projects and the institutional

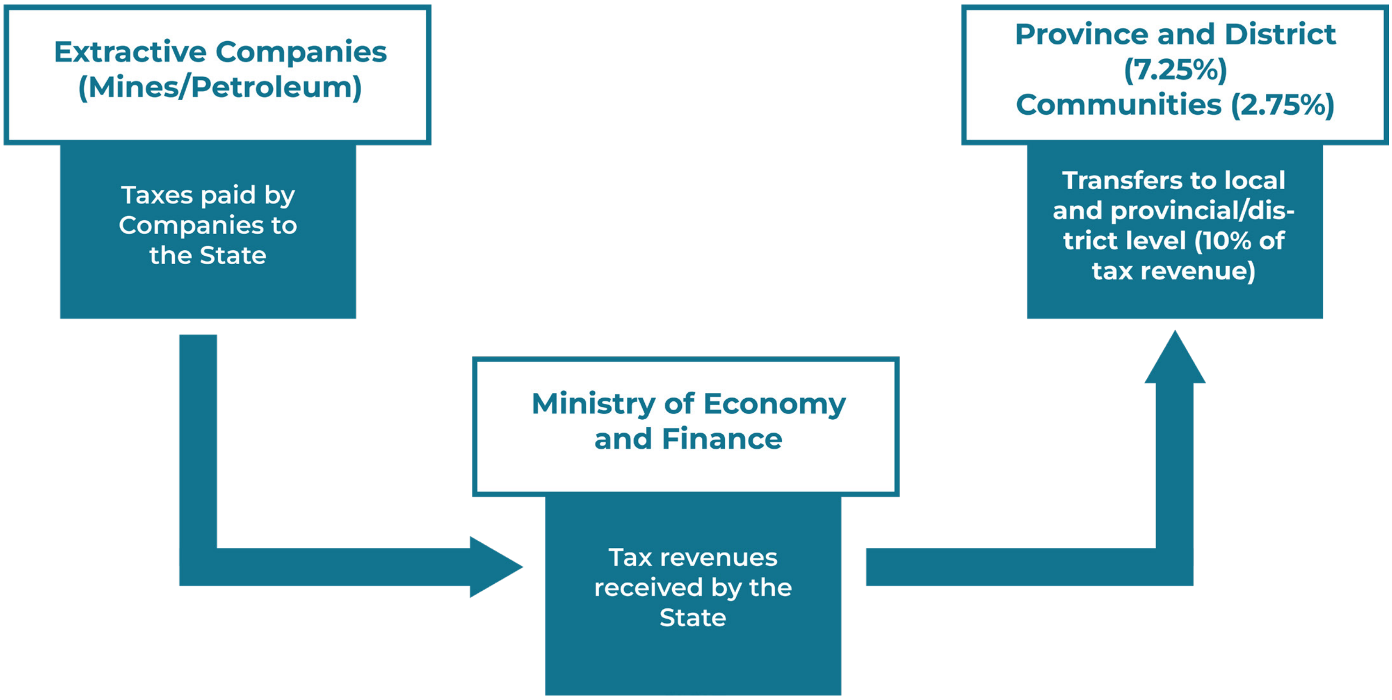
[1] https://www.cipmoz.org/pt/2022/06/13/irregularidades-nas-transferencias-dos-275-lesam-em-mais-de-53-milhoes-de-meticais-as-comunidades-de-inhassoro-e-govuro/

[2] https://www.cipmoz.org/pt/2022/06/13/irregularidades-nas-transferencias-dos-275-lesam-em-mais-de-53-milhoes-de-meticais-as-comunidades-de-inhassoro-e-govuro/

framework for governance and decision-making on priority projects and the allocation of revenues transferred to communities. However, in July 2023, the Council of Ministers approved **Decree No. 40/2023,** which regulates the criteria for allocating and managing the percentage of revenues earmarked for the development of provinces, districts and local communities where mining and oil exploration projects are implemented.

In institutional terms, the company linked to the extractive sector channels taxes from its activity to the State, which in turn, through the Ministry of Economy and Finance, "returns" 10% of this revenue to the local level (7.25% to the province or district and 2.75% to the community).

Figure 1: *Institutional Scheme of Revenue Flow to Communities*



Source: *Adapted by the Author, based on Law No. 20/2014, Law No. 21/2014, Laws No. 15/2022 and No. 16/2022*

Implications of the Economic Acceleration Package (PAE) and the New Decree

The changes introduced in the new legal framework do not resolve the problems of the lack of effective inclusion of local communities in the process of sharing benefits arising from the exploitation of natural resources. This is because the new legal framework did not introduce new criteria for the inclusion of communities, nor did it discuss or consider the practical issues of how decisions are made about investments to be implemented by communities.

In fact, the PAE proposed measures such as:

I

Greater simplification in the architecture of public administration

II

Reform of the State's internal audit subsystem, aiming to increase the efficiency and effectiveness of Public Institutions

However, these measures are more general and do not specifically refer to transfers to provinces and communities. Thus, although the new legal framework has made progress in terms of establishing the transfer of a higher percentage of 7.25% to the operating provinces, its effectiveness in practice is often compromised by institutional and operational failures. The lack of clarity in defining the processes, coupled with insufficient supervision, results in difficulties in ensuring that the benefits reach the communities for which they were intended.

The constraints to implementing the revenue-sharing decree with local communities include the inability of local institutions to manage the funds appropriately. Resource management by community committees is often marked by governance issues, lack of transparency and political influence, which weakens the intended impact of revenue-sharing policies due to limited community participation in defining priorities for the use of funds, which contributes to a widespread sense of exclusion and marginalization among communities.

As for **Decree No. 40/2023,** which regulates the criteria for allocating and managing the percentage of revenue earmarked for development, article 4, sets the reference year for allocating resources to communities based on the revenues expected for the same financial year. However, this brings significant risks when revenue collection does not reach the projected amounts. The logic of the current financial year may result in delays or cuts in priority projects if there are unexpected deviations in revenue collection, such as taxes on mining and oil production.

A more robust proposal would be to adopt the **N-1 model**, that is, to plan and execute the budget for the year based on the revenues collected in the previous year. This model offers greater predictability, as it minimizes the impact of fluctuations in revenue during the current year, creating a buffer for unforeseen economic situations.

In a context such as Mozambique, where the economy is vulnerable to variations in global natural resource prices and where the country faces fiscal management challenges, this approach can help stabilize public planning.

Furthermore, **the N-1 model** would allow for better coordination with policies to rationalize public spending and control the budget deficit, as already provided for in the **Economic and Social Plan and State Budget (PESOE)**. This adjustment would strengthen the implementation of structural investments and increase efficiency in resource management since the margin of error in revenue projections would be reduced.

This would avoid emergency cuts in the middle of the financial year and ensure greater continuity in economic and social development initiatives.

Management Structure and Accountability Mechanisms

The revenue management structure of the extractive sector in Mozambique is composed of several entities, including the **Ministry of Economy and Finance (MEF), the Mozambique Tax Authority (AT), and the National Petroleum Institute (INP) (Transparency Initiative in the Extractive Industry, 2020).**

The MEF plays a central role in revenue allocation, while the AT is responsible for collecting taxes and *royalties*. However, the complexity and fragmentation of management among these entities has hampered the implementation of an effective and integrated accountability system.

The mechanisms for reporting revenue transfers to the extractive sector include: the **General State Account, the Citizens' Budget and the Citizens' Account**. The Citizens' Budget shows how much was expected to be allocated to each province and community. The general state account shows how much was allocated given the revenue collected. The Citizens' Account illustrates how the State's resources were collected, allocated, and spent on Public Expenditure, as well as the investments implemented with funds from revenues from extractive exploration.

Historically, Mozambique has faced significant challenges in managing extractive sector revenues. In the years prior to the 2014 Mining Law, extractive revenue management mechanisms were marked by high centralization and lack of clarity in the distribution of funds. Revenues generated by extractive activities were largely administered by the central government, with limited and non-transparent allocation to local communities. This old model was characterized by a lack of independent oversight mechanisms, which facilitated mismanagement and misappropriation of funds.

With the introduction of **Laws No. 20/2014 (Mining Law) and No. 21/2014 (Petroleum Law)**, there was an attempt to improve transparency and community participation in revenue management. These laws established the mandatory allocation of 2.75% of royalties to local communities, introducing a formal benefit-sharing mechanism. However, despite the legal innovation, the practical implementation of these mechanisms has proven to be deficient due to persistent gaps in supervision and the limited institutional capacity of the managing entities.

After the **PAE,** in addition to its promise to reform the State's internal audit subsystem made by the **PAE**, no new measures or improvements in management and accountability emerged. Although the legislation has broadened the basis for benefit sharing, implementation lacks robust accountability mechanisms, and centralized revenue management remains prevalent, with little participation by local communities in decision-making on the use of funds. The lack of publicly accessible reports on the allocation and impact of funds has made oversight by citizens and civil society difficult.

Current accountability mechanisms are largely internal and limited, with little visibility to the public. The lack of an integrated information management system that allows real-time monitoring of revenue collection and use is a major weakness of the system. In addition, limited community involvement in monitoring the use of funds creates a vacuum of accountability and transparency.

Another critical aspect is the weak coordination between the entities responsible for management and monitoring. The lack of a centralized platform for communication and information exchange between the **MEF, the AT, the INP, and the Administrative Court** prevents the consolidation of a robust control system. This scenario contributes to the duplication of efforts and the existence of blind spots in the monitoring of the use of resources.

Role of the Court and Other Institutions in Supervision

According to Law No. 7/2008 of 9 July, the Administrative Court is responsible for overseeing public finances, auditing accounts and issuing reports on the compliance of public accounts, including revenues from the extractive sector. As the auditor of public accounts, it must:

I
Identify irregularities, deviations and inappropriate practices in the management of revenues;

II
Ensure that activities and transactions related to extractive resources comply with the established standards, if they have been allocated for the purposes set out in Circular 1/MPD-MF/2013;

III
provide information and guidance to the responsible bodies and the public on the effectiveness and transparency in the management of resources;

IV
Ensure that there are control and accountability mechanisms to deal with inappropriate practices or corruption.

The main instrument of the Administrative Court is the General State Account; however, this document only provides information on the forecast of revenue to be allocated to communities and what has been achieved. Neither the general state account nor other instruments for reporting on revenue sharing, namely the Budget Law, Citizen Account and Citizen Budget, provide information on the progress of projects and their impact on community development.

REVENUE SHARING AND DEVELOPMENT

Revenue sharing from the extractive sector is one of the fundamental pillars for the economic and social development of local communities in Mozambique. The exploitation of natural resources, such as natural gas in the Rovuma Basin, promises to generate significant revenues for the country. However, the equitable distribution of these benefits and the impact on economic development, both local and national, continue to represent significant challenges.

In 2023, the government allocated approximately 77.1 million MZN to communities through the mechanism of allocating 2.75% of the production tax to host communities of extractive projects.

This amount represented a significant increase of 79.7% compared to 2022, demonstrating a clear effort to increase the resources distributed.

Despite this progress, challenges remain in effectively allocating these funds. For example, the Cateme community in Tete province, which had been receiving transfers since 2013, did not receive any funds in 2020, with no public explanation for the interruption or clarity on possible compensation in 2021. Similar situations occurred in the communities of Marara and Tsanango (Tete) and Maridza-Nhamaxato (Manica), which did not receive transfers in 2021, without official justification.

Table 1: Transfers to Communities [3]

Província	Localidade	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Inhambane	Pande	3.60	1.80	0.78	4.09	4.04	2.42	2.66	1.10	8.36	6.19	7.3
	Maimelane	3.60	3.50	3.26	0.67	0.18	2.42	2.66	4.30	8.36	6.22	6
	Mangungumete				2.31							
	Nhacolo				0.67							
	Sede				0.40	1.89						
	Vulanjane e Chimadjana					2.02						
Sub-Total 1		**7.20**	**5.30**	**4.04**	**8.13**	**8.13**	**4.84**	**5.32**	**5.40**	**16.72**	**12.41**	**13.30**
Cabo Delgado	Namanhumbir			6.00	6.13	6.13	12.51	22.92	20.90	10.55	11.83	21.4
	Montepuez											1.2
	Balama									2.33	0.15	0.6
	Mueda										0.14	
	Pemba											0.2
	Murrébué											0.1
	Metoro										0.18	0.2
Sub-Total 2		**0.00**	**0.00**	**6.00**	**6.13**	**6.13**	**12.51**	**22.92**	**20.90**	**12.87**	**12.30**	**23.70**
Tete	Bairro 25 de Setembro	1.40	1.40	3.26	0.51	2.56	2.31	13.72	14.60	9.94	0.63	1.9
	Nhantchere				0.51							
	Benga	1.40	2.40	1.10	2.31		0.36	3.10	7.10	6.91	4.88	15.3
	Cateme	1.60	0.10	3.26	3.06	1.91	2.63	13.72		9.94	0.63	1.9
	Chipanga II	4.30	0.40	3.26		1.91	2.00	13.72	14.60	9.94	0.63	1.9
	Marara							3.46	14.60			2.8
	Tsangano								3.50		0.81	
	Chipembere										0.57	
Sub-Total 3		**8.70**	**4.30**	**10.88**	**6.39**	**6.39**	**7.30**	**47.71**	**54.40**	**36.73**	**8.14**	**23.80**
Nampula	Topuito	3.50	2.30	3.92	1.08	2.16	4.15	4.76	4.90	4.81	6.73	6.6
	Nathaca				1.08							
	Angonche									0.32	0.72	1.3
	Nacala											0.1
	Mutiva											0
	Moma											0.1
	Muecate											0.1
Sub-Total 4		**3.50**	**2.30**	**3.92**	**2.16**	**2.16**	**4.15**	**4.76**	**4.90**	**5.13**	**7.45**	**8.20**
Zambezia	Mitange						0.78	1.43	1.40	0.52	2.06	3
	Micaúne										0.93	0.8
	Pebane									0.19		2
	Gurué											0.3
	Morrumbala											0.1
	Alto moloucue										0.23	
Sub-Total 5							**0.78**	**1.43**	**1.40**	**0.70**	**3.22**	**6.20**
Manica	Penhalonga						0.37	0.65	0.60			
	Manica						0.37	0.64	0.60		0.51	0.5
	Maridza- Nhamaxato									1.19		
	Machipanda										0.28	0.7
Sub-Total 6							**0.74**	**1.29**	**1.20**	**1.19**	**0.78**	**1.20**
Maputo Provincia	Boane									0.19		
	Moamba											0.1
	Namaacha									0.38	0.30	0.4
Sub-Total 6										**0.57**	**0.30**	**0.50**
Gaza	Godide											**0.1**
Sofala	Mafambisse											**0.1**
Total		**19.40**	**11.90**	**24.83**	**22.81**	**22.81**	**30.31**	**83.43**	**88.20**	**73.92**	**44.61**	**76.90**

Source: *CGE*

Note: *Values in Millions of Meticais*

[3] The red part represents the periods without transfers, even after having benefited in past periods. The government does not explain the reasons for not transferring the resources nor the procedures followed. This leads to the belief that the transfer of revenues arises from the political will of individuals.

Resource Allocation and Local Development?

The link between resource allocation and local development depends on the capacity of financed projects to respond to the priority needs of communities, such as basic infrastructure, education, health and job creation.

In several resource-producing regions, funds from the exploitation of extractive resources have been used to improve local infrastructure, such as roads and schools (Ministry of Economy and Finance, 2018, 2018, 2019, 2021, 2023a, 2023b, 2024). However, the effectiveness of these investments is often limited by the poor quality of the work, resulting from poor management and insufficient monitoring. The lack of integrated planning that aligns projects with regional development plans compromises the long-term impact of shared revenues.

According to (CIP, 2022) , in many cases, such as in Inhassoro, funds do not reach communities in a timely manner or are diverted for unforeseen purposes, and sometimes to finance expenses that are normally covered by the State Budget. This removes the main role of these allocations since the budgetary allocations included in the District Budget constitute extraordinary allocations.

Most of the extractive revenues are technical in the provinces of Tete, Cabo Delgado, and Inhambane, totaling 214.75 million, 123.46 million and 90.78 million Meticais, respectively, reflecting a higher collection of taxes on production in these regions (Table 2). However, the province of Niassa, despite having the highest levels and incidence of poverty in the country, does not receive any of these resources, as it does not have any enterprises.

This context reveals one of the structural limitations of the current revenue allocation system, which is based exclusively on derivation classifications, directing resources only to the communities and provinces where exploitation occurs. The implementation of a complementary model, which considers socioeconomic indicators, such as the level and incidence of poverty, would allow a fairer distribution of economic benefits. In this sense, provinces such as Niassa, for example, could benefit from revenues from exploitation in other regions, promoting the reduction of regional inequalities and contributing to a more equitable distribution of resources in Mozambique.

Table 2: Resource Allocation and Poverty

Província	Ocorrência de Recursos	Taxa de Pobreza (%)	Transferências até 2023 - 10^6 MT	Inicio da transferência
Inhambane	Gás Natural	48.6	90.78	2013
Cabo Delgado	Gás Natural, Rubis, Grafite e Vanádio	44.8	123.46	2015
Nampula	Areias Pesadas	57.1	48.62	2013
Tete	Carvão Mineral	31.8	214.75	2013
Manica	Ouro	41.0	6.40	2018
Niassa	--	60.6	--	--
Zambézia	Areias Pesadas, Ilmenite, Titânio, Zircão	56.5	13.73	2018
Gaza	--	51.2	0.1	2023
Sofala	--	44.2	0.1	2023
Maputo Província	Riólito, Água Mineral	18.9	1.37	2021

*Source: **(a)** Citizen Budget 2021; **(b)** MEF: Fourth National Poverty Assessment – IOF 2014/15; **(c)** General State Account (various years)*

Potential Impacts of Changes Introduced by PAE

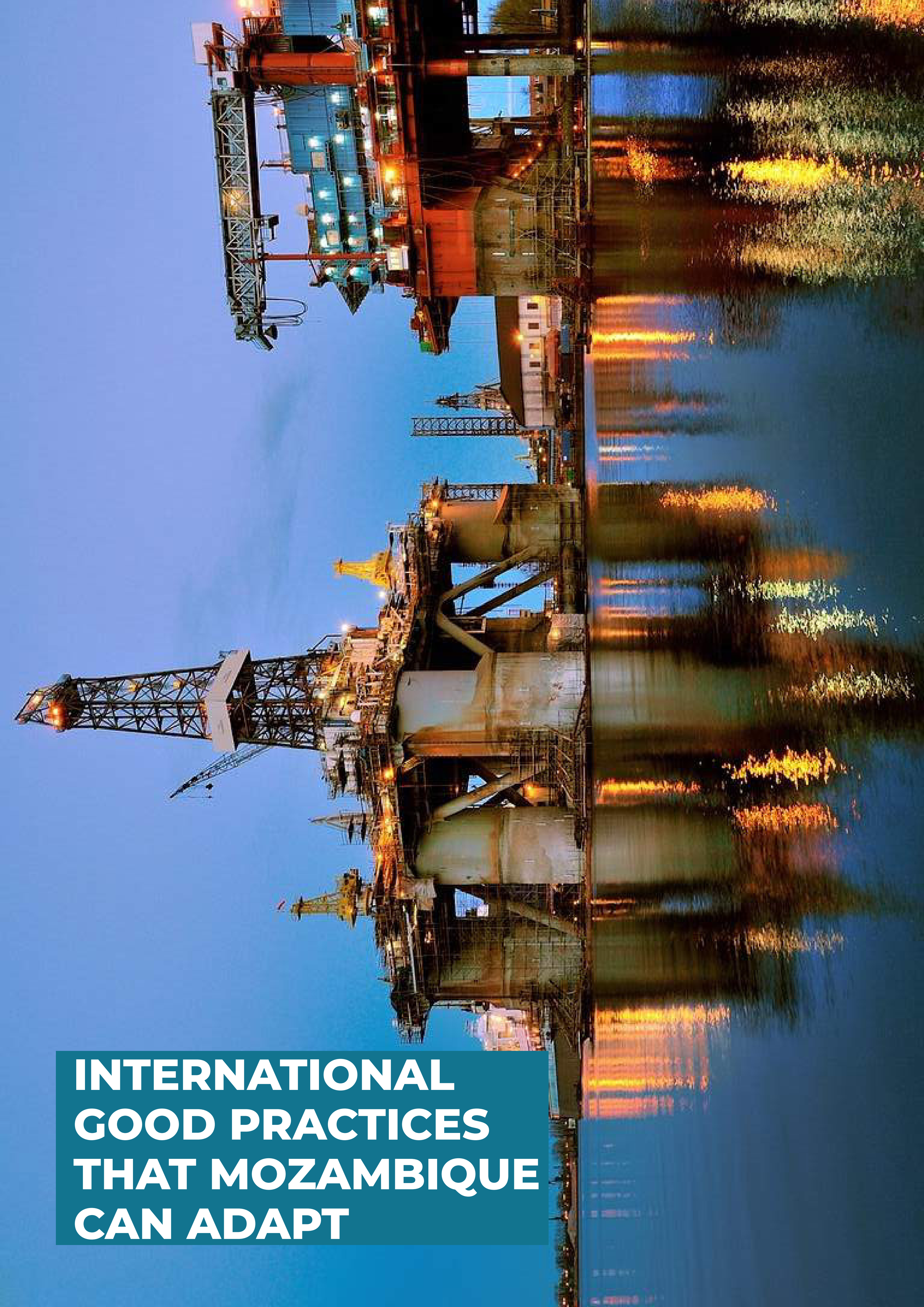
The economic acceleration measures adopted by Mozambique, especially in the context of the Economic Acceleration Package, have significant potential to reduce regional disparities and promote more balanced development. The PAE has made the following main contributions to reducing regional disparities: first, by increasing the rate of tax revenues from natural resources for the development of provinces where extraction takes place, which will increase the budget of the benefited communities for the development of development programs. Second, the PAE has made it possible for these resources to be invested not only in the specific communities where production takes place but also in other communities and districts where extraction does not take place, which was not possible under the provisions of the Mining and Petroleum Laws, where tax revenues should benefit the communities where production takes place, although communities can be understood as not only sub-district groups. The decentralization of resources and the allocation of revenues from the extractive sector to producing regions can contribute to reducing economic inequalities between rural and urban areas and improving access to infrastructure and basic services.

The positive impact of these measures, however, depends on their effective implementation.

It is essential that the funds made available to communities are directed towards projects that meet local needs, such as the construction of schools, health centers, and transport infrastructure, which can promote sustainable economic growth.

Integrating communities into regional economic development improves social well-being by ensuring a more equitable distribution of the benefits generated by natural resources. Measures such as allocating a percentage of revenues from extractive activities to local development, as provided for in the petroleum and mining laws, promote investment in infrastructure, education, health, and other essential areas, which in turn raise the living standards of the population.

This redistribution of resources not only meets the basic needs of communities but also contributes to reducing regional inequalities, creating local economic opportunities, and strengthening civic participation. As a result, by improving access to services and opportunities, these policies reduce social tensions and promote stability, strengthening national cohesion by economically integrating peripheral regions into the country's growth process.



INTERNATIONAL GOOD PRACTICES THAT MOZAMBIQUE CAN ADAPT

In Norway, for example, the management model of the Sovereign Wealth Fund, which collects part of the oil revenues, stands out for its transparency and strict rules for using the funds for the benefit of present and future generations. In Canada, oil-producing provinces have their revenue-sharing mechanisms with Indigenous communities, including agreements negotiated directly with affected parties, ensuring a more personalized and responsive approach. (Natural Resource Governance Institute, 2016)

Mozambique, in addition to transfers to the provinces and producing communities, can share revenues with regions with high levels of poverty, and relatively remote areas, as happens in Bolivia, Mongolia, and Nigeria (Natural Resource Governance Institute, 2016). Currently, in Mozambique, the new regulation allocates 7.25% to the province where production occurs and seeks to extend the benefits of resource exploitation. However, this policy ignores provinces where there is no resource exploitation or where resources are exploited at very low levels, which can lead to regional inequality and trigger a sense of division in the country.

As in Nigeria, in addition to the 2.75%, producing communities in Mozambique may receive some compensation for the environmental and social degradation resulting from exploitation, as is the case in Moatize in Tete.

As in the Philippines, some of these provinces and autonomous regions may have special arrangements that allow them to retain a larger share of the revenue generated locally.

Like Mongolia and Kyrgyzstan, Mozambique can share revenues through Community Development Funds that promote the development of projects in the provinces where exploration takes place. In this case, a Community Development Fund would be created for each province where exploration takes place and this fund would administer the 10% allocated to the province, where 2.75% is allocated to development projects in the local community where exploration takes place and the 7.25% in the remaining districts of the province. Although Mozambique has some legal provisions on extractive revenue sharing Law No. 15/2022 and Law No. 16/2022, both of December 19, some countries such as Brazil, Nigeria, Philippines, Bolivia, Malaysia, etc. attribute revenue sharing as a constitutional right and some share the formula detailed in the Constitution (Natural Resource Governance Institute, 2016). Mozambique can make revenue sharing a constitutional right so that it can be taken more seriously by decision-makers and they can incur sanctions if they do not do so as provided for by law. However, the progress of the new regulation is to be commended because previously the percentage of 2.75% was copied from the 2012 Budget Law, and now the percentage of 10% (2.75% + 7.25%) has been established by law.

Conclusions Recommendations for the Future

With the analysis of the Revenue Sharing of the Extractive Sector: New Paradigm with the Economic Acceleration Package Challenges and Opportunities, it can be concluded that:

- The current allocation model concentrates revenues only in producing regions (Tete, Cabo Delgado and Inhambane), excluding vulnerable provinces such as Niassa, which have high levels of poverty, reinforcing regional disparities.

- The implementation of the Economic Acceleration Package (PAE) increased the revenue allocation to 10%, distributed between 2.75% for producing communities and 7.25% for provinces and districts, even non-producing ones. This change was a step forward, but the lack of clarity on criteria and political influence still affects its effectiveness.

- Excessive centralization, institutional fragmentation and inadequate management of funds compromise the impact of revenues on local development. There is little public oversight and community participation in decision-making, limiting transparency and effectiveness.

- Cases of delays, misappropriation of resources and allocations to ordinary expenses rather than community projects are frequent. This reduces the expected impact on improving infrastructure and essential services such as education and health.

- Good practices, such as Norway's Sovereign Wealth Fund and sharing mechanisms in Nigeria and Mongolia, show that transparency, decentralization and community involvement are essential to ensuring a fair and sustainable distribution of revenues.

Based on the conclusions reached in this analysis, it is recommended:

- Adoption of a complementary distribution model, considering indicators such as poverty levels and inequality. This would allow vulnerable regions, such as Niassa, to also benefit from the revenues, promoting regional cohesion and development.

- Create regional Community Development Funds to manage the 10% of allocated revenues, distributing 2.75% to producing areas and 7.25% to non-producing districts.

- Empower local authorities to manage funds efficiently, with greater autonomy and alignment with local needs.

- Implement an integrated real-time monitoring system, with publicly accessible reports on the collection and use of funds. This would increase transparency and allow civil society to monitor and oversee the use of funds.

- Integrate funded projects with regional development plans, ensuring that revenues are used to improve infrastructure, health and education, contributing to sustainable economic growth.

- Make revenue sharing a constitutional right, ensuring that mismanagement and non-compliance with regulations are subject to sanctions.

- Create a centralized communication platform between the Ministry of Economy and Finance, the Tax Authority and the National Petroleum Institute, facilitating coordination and avoiding duplication of efforts in the management of funds.

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