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Volume II

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Appendix A. Basic Data

Table A-1

Revenues by Type of Tax, % GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Receita Total	10.8	11.5	11.2	11.4	13.1	12.4	13.8	15.2	16.2	16.0
Receitas fiscais	10.0	10.5	10.0	10.5	12.3	10.8	11.1	12.3	13.4	13.5
Impostos sobre Rendimentos	1.5	1.6	1.8	2.1	2.9	2.7	2.9	3.5	4.5	4.9
Imposto s/ rendimentos de pessoal	0.8	1.0	1.1	1.4	2.0	1.9	1.9	2.1	2.3	2.5
Imposto s/ rendimentos de empresas	0.7	0.6	0.6	0.7	0.8	0.8	1.0	1.4	2.1	2.4
Imposto Especial s/ o Jogo	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impostos sobre Bens e Serviços	6.6	7.3	6.9	7.2	7.9	7.2	7.4	8.0	8.3	8.0
Imposto s/ Valor Acrescentado (IVA)	3.9	4.4	4.2	4.4	4.9	4.5	4.5	5.2	5.4	5.4
IVA Operações internas	1.0	1.8	1.9	2.0	2.1	1.9	1.8	2.1	3.2	2.4
IVA Importação	1.4	2.6	2.4	2.6	2.7	2.6	2.7	3.2	2.2	3.0
Imposto s/ Consumo Específico - Prod.s Nacionais	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.7
ICE - Cerveja e Refrigerantes	0.0	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.5
ICE - Tabaco	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
ICE - Outros Produtos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Imposto s/ Consumo Específico - Prod.s Importados	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Direitos Aduaneiros + sobretaxa de acucar	1.7	1.9	1.8	1.9	2.0	1.7	1.9	1.8	1.8	1.5
Outros Impostos	1.9	1.6	1.3	1.2	2.2	0.9	0.8	0.7	0.7	0.6
Imposto do Selo	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.2	0.1
Imposto sobre Veículos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imposto Reconstrução Nacional	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Licenças de Pesca	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Imposto s/ Combustíveis	1.3	1.2	1.0	0.9	1.2	0.5	0.4	0.3	0.3	0.3
Royalties e Impostos de Superfície	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Juros de Mora e Taxa de 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SISA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Diversos Outros Impostos	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Receitas não fiscais	0.3	0.6	0.5	0.7	0.7	0.7	0.7	0.5	0.6	0.5

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Taxas Diversas de Serviços	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.1
Compensação de Apos. e Pensão de Sobrevivência	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Recuperação Crédito B. Austral	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Rendas de Casa	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Outras Receitas Não Fiscais	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1
Receitas Consignadas	0.4	0.2	0.3	0.2	0.2	1.0	1.0	1.0	1.1	1.1
Imposto s/ Combustíveis (consig.)	0.0	0.0	0.0	0.0	0.0	0.8	0.8	0.7	0.7	0.7
Taxa de Sobrevalor. da Castanha de Caju	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Assist. Médica e Medicamentosa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxas de Serviços Aduaneiros	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outras Receitas Consignadas	0.0	0.2	0.3	0.2	0.1	0.2	0.2	0.3	0.2	0.3
Receitas Próprias	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.9	0.5	0.5
Receitas de Capital	0.0	0.2	0.4	0.0	0.0	0.0	0.7	0.6	0.5	0.4
Dividendos	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.0	0.0
Privatizações líquidas	0.0	0.2	0.4	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Mem: Imposto s/ Combustiveis	1.3	1.2	1.0	0.9	1.2	1.3	1.2	1.0	1.1	1.0

Note: Years 1999 to 2007 from Conta Geral do Estado, 2008 from Relatorio de Execucao. All from DNEAP's "Quadromacro Revisto CFMP Proposta," received June 2009. Note that here Imposto de Combustivel is presented separately as but is otherwise included partly in "Non-tax revenues" and partly in "Consigned revenues."

Table A-2

GDP Sectoral Growth Rates

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 1999-08	Average 2006-08
PIB Real	8.4	1.5	12.3	9.2	6.5	7.9	8.4	8.7	7.4	6.8	7.7	7.6
Agricultura, produção animal, caça e silvicultura	6.5	-13.1	10.6	12.1	5.2	5.1	6.9	10.4	9.8	9.4	6.3	9.9
Pesca, aquacultura, e actividades relacionadas	-2.1	4.8	0.6	1.1	8.6	0.2	0.9	7.7	6.1	4.5	3.2	6.1
Industria Mineira	-6.5	59.6	10.8	28.7	16.1	71.6	0.7	27.8	34.6	13.1	25.7	25.2
Industria Manufactureira	14.7	15.1	34.7	8.7	17.0	13.2	2.1	3.0	1.3	2.9	11.3	2.4
Electricidade e Agua	78.3	-8.3	9.9	10.4	10.1	16.3	17.2	13.1	8.7	-2.6	15.3	6.4
Construção	3.4	13.0	6.7	10.8	9.7	-7.0	13.2	10.4	7.3	13.0	8.0	10.2
Comercio e Serviços de Reparação	2.5	3.2	17.4	4.6	6.6	7.1	12.1	21.3	7.2	6.9	8.9	11.8
Alojamento, restaurantes e similares	5.4	6.8	4.0	5.1	6.0	3.0	13.6	10.1	15.2	6.1	7.5	10.4
Transportes, armazenagem e comunicações	9.0	2.6	6.9	8.4	2.9	9.6	7.9	10.4	10.6	18.3	8.7	13.1
Serviços Financeiros	-26.9	80.8	21.3	15.8	10.5	25.2	49.3	3.7	10.9	12.9	20.3	9.1
Activ. imobiliarias, alugueres e serviços às empresas	3.0	1.3	5.0	0.7	1.1	5.9	1.3	0.8	0.6	0.1	2.0	0.5
Administração pública, defesa e segurança social	18.1	6.1	22.3	7.4	4.8	4.6	6.9	11.2	5.1	7.4	9.4	7.9
Educação	9.5	9.7	19.0	4.7	8.3	11.7	11.9	8.3	12.8	10.6	10.7	10.6
Saúde e acção social	17.1	11.7	9.0	5.7	5.8	7.5	7.1	14.5	16.3	8.2	10.3	13.0
Outras activ. de serviços colectivos, sociais e pessoais	10.0	18.3	6.8	3.3	2.4	2.4	2.4	2.4	2.4	0.5	5.1	1.8
Dir.s de Importação - SIFIM (residual)	-35.2	2.6	-3.9	26.9	-1.8	0.2	3.8	0.3	4.3	-8.2	-1.1	-1.2

SOURCE: DNEAP Quadromacro, from June 2009.

Table A-3

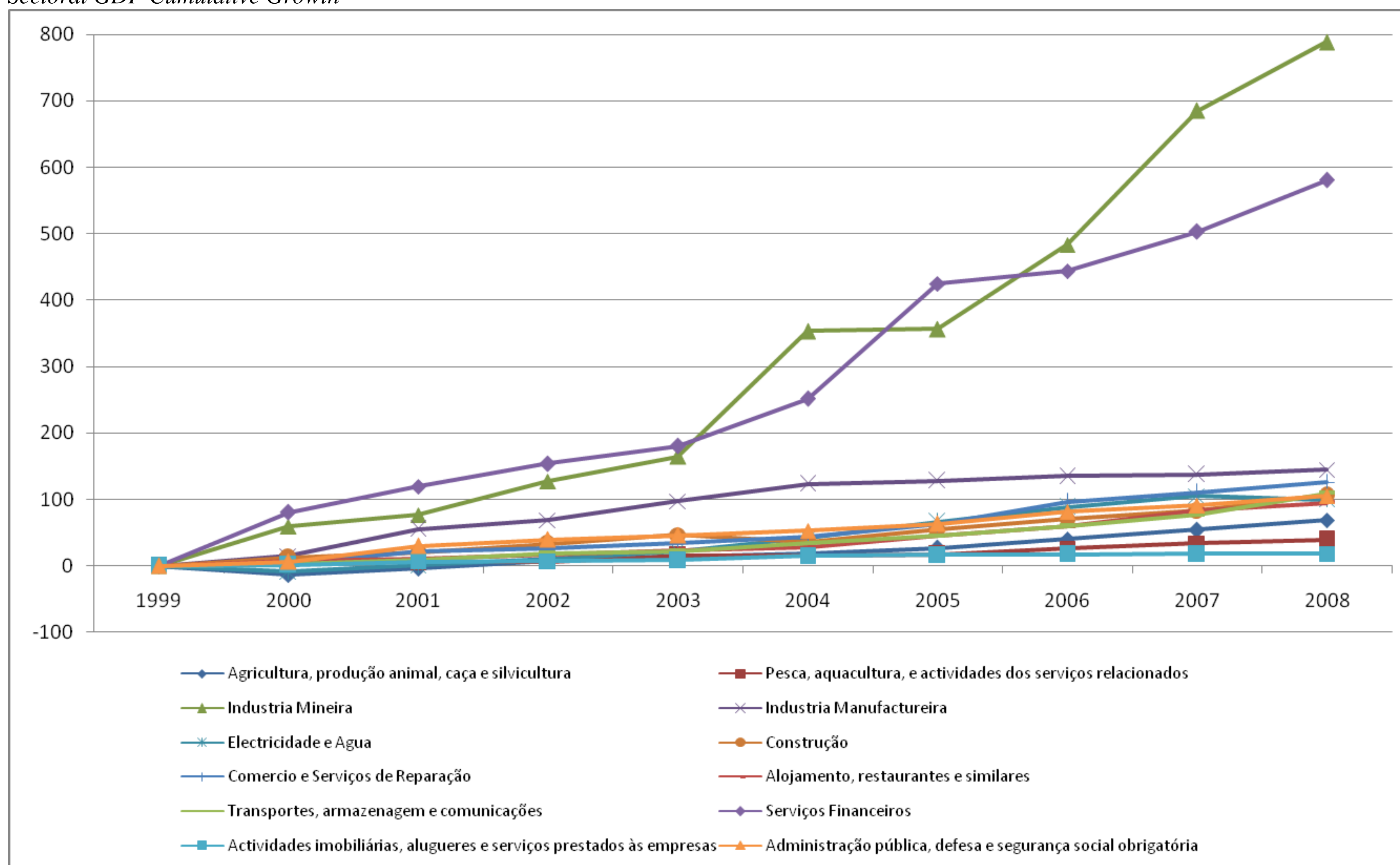
GDP Sectoral Shares(%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agricultura, produção animal, caça e silvicultura	27.4	23.5	23.1	23.7	23.4	22.8	22.5	22.9	23.4	24.0
Pesca, aquacultura, e actividades relacionadas	2.2	2.3	2.0	1.9	1.9	1.8	1.7	1.6	1.6	1.6
Industria Mineira	0.3	0.5	0.5	0.5	0.6	0.9	0.9	1.0	1.3	1.4
Industria Manufactureira	10.1	11.4	13.7	13.6	15.0	15.7	14.8	14.0	13.2	12.8
Electricidade e Agua	5.0	4.5	4.4	4.4	4.6	4.9	5.3	5.5	5.6	5.1
Construção	3.1	3.5	3.3	3.3	3.4	3.0	3.1	3.2	3.2	3.3
Comercio e Serviços de Reparação	9.7	9.9	10.4	9.9	9.9	9.9	10.2	11.4	11.4	11.4
Alojamento, restaurantes e similares	1.6	1.6	1.5	1.5	1.5	1.4	1.5	1.5	1.6	1.6
Transportes, armazenagem e comunicações	10.2	10.3	9.8	9.7	9.4	9.5	9.5	9.7	9.9	11.0
Serviços Financeiros	1.6	2.8	3.0	3.2	3.3	3.9	5.3	5.1	5.3	5.6
Activ. imobiliarias, alugueres e serviços às empresas	11.7	11.7	10.9	10.1	9.6	9.4	8.8	8.1	7.6	7.1
Administração pública, defesa e segurança social	3.4	3.5	3.9	3.8	3.7	3.6	3.6	3.6	3.6	3.6
Educação	3.0	3.2	3.4	3.2	3.3	3.4	3.5	3.5	3.7	3.8
Saúde e acção social	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.4
Outras activ. de serviços colectivos, sociais e pessoais	2.1	2.5	2.4	2.2	2.1	2.0	1.9	1.8	1.7	1.6
Dir.s de Importação - SIFIM (residual)	7.6	7.6	6.5	7.6	7.0	6.5	6.2	5.7	5.6	4.8

SOURCE: DNEAP Quadromacro from June 2009.

Figure A-1

Sectoral GDP Cumulative Growth



Appendix B. Fiscal Benefits in Mozambique

This appendix provides a short history of fiscal benefits in Mozambique since 1993, and a detailed comparison of the 2009 Code of Fiscal Benefits with the 2002 Code. (See Tables B-1 for the comparison of specific benefits, and Table B-2 for general benefits.)

FISCAL BENEFITS IN THE 1990S

The peace accord in 1992 signaled the beginning of an era of stability and development in Mozambique. One hallmark of this transformation was the adoption of a new Investment Law (Law No. 3/93 of 24 June) and a Code of Fiscal Benefits (Decree 12/93 of 21 July). The regime included a guarantee of property rights, access to foreign exchange for remittance of capital and profits, and generous tax breaks for a wide range of economic activities. Later in the 1990s the government added special incentives for Special Economic Zones (SEZs) in 1998 and Industrial Free Zones (IFZs)—another name for export processing zones—in 1999.

During most of that period the standard tax on corporate profit (*Contribuição Industrial*) was 35 percent for agriculture, 40 percent for industry (including construction and mining) and 45 percent for the trade and service sectors. Customs duties ranged up to 35 percent, including a 10 percent duty on capital goods. After 1998, the company tax rate was reduced to 35 percent for all sectors but agriculture and fisheries, which enjoyed a special 10 percent tax rate. Other special benefits applied to mining, oil and gas, hotels and tourism, and sugar.[1]

The main fiscal incentives were reductions in the tax rate for defined periods of time (partial tax holidays) together with exemptions on customs duties for certain capital goods. The "general" incentives included a 50 percent reduction in the company tax and complementary tax for up to 10 years. In three northern provinces, the reduction was 80 percent for 10 years, and 50 percent for another 6 years. In four other provinces, investments outside the capital obtained a 65 percent tax reduction for 10 years followed by a 40 percent tax break for 3 more years.

The IFZ package included exemption from customs duty and indirect tax on inputs used for export production, and an unusual "royalty fee" in lieu of income tax, set at 1 percent of gross

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[1] Adrien Goorman, Randa Sab and Paulo Ramos, *Moçambique: Raçionalização dos Incentivos Fiscais*, IMF, August 2000, p. 13. This study was not released to the public.

revenue or a flat rate per square meter of occupied area. For investments in the Zambezi River Valley SEZ (from 1998), the incentives included an exemption from customs duty and indirect tax for both equipment and intermediate goods and a full tax holiday for 5 years followed by an 80 percent reduction thereafter; for undertakings in agriculture and fisheries the full tax holiday applies until 2025.

Under this regime private investment increased substantially in the late 1990s (the trends are examined more fully in the next section). There is no doubt that fiscal incentives were essential to the negotiations on two early showcase projects of enormous strategic value to the country—the Mozal aluminum smelter and the Maputo-Witbank toll road project. More generally, though, one cannot easily disentangle the impact of incentives from the effect of political stability, macroeconomic stabilization after 1996, and the privatization of hundreds of formerly nationalized enterprises.

One piece of evidence came from a study conducted by Jose Macamo for the Ministry of Planning and Finance in 2000, to determine the importance of administrative barriers to investment as viewed through the eyes of a randomized sample of 30 recent investors. The study found that 76 percent of the respondents would have undertaken the same investment without tax and customs incentives.[2] Also in 2000 the IMF conducted a detailed study for the government on the fiscal incentives regime. Based on calculations from a sample of tax files, the study concluded that the existing benefits were "not cost effective." The IMF team was especially critical of costly tax holidays, recommending instead investment tax credits and accelerated depreciation.[3]

THE 2002 REFORM

In the wake of these findings, the government in 2002 adopted a comprehensive reform of the income tax, including a new Code of Fiscal Benefits. Major provisions of the tax reform program included a reduction in the standard corporate tax rate to 32 percent (with agriculture still at 10 percent) and elimination of the complementary surtax. At the same time, the new Code of Fiscal Benefits was designed "to rationalize the concession of fiscal incentives so that this regime can be more efficient and efficacious as an instrument of economic policy" and to consolidate in one legal instrument what had been "a very scattered system of fiscal benefits."[4]

A central feature of the 2002 Code was the elimination of most tax holidays in favor of investment tax credits and accelerated depreciation, along the lines recommended by the IMF. These general incentives applied to a wide range of activities, excluding most wholesale and retail undertakings other than rural commerce and investments involving new commercial infrastructure. In addition, partial holidays remained in place for agriculture (80 percent reduction

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[2] Jose Macamo, Administrative barriers to Investment in Moçambique: Lessons learned from the Experience of Recent Investors, Ministry of Planning and Finance, *Gabinete de Estudos* Discussion Paper #17, December 2000.

[3] Goorman et al, (2000), *op. cit.*, pp. 5 and 13. This recommendation echoed the predominant IMF view of tax incentives, as subsequently expressed in Zee, Stotsky and Ley (2002).

[4] Preamble to the Code of Fiscal Benefits, Decree n° 16/2002 of 27th June.

in the company tax rate until 2012), mining (25 percent reduction for 8 years), and IFZ entities (60 percent reduction for 10 years). The thresholds to qualify for CPI authorization under the Investment Act remained unchanged at $5,000 for domestic entities and $50,000 for foreign entities.

FDI inflows declined when the 2002 Code took effect, but this was largely due to the timing of mega-projects and uncertainties created by inflation, budget deficits, and exchange rate volatility. Still, average FDI in the four years after 2002 matched the average for the corresponding period before 2002, at US$259 million and US$253 million, respectively. FDI then reached new heights in 2007 once macroeconomic conditions stabilized. Similar trends are seen in the data on CPI approvals, which indicate the level of interest by investors planning to commit resources to Mozambique. Excluding large-scale projects (because they were covered by the special regime that did not change in 2002), the average level of approvals was higher in the four years after 2002 than in the prior four years—at US$552 million and US$ 508 million respectively.

Building on Macamo (2000), Bolnick (2009) conducted a study of investment motives at the end of 2008, covering a stratified random sample of projects approved by CPI in 2005, 2006 and 2007. The results were very similar. Of 60 companies covered in the survey, 83 percent indicated that tax incentives were not a critical factor in their investment decision; the corresponding figure for import duty relief was 73 percent. While these findings confirm a very high redundancy rate for the fiscal benefits, the study also found that the tax and duty benefits were critical factors for the largest investments that were approved during this time frame. However, the business plans filed with CPI showed that investments that hinged on the availability of incentives were very capital intensive and were designed to create far fewer jobs than the projects that would have been undertaken with or without the tax breaks.[5]

THE 2009 CODE OF FISCAL BENEFITS

A new Code of Fiscal Benefits came into force in January 2009 (under Law 4/2009 of 12th January). Major changes in the new Code are discussed in Chapter 4 of the text. Here we provide a more complete description of the new benefits package in the form of a tabular comparison of the 2009 and 2002 Codes. Table B-1 shows the main features of the "specific benefits" under the two codes, while Table B-2 provides a direct comparison of the "general benefits." Note that specific benefits apply to designated sectors or activities, whereas general benefits apply to qualifying investments not covered by designated specific benefits. Under Article 4 of the 2009 Code, specific benefits may not be aggregated with other specific or general benefits, unless otherwise indicated in the law.

[5] Bruce Bolnick, Investing in Mozambique: The Role of Fiscal Incentives, Nathan Associates, February 2009.

Table B-1

Specific Fiscal Benefits 2002 and 2009, Main Features

Type of Investment	Specific Benefits	2002	2009
Public infrastructure investment by private sector or by public-private partnerships	Customs duty and VAT exemption	2002 General Benefits only	Exemption from payment of import duties and VAT on class "K" imports including spare parts and accessories.
	Income tax reduction	See Table of General Benefits, Item 6 Basic for 2002	80% reduction in the IRPC tax rate for the first five (5) tax years; 60% reduction in the IRPC tax rate for tax years 6 to 10; 25% reduction in the IRPC tax rate for tax years 11 – 15.
Rural commerce and industry	Customs duty and VAT exemption	2002 General Benefits only	For rural commerce, exemption from payment of import duties and VAT on class "K" imports as well as other essential goods as enumerated, such as freezers and scales. For rural industry, exemption from payment of import duties and VAT on class "K" imports including spare parts and accessories.
Manufacturing and assembly industries	Customs duty exemption	2002 General Benefits only	Exemption from payment of import duties on imported raw materials for the production process. For assembly of motor vehicles, electronic equipment, computer and communications technology, exemption from payment of import duties on materials. Above exemptions require annual invoicing above 3 million MT and value added of at least 20%.
Agriculture and fisheries (Agriculture only in 2002)	Customs duty and VAT exemption	Exemption from payment of customs duties on class "K" equipment, for required goods not produced in Mozambique.	Exemption from payment of customs duties and VAT on the import of class "K" equipment and accompanying spare parts and accessories.
	Income tax reduction	80% reduction of the income tax rate until 2012, on profits from agricultural ventures	80% reduction of the income tax rate until 31 December 2015 50% reduction in the income tax rate between 2016 and 2025.
	Additional benefits	General benefits for professional training, public infrastructure expenditures, stamp tax and property transfer tax	General benefits for professional training and public infrastructure expenditures
Hotel and tourism	Customs duty and VAT exemption	Exemption from payment of import duties on class "K" equipment, for required goods not produced in Mozambique.	Exemption from payment of import duties and VAT on class "K" equipment and other indispensable goods for the construction and outfitting of tourism and hotel activities (see list).

Type of Investment	Specific Benefits	2002	2009
	Investment credit and accelerated depreciation	Investment tax credit as per General Benefits plus 3 percentage points. Accelerated depreciation up to 3 times the normal rate on new immovable assets, automotive vehicles and other fixed assets. These benefits apply only until 31 December 2007.	Accelerated depreciation increased by 50% on new immovable assets, vehicles and other fixed assets.
	Additional benefits	All general benefits.	General benefits for the investment tax credit and accelerated depreciation.
Science and technology parks	Customs duty and VAT exemption	N/A	Exemption from payment of import duties and VAT on scientific, teaching and laboratory equipment, including software and its support materials, including accessories and spare parts.
	Income tax reduction	N/A	Exemption from the income tax in the first 5 tax years. 50% reduction in the income tax in years 6 to 10. 25% reduction in the income tax in years 11 to 15.
Large scale projects 2002 Code: Investments exceeding US$500 million 2009 Code: Investments exceeding 12.5 billion MT	Exemption of import duties and VAT	Exemption from payment of import duties on class "K" equipment, for required goods not produced in Mozambique.	Exemption from payment of import duties and VAT on imported construction materials, machinery, equipment, and accompanying spare parts.
	Exceptional fiscal incentives	To be granted by the Ministry of Planning and Finance under a contractual regime approved by the Council of Ministers covering import duties, income tax, property transfer tax and stamp tax	Exceptional fiscal incentives eliminated
	Investment tax credit	Investment tax credit ranging from 5% to 10%, subject to 5-year carry forward. For projects in Gaza, Sofala, Manica, Tete, Zambezia and Nampula provinces, ITC of 10% to 20%. For projects in Cabo Delgado, Inhambane and Niassa, ITC of 15% to 30%. General benefits for professional training, public infrastructure expenditures, stamp tax and property transfer tax.	General benefits for investment tax credit, accelerated depreciation, deductions for modern technology, professional training, and public infrastructure investments.
Rapid Development Zones – designated eligible activities in Zambezi Valley, Niassa Province, Nacala District, Mocambique Insland and Ibo Island	Exemption of import duties and VAT	Exemption from payment of import duties on class "K" and "I" imports, during first 3 years of implementation, for goods not produced in Mozambique Until 31 December 2015.	Exemption from payment of import duties and VAT on the import of class "K" equipment, including accessories and spare parts.

Type of Investment	Specific Benefits	2002	2009
	Income tax benefits	Income tax credit equal to 20% of the total realized investment. Until 31 December 2015.	Same, but without the "sunset" date.
	Additional benefits	Exemption from property transfer tax and general benefits for professional training, public infrastructure expenditures, stamp tax.	General benefits for professional training and public infrastructure expenditures.
Industrial Free Zones (ZFIs)	Exemption of import duties and VAT	Exemption from customs duty and VAT on the importation of construction materials, machinery, accessories, spare parts and goods and merchandise to be used in the implementation of projects and operation of approved activities. VAT exemption includes internal acquisitions as well as imports	Same
	Income tax reduction	60% reduction in the corporate income tax rate for 10 years.	For operators and enterprises in ZFIs Exemption from income tax for first 10 years. 50% reduction for years 11 to 15. 25% reduction for the remaining life of the project. For enterprises in isolated free zones: Exemption from income tax for first 5 years. 50% reduction for years 6 to 10. 25% reduction for the remaining life of the project
	Additional benefits	Exemption from property transfer tax.	N/A
Special Economic Zones (ZEEs)	Exemption of import duties and VAT	N/A	Exemption from customs duty on the importation of construction materials, machinery, accessories, spare parts and other goods used in carrying out licensed ZEE activity. VAT exemption includes internal acquisitions as well as imports.

Type of Investment	Specific Benefits	2002	2009
	Income tax reduction	N/A	For ZEE operators: Exemption from company income tax for 5 years; 50% reduction for years 6 to 10; 25% reduction for the remaining life of the project; For ZEE enterprises: Exemption of company income tax for 3 years; 50% reduction for years 4 to-10; 25% reduction for years 11 to 15. For ZEE service enterprises: 50% reduction in company income tax for 5 years.
Investments under the Mines Act	Exemption of import duties and VAT	Exemption from customs duty, VAT and excise duty on the importation of all articles relating to prospecting, exploration and exploitation of mineral resources.	Exemption from customs duty, VAT and excise duty on the importation of class "K" equipment for prospecting, exploration and exploitation of mineral resources, for a period of 5 years from the date of commencement.
	Income tax reduction	Until 2010, a 25% reduction in the corporate income tax rate for the first 5 years of production, on investments above $500,000.	N/A
Investments under the Petroleum Act	Exemption of import duties and VAT	Exemption from customs duty, VAT, and excise duty on the importation of goods intended for use in petroleum operations.	Exemption from customs duty, VAT and excise duty on the importation of class "K" equipment and other designated goods for use in oil operations, for a period of 5 years from the date of approval.
	Income tax reduction	Until 2010, a 25% reduction in the corporate income tax rate during the first 8 years following the start of production.	N/A

Table B-2

General Fiscal Benefits 2002 and 2009, Main Features

Benefit	2002	2009
Benefits on the import of goods	Exemption from payment of import duties on equipment included in class "K" of the customs Tariff Schedule	Exemption from payment of import duties on equipment and accessories included in class "K" of the customs Tariff Schedule.
Fiscal benefits in respect of income	Investment carried out under the investment law shall benefit for the period of five (5) years from an investment tax credit equal to 5% of the total investment realised. In Maputo province the percentage of the ITC shall be of 5%; in other provinces the ITC shall range from 10% to 15%.	Same In Maputo province the percentage of the ITC shall be of 5%; in other provinces the ITC is 10%.
Accelerated depreciation	Permitted for new immovable assets. Accelerated depreciation at twice the normal rate set by law for the purpose of determination of taxable income subject to Corporate Income Tax (IRPC) and Personal Income Tax	Same. Accelerated depreciation at 50% above the normal rate set by law for the purpose of determination of taxable income subject to Corporate Income Tax (IRPC) and Personal Income Tax The same conditions also apply to rehabilitated immovable assets and equipment and machinery for industrial and/or agro industrial activities.
Modernization and introduction of new technology	The amount invested in specialised equipment shall during the first five years from the date of commencement of activity, benefit from a deduction from taxable income for the purpose of the IRPC up to a maximum amount of 15% of taxable income.	The amount invested in specialised equipment shall during the first five years counting from the date of commencement of activity, benefit from a deduction from taxable income for the purpose of the IRPC up to a maximum amount of 10% of taxable income
Professional training	Investment expenditure for professional training of Mozambican locals shall up to a maximum amount of 5% of taxable income be deductible from taxable income for the purpose of calculating corporate income tax. When the professional training is for the use of technologically advanced equipment, the allowable income tax deduction for the purpose of the calculation of the Corporate Income Tax shall be a maximum amount equal to 10% of taxable income.	Same. Same.
Tax Deductible Expenditure – During a period of 10 years counting from the date of production, enterprises certain expenditures may be treated as deductible expenditure for the purpose of calculation of Corporate Income Tax (IRPC)	In the case of undertakings carried out in the city of Maputo, 120% of the value of expenditure in the construction and rehabilitation of roads, railways, airports, mail delivery, telecommunications, water supply, electric energy, schools, hospitals and other works that are considered to be of public utility by the competent authority and documented by the Tax Administration. In the case of other provinces, an amount equal to 150% of the expenditure	In the case of undertakings carried out in the city of Maputo, 110% of the value of expenditure in the construction and rehabilitation of roads, railways, airports, mail delivery, telecommunications, water supply, electric energy, schools, hospitals and other works that are considered to be of public utility by the competent authority and documented by the Tax Administration. In the case of other provinces, an amount equal to 120% percent of the expenditure

Benefit	2002	2009
Exemption from Stamp Tax	The acts for the incorporation of companies including the alteration of the share capital and article of association are exempt from stamp duty during the first five (5) years.	N/A
Reduction in the rate of the real property transfer tax	Undertakings shall benefit from a 50% percent reduction in the rate of the real property transfer tax (SISA) with regard to the acquisition of immovable property used in industry, agro industry, and hotel as long as the property is acquired within the first three (3) years.	N/A

Note: Under Article 13 of the 2009 Code, "general" fiscal benefits apply to investments that are not covered by any of the specific benefits provided in the Code, and may not be cumulated with specific fiscal benefits unless otherwise specified in the latter provision.

Appendix C. Taxes and Fiscal Benefits: International Comparison

Table C-1 (in two parts) provides selected details about the tax structures and tax incentive regimes in the SADC member states, as well as four other comparator countries in Africa (Ghana, Kenya, Senegal, and Uganda). It difficult to extract clear judgments from the comparative tax tables on the extent to which Mozambique's tax system is regionally competitive, because the incentive regimes contain many technical details that defy simple comparison, and in any case the effects depend on characteristics of particular investments. The most useful comparisons come from two studies that are discussed in Chapter 5 of the main text (see Investment) showing that the 2002 Code of Fiscal Benefits in Mozambique was highly competitive in the region. No comparable studies have been conducted on the 2009 Code.

Table C-1

Overview of Incentives (Part 1)

Country	Statutory Corporate Income Tax Rate[a]	Summary of Investment Incentives	Treatment of Dividends of Business Assets	Personal Income Tax Marginal Rates	Favorable Tax Rates or Exemptions
Angola	35 %	Incentive code grants tax holidays for project of national interest and project located in special development zones. Favorable tax rates and incentive are granted in agriculture, forestry, mining, and oil.	10% withholding on dividends (residents and non-residents)	Progressive to 15%	20% for agriculture, forestry, 30% on rent for urban property; 40% legislation governing mining activities; 50% for income from oil is taxed; 65.75% for foreign production sharing agreement partners and joint ventures. Exporters exempt from excise tax.
Botswana	25 %[b]	Botswana's investment promotion is characterized by a low statutory corporate income tax rate and a simple incentive regime.	15 % withholding with set off against 10 % ACT liability.	5-10-15-20-25 %	Certain manufacturing and companies operating under the jurisdiction of the International Financial Services Center receive a lower 5% (+10%) tax rate.
DR Congo	40 %	Incentive code provide 3 to 5 year tax holiday for new companies and 60% ICA for manufacturing exporting greater 20% of output. Higher corporate and personal income tax rates.	20 % withholding (residents and non-residents)	3-5-10-15-20-25-30-35-40-45-50 %	Approved companies exempt from export duties and taxes.
Lesotho	25%	Lesotho's current code does not grant tax holidays. 10% tax rate available for manufacturing and farming and no withholding on dividends distributed by manufacturing companies.	15 % withholding residents; 25 % withholding non-residents; No withholding tax on dividends distributed by manufacturing companies to shareholders	25-35 %	10% for manufacturing and farming 0% on income generated from manufactured goods outside SACU
Madagascar	24 %	Limited information collected. Madagascar offers multiple export incentives for EPA firms and export companies.	No withholding	24 %	Multiple export incentives (eg. Refund of VAT for Export Processing Zone firms and professional export companies)
Malawi	30 %	Malawi's incentive code provides priority industries with options of 5-10 year tax holidays (depending on size of investment) or fixed 15% tax rate. Favorable tax rates available to EPZ firms, manufacturers and farmers.	10 % withholding (residents and non-residents)	10-20-30-40 %	Companies in EPZs exempt; 21% insurance businesses; 35% branch for foreign companies, 25 % for ecclesiastical, charitable or educational institutions or trusts
Mauritius	15 %	Flat tax rate of 15%. Tax holidays officered to small enterprises which register for the first time.	No withholding	15 %	Double deduction of export marketing costs; tax credit 15%-40% on export volume such that tax not less than 15%

Country	Statutory Corporate Income Tax Rate[a]	Summary of Investment Incentives	Treatment of Dividends of Business Assets	Personal Income Tax Marginal Rates	Favorable Tax Rates or Exemptions
Mozambique	32 %	Mozambique's incentive code does not grant ax holidays, but all sectors and regions are granted tax credits with preferable rates for certain sectors and regions of interest. Favorable tax rates and special incentives are granted to agriculture, tourism, and other investments considered a high priority.	20% withholding (residents and non-residents) 10% for shares listed on the Maputo stock exchange	Progressive to 32 %	10% rate on agricultural activities until 12/31/2010.; 15% for 5 yrs for investing in specialized equipment. 10 yrs: 120% deductible expenditure for public utility projects in Maputo, 150% for rest of country. 80% on income tax for agriculture. "Exceptional incentives" for projects over $500m or infrastructure or creating 500-1000 jobs in 3 years. Mining: 25% reduction in IRPC for 5 yrs. if $500,000+. Oil: 25% for 8 yrs IFZs 60%, exempt from real property transfer tax. Export incentive 60% tax reduction for 10 years.
Namibia	35 %	Malawi's incentive code offers 50% abatement for 5 years for registered manufacturers, a 20% ICA on buildings And a 3-year write-off for development expenditure in mining and petroleum.	0% withholding for residents; 10% withholding non-residents	Progressive to 35 %	35% mining companies; 55% diamond mining; 35% petroleum mining companies; 37.5 other mining companies. EPZ companies exempt from all taxes and duties; additional deduction of 25% to 75% on costs for export promotion and marketing 80% allowance on taxable income from export of manufactured goods (excl. fish and meat)
Seychelles	40 %	Seychelles incentive code does not offer tax holidays but provides 150%-200% special deductions for training. Multiple deductions and allowance granted to manufacturing, tourism, agriculture, marine resources, professional services.	0% for residents; 15% withholding for non-residents	None.	15% rate for export companies under IPA and companies in special growth areas; 25% and 35% bracket for small businesses; 15% fisheries, tourism and manufacturing
South Africa	28 %	6 year tax holiday for IDZs ended in 1999 but 0 duty and VAT on inputs still in effect. Favorable rates granted to small manufacturers, and incentives offered for farm development, mining and qualifying strategic projects.	0% withholding for residents and non-residents (expected to change to 10% in 2009); 12.5% secondary tax charged on declared dividends;	18-25-30-35-38-40 %	15% rate for small manufacturers (taxable income<R150,000;turnover<5milion) Companies in Ind. Development Zones zero duty and VAT on inputs. (2) Automotive exports (MIDP) obtain import duty credits as function of domestic content of exports. (2) other companies that manufacture or process exports get rebate or drawback of duty on some imported inputs.

Country	Statutory Corporate Income Tax Rate[a]	Summary of Investment Incentives	Treatment of Dividends of Business Assets	Personal Income Tax Marginal Rates	Favorable Tax Rates or Exemptions
Swaziland	30 %	Extensive tax holiday of 5 years for new export manufacturing industry and 10 year holiday at 10% tax rate + exemption from dividend w/holding available under Developmental Approval Order.	10% withholding residents; 15% withholding on payments to non-residents ; 12.5% for SACU based companies	20-25-30-33 %	10% Development Approval Order; 15% tax rate for export companies under IPA; zero tax on offshore companies operating in international trade zones FTZ; duty credit certificate scheme for textile and clothing exporters.
Tanzania	30 %	In recent years the government has attempted to simplify/harmonize its incentive system. It is noteworthy that Tanzania does not offer tax holidays outside of the EPZs.	10% for residents and non-residents; 5% withholding for companies on stock exchange; 10% for agriculture or certificate of investment; 0% for mineral sector & EPZ	17.5-20-25-30 %	Same corporate tax rate across all sectors.
Zambia	35 %	Zambia's tax regime provides favorable tax rates and allowances for agriculture, manufacturing, mining, and tourism with special incentives granted through the Zambian Development Act to investments that are considered a high priority.	15% withholding (residents and non-residents; exception for mining sector, EPZ 5 year exemption for farmers	25-30 %	15% farming, fertilizer companies, and non-traditional exports; 30% for mining companies; 40% bank amounts over ZMK 250 million EPZ Act implemented 2003 provides for stand alone EPZ sites; in addition to standard EPZ tax benefits, also provides full exemption from corporate tax, withholding tax, capital gains and excise duty
Zimbabwe	30 %	Zimbabwe's incentive code offers a 5-year holiday for qualifying investor, EPZ companies. ICAs also available under current tax code.	20% withholding (resident and non-resident); 15% for quoted companies	20-25-30-35-40-45 %	15% for licensed investor (after 5 yr holiday) or new infrastructure project in growth point area; 25% for mining; 20% for export manufacturing or processing and some tourist facilities; 10% for new manufacturing inn growth point area.
Other Sub-Saharan Countries					
Ghana	25 %	Ghana offers corporate income tax incentives allocated on a sectoral and locational basis. Sectors of particular interest are agriculture/agribusiness, financial services, and hotels. Exports are also of interest. Industries located outside of the regional capitals of Accra and Tema receive favorable incentives, and firms located in Free Trade Zones receive extensive incentives.	8% withholding (residents and non-residents)	Residents progressive to 25%; non-residents 15%	Favorable tax rates for Free Zones (8%); favorable rates for agribusiness' that source locally and are located in Accra (20%) and other regional capitals (10%); and complete exemptions for agribusiness located outside of capitals.

Country	Statutory Corporate Income Tax Rate[a]	Summary of Investment Incentives	Treatment of Dividends of Business Assets	Personal Income Tax Marginal Rates	Favorable Tax Rates or Exemptions
Kenya	30 % (Resident) 37.5% (Non-Resident)	Kenya has a stream lined system where incentives are primarily provided to the EPZ, and any additional incentives are reserved for targeted priorities. Under the new (more restrictive) FDI regime implemented in 2004, one of the three criteria for receiving an Investment Certificate is that the company contributes to tax revenues or other government revenues. [c]	5% withholding residents; 10% withholding non-residents; 0% for companies that control 12.5% or more of capital	10-15-20-25 %	25% tax rate for ten years following the tax holiday for EPZ companies only. Companies that float a minimum of 20 – 30% of their capital on the Kenya stock exchange receive a preferable tax rate of 27 – 25% respectively for five years from the year of listing.
Senegal	33%	Senegal's incentive code does not provide of tax holidays or favorable income tax rates, but rather grants tax credits for new enterprises and extension projects. The incentive system is relatively simple and straight forward.	16% withholding (residents and non-residents)	Progressive up to 50 %	CFCE exemption for 5 or 8 yrs. if 200 jobs created or 90% of jobs outside Dakar or if 25% increase in production capacity or investments over $100m FCFA for extensions; custom duties & VAT cancelled; exemption on taxes on salaries, property tax, taxes on income for stocks & shares
Uganda	30 %	Uganda has undergone significant reforms to its investment incentive policy in recent years. The new code has replaced tax holidays, with a system of tax allowances with the exception of EPZs.	15% withholding (residents and non-residents)	30 %	None indicated.

Notes

[a] Tax rates for Botswana, Ghana, Mozambique, Tanzania, and Uganda are from World Development Indicators 2006 figures for highest marginal corporate tax rate. Figures for Gambia and Zambia are taken from their investment promotion agencies. Kenya's rate is from the East African Tax Guide 2008 of Price Waterhouse Coopers; Rwanda (2006) and Senegal's (2007) rates are from the Federation of International Trade Associations (FITA).

[b]Botswana has a special case of a 15% corporate income tax plus a 10% additional tax.

[c] UNCTAD, Investment Policy Review Kenya.

Table C-1

Overview of Incentives (Part 2)

Country	Tax Holidays (Full/partial, duration)	Special Deductions for Employment or Training	Investment Tax Credit Or Tax Rebate	Initial Capital Allowance or Accelerated Depreciation
Angola	Projects of national interest or projects located in special development zones – total exemption from corporate income tax from three up to five years. Also reduction of 50% of corporate income tax for up to ten years. The incentives are granted by the Minister of Finance. Investments in agriculture, farming, transformative industries, transportation, education and health, can benefit from an eight to 15 year corporate income tax holiday, depending on the investment's geographical location.	None indicated.	None (employment subsidy instead).	None Indicated.
Botswana	5 years typically with development approval order (DAO).	Deduction of 200% of the cost of training if approved by the Commissioner. In the event that it's a manufacturing business, and is approved by the MOF there is a reduction in corporate tax to 15%, i.e. 5% company tax & 10% additional company tax.	None indicated.	Annual allowance of 10% - 25% of plant and machinery can be claimed. An initial allowance of 25% for new or improved buildings used for industrial purposes. There is immediate depreciation of mining capital expenditure.
DR Congo	3-5 years exemption for new companies; Discretionary exemptions under contractual regime	None indicated.	None indicated.	60% ICA for manufacturing exporting > 20% of output
Lesotho	None indicated.	125% for training or tertiary education costs for manufacturing companies.	None Indicated.	None Indicated.
Madagascar	None Indicated.	None Indicated.	None Indicated.	None Indicated.
Malawi	Priority industries have options of 5-10 year tax holiday (depending on size of investment) or fixed 15% tax rate.	Additional 50% of training cost for employee to earn degree, diploma or certificate	None Indicated.	Full expensing of farm works, industrial buildings, railways lines, 40% ICA for manufacturers (additional 15% in designated areas)
Mauritius	4 years for small enterprises converted into companies and which register for the first time with Income Tax 10 years for foreign income of certified regional headquarters; tax holiday (or 15% tax rate) for investment under ICT scheme	None Indicated.	10% on investment by companies in certain categories other than tax incentive companies, such that tax payable is not less than 15%.	10-25% additional ICA on industrial premises, plant and machinery, computer software, and state of art technology in manufacturing; for ICT equipment 50% ICA plus 3 year write off at 33.3% per year.

Country	Tax Holidays (Full/partial, duration)	Special Deductions for Employment or Training	Investment Tax Credit Or Tax Rebate	Initial Capital Allowance or Accelerated Depreciation
Mozambique	None indicated.	5% for 5 yrs. 10% for trainings for technologically advanced equipment.	5% of total investment, duration 5 years. 10% for projects in Gaza, Sofala, Tete & Zambezia Provinces. 15% in Cabo Delgado, Inhambane and Niassa Provinces. +3% for projects in hotel and tourism. RDZs developers get 20% decrease in CFI.	Full exemption of special equipment for advanced technology, up to max of 15% of taxable income;120-150% (depending on location) for investment in public utility infrastructure. 2 times normal rate for new or rehabilitated immovable assets, machinery & equipment used in industrial & agro-industrial activities.
Namibia	50% abatement for 5 years, phasing out over following 10 years for registered manufacturers	Manufacturers qualify for additional deduction on training expenses and 25% additional deduction for production line wages.	None Indicated.	20% ICA on buildings, with 8% per year write-off of balance in manufacturing; full expensing of farm works; 3 year write-off for dev. Expenditure in mining and petroleum.
Seychelles	None Indicated.	150%-200% deductions	None Indicated.	20% additional ICA on manufacturing plant; Under IPA:45-40-30-25-10% (total 150%) for capital assets in mfg, tourism and small industry;45-40-20-15-5 (total 120%) in agriculture, marine resources and professional services
South Africa	6 year for export companies in Industrial Development Zones ended in 1999	Additional deduction up to R50,000 per employee under approved leadership programs.	None Indicated.	Full expensing of capital for farm development and mining;(2) 50-40-30-20% for farm machinery and eqpt; (3)50% to 100% additional allowance for industrial asset in qualifying for strategic projects (subject to cap)
Swaziland	5-year holiday new export manufacturing industry Developmental Approval Order gives 10 year holiday at 10% tax rate + exemption from dividend w/holding. Note: Tax applies to excess income, as per formula; additional holidays granted at MoF discretion.	200% deduction for cost of approved training expenses	None indicated.	50% additional ICA for plant and machinery in manufacturing, for infrastructure assets, for hotels; 50% ICA for farm buildings and employee housing; Full write off of capital for mining and farm development
Tanzania	10 -20 year full tax holiday for EPZs followed by 24% tax rate (details depend on location).	None Indicated.	None Indicated.	50% for investment in lead and priority sectors (reduced from 100% in 2002); 20% for industrial building, machinery and farm works; 100% for agriculture and mineral sectors; 50% for tourism; 50 – 12.5% for mining.
Zambia	Special agreements for tourism in Livingstone; 5 year exemption for some small scale industry ; one –seventh reduction for rural enterprise for 5 years.	None Indicated.	None Indicated.	10% allowance on low cost housing and 5% for other buildings in the manufacturing sector. 100% deduction on capital expenditures on buildings, railways, equipment, and shaft sinking for mining; 50% of plant and machinery for tourism. 10% investment allowance plus 10% ICA for industrial

Country	Tax Holidays (Full/partial, duration)	Special Deductions for Employment or Training	Investment Tax Credit Or Tax Rebate	Initial Capital Allowance or Accelerated Depreciation
				buildings; expensing of farm works; 10% ICA for investment in certain tree and bush crops
Zimbabwe	5-yr holiday + 5 yrs at 15% for qualifying investors; 5 yrs for EPZ companies, followed by 15% rate; 5 yrs each at 0%,15% and 20% for BOOT arrangement and tourism facility in tourist zone; l-yr discount of 2% granted to a newly listed company of the stock exchange	Double tax deduction on wages and salaries for additional employees in manufacturing	None Indicated.	Expensing of certain farm works and mining investment; 15% ICA for companies in growth point area; 25% ICA per year for 4 years on industrial and commercial buildings and machinery; 50% Special Initial Allow on most capital assets
Ghana	5-10 year full tax holiday for: Real estate, rural banks, farming and agro-industry, waste processing and free zones.	None indicated.	25 – 50 percent rebate for manufacturing industries located in alternative regional capitals.	40% for computers and data handling equipment; 30% of automobile, trailers, plant and machinery used in manufacturing and plantation equipment; 80% cost in year of purchase with 50% annually there after for transportation equipment, buildings and plant and machinery for mining and petroleum. 5% on machinery and equipment in all sectors except banking, financing, insurance, mining and petroleum.
Kenya	10 year full tax holiday for EPZ companies only.	None indicated.	None indicated.	Across the sectors there is straight-line depreciation of buildings (2.5%), machinery (37.5%), IT equipment (30%), vehicles (25%), office equipment (12.5%). Mining, and farming, hotels and manufacturing receive exceptions for accelerated depreciation.
Senegal	None Indicated.	None Indicated.	40% tax credit on the eligible investment for 5 yrs.; new enterprises: 50% taxable profit for new companies; extensions: 25% taxable profit for extension projects	None Indicated.
Uganda	3-6 year general tax holidays were repealed in the 1997 Finance Statue and were replaced a new investment regime. 10 year full tax holiday for companies in EPZs.	Investment capital allowance of 100% for training.	None indicated.	40% for computer and data handling equipment. 35% for light vehicles. 30% for heavy vehicles. 20% for other depreciable assets and for farm equipment. 5% industrial building allowance, 20% for horticulture, variable rate for intangible assets.

SOURCE: Bolnick (2004), updated for most countries with data accessed from the Internet between March 15 and April 14, 2008 from Investment Promotion Centers in Botswana, Ghana, Kenya, Senegal, Tanzania, Uganda, and Zambia; and data accessed from the Internet between July 27 and August 6, 2009 from 2009 Tax Highlights guides produced by Deloitte (for Angola, Botswana, Madagascar, Mozambique, Namibia, South Africa, Tanzania and Zambia) and Tax Guides produced by PKF International (for Angola, Mauritius, South Africa, and Uganda); plus for Lesotho, Southern Africa, US Embassy; for Seychelles, Revenue Commission; for Namibia, Ministry of Trade and Industry; for Senegal, Federation of International Trade Associations.

Appendix D. Taxation and Business Environment Ratings

Chapter 3 reviews the scores for Mozambique's tax system from the World Bank's annual *Doing Business* reports. This appendix examines tax system scores in two other sources of international comparisons: the World Bank's Investment Climate Assessments, as tabulated in the *African Competitiveness Report* for 2009, and the World Economic Forum's *Global Competitiveness Report.*

The World Bank has conducted face-to-face enterprise surveys in more than 110 countries to capture business perceptions of the major obstacles to enterprise growth, the relative importance of various constraints to increasing employment and productivity, and the effects of each country's business environment on its international competitiveness. The Bank publishes the results in Investment Climate Assessments, covering a broad range of business-environment topics for each country, including access to finance, corruption, infrastructure, crime, competition, and performance measures. Selected results for Africa have been compiled in the *Africa Competitiveness Report 2009* (ACR 2009), which is a joint publication of the World Economic Forum, the World Bank, and the African Development Bank.

The ACR 2009 reports five indicators relating to the tax and customs environment:

1. Average number of visits or required meetings with tax officials.
2. Percentage of firms stating that they are expected to give a gift in meetings with tax officials.
3. Percentage of firms expressing that a typical firm reports less than 100% of sales for tax purposes.
4. Average time to clear direct exports through customs (days)
5. Average time to claim imports from customs (days)

Table D-1 presents the data on these five indicators for the SADC region. The results for Mozambique point to the following problems:

Tax evasion: 73 percent of firms expressed the view that a typical firm reports less than 100 percent of sales for tax purposes. This included 78 percent of the small firms, and 63 percent of the large firms. For this indicator, Mozambique has the second worst score in the SADC region.

Customs: Time to clear direct exports through customs and time to claim imports from customs both averaged just over 10 days. Medium-sized firms appear to be most affected by customs delays. They reported that time to clear direct exports averaged 14 days and time to claim imports averaged 12 days. Here, too, Mozambique's scores are amongst the poorest in the region.

Corruption: 10 percent of the firms in the survey expected to give gifts in meetings with tax officials, including 12 percent of small firms, 7.5 percent of medium sized firms and 4 percent of large firms. Although 90 percent of the respondents in Mozambique do not report having to give gifts to tax officials, the score on this indicator is still above the median for the region.

Table D-1

Investment Climate Profile Tax Relevant Indicators

	Avg. No. of Visits or Required Meetings with Tax Officials	Firms Expected to Give Gifts in Meetings With Tax Officials (%)	Firms Expressing That a Typical Firm Reports Less than 100% of Sale for Tax Purposes, %	Avg. Time to Clear Direct Exports Through Customs (days)	Avg. Time to Claim Imports from Customs, (days)
Angola	5.2	14.8	67.8	16.5	28.2
Botswana	2.4	4.5	65.3	1.3	3.1
DRC	10	64.4	65.4	3.6	13
Lesotho	3.2	10.6	.	8	.
Madagascar	1.7	6.8	35.6	14.2	19.3
Malawi	8.9	15.3	55.3	3.5	6.4
Mauritius	3.1	0.3	36.2	10.3	11.7
Mozambique	**2.7**	**9.8**	**73.1**	**10.1**	**10.4**
Namibia	1.6	2.6	45.5	1.5	3.3
Seychelles	.	.	.	.	.
South Africa	1.8	3.1	40.3	4.6	5.9
Swaziland	1.9	3.3	74.6	4	2.2
Tanzania	3.3	14.7	71	5.7	14.3
Zambia	2.9	5.4	.	3.1	6.6
Zimbabwe	.	.	.	.	.
SADC Median	2.9	6.8	65.3	4.6	8.5

SOURCE: World Economic Forum.

According to the most recent Investment Climate Profile for Mozambique (2007), high tax rates are among the top ten most serious constraints to investment as perceived by entrepreneurs. This complaint is found throughout the SADC region, with the exception of South Africa (see Table D-2). Tax rates are cited as a problem even in Zambia, which has one of the lowest scores in the world on the *Doing Business* estimate of Total Tax Rate (but see Exhibit 3.1 in the text for a critique of the methodology for this indicator.) Tanzania, Zambia, and Madagascar also cite tax administration in their top ten lists.

Table D-2

Taxes in Top 10 Most Serious Constraints to Investment, as Perceived by Local Entrepreneurs

	Tax Rates	Tax Administration
Angola	X	
Botswana	X	
DRC	.	.
Lesotho	X	
Madagascar	X	X
Malawi	X	
Mauritius	X	
Mozambique	**X**	
Namibia	X	
Seychelles	.	.
South Africa		
Swaziland	X	
Tanzania	X	X
Zambia	X	X
Zimbabwe	.	.

SOURCE: World Economic Forum.

Similar results were found in the two enterprise surveys conducted in Mozambique, one in 2003 and one in 2008, where tax administration was perceived by entrepreneurs to be a major constraint to business (see Table D-3). In 2003, it was the 10th most severe obstacle to business; in 2008, it was the 8th most severe obstacle.

Another widely cited source of business environment ratings is the World Economic Forum's *Global Competitiveness Report.* This annual report assesses "the ability of countries to provide high levels of prosperity to their citizens"[6] based on scores for more than 113 indicators. Most of the data come from an annual Executive Opinion Survey, which obtains subjective ratings on a broad range of issues that are difficult to measure using hard data. Tallying the scores, the report ranks country performance in the following areas: institutions; infrastructure; macroeconomic stability; health and primary education; higher education and training; goods market efficiency; labor market efficiency; financial market sophistication; technological readiness; market size; business sophistication; and innovation.

On taxation, the *Global Competitiveness Report* for 2007-2008 contains only two indicators other than those taken from the World Bank's *Doing Business* reports (discussed in the main text): the "extent and effect of taxation" and the trade-weighted average tariff.

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[6] http://www.weforum.org/en/initiatives/gcp/FAQs/index.htm#network3. Accessed July 6, 2009.

Table D-3
Major or Severe Obstacles to Business

	2008	2003
Practices of informal competition	1	5
Access to finance	2	1
Crime	3	8
Corruption	5	3
Electricity	6	2
Transport	7	14
Tax administration	8	10
Workforce education	9	12
Licensing & permits	10	13
Customs & trade regulations	11	9
Access to land	12	15
Telecommunications	13	16
Political instability	14	.
Labor regulation	15	11
Courts	16	.

SOURCE: *Mozambique Enterprise Surveys 2003, 2008.*

For the first indicator, respondents are asked to rate "the level of taxes in your country" on a scale of 1 to 7, where 1 = significantly limits the incentives to work or invest, and 7 = has little impact on the incentives to work or invest. Table D-4 shows that the perceived "extent and effect of taxation" in Mozambique has not exhibited major improvement over the PARPA II period, hovering around a score of 3. Though the validity of cross-country comparisons using perceptions data between countries is questionable, the result for Mozambique is in line with median among SADC countries, though well below the results for the leading countries of South Africa and Mauritius.

Table D-5 shows that the trade weighted average tariff for Mozambique is relatively low in absolute terms in line with the SADC medians, though higher than the average tariff in South Africa and Mauritius.

Table D-4
Extent and Effect of Taxation

	2005/2006	2006/2007	2007/2008	2008/2009
Angola	.	.	.	.
Botswana	4.9	4.7	4.8	4.9
DRC	.	.	.	.
Lesotho	.	3.1	2.9	3.0
Madagascar	3.0	3.1	3.3	3.5
Malawi	2.1	2.9	.	3.0
Mauritius	3.8	4.7	4.8	5.4

	2005/2006	2006/2007	2007/2008	2008/2009
Mozambique	**3.3**	**2.7**	**3.0**	**3.1**
Namibia	3.7	3.6	3.6	3.7
Seychelles	.	.	.	.
South Africa	3.7	4.2	4.3	4.5
Swaziland	.	.	.	.
Tanzania	3.5	3.4	3.5	3.4
Zambia	.	2.1	2.5	2.8
Zimbabwe	2.6	2.5	2.4	2.2
SADC median	3.5	3.1	3.2	3.1

SOURCE: Global Competitiveness Report.

Table D-5

Trade-weighted Tariff

	2008/2009
Angola	.
Botswana	4.6
DRC	.
Lesotho	4.2
Madagascar	8.4
Malawi	12.7
Mauritius	3.6
Mozambique	**7.7**
Namibia	8.5
Seychelles	.
South Africa	6.2
Swaziland	.
Tanzania	7.7
Zambia	11.6
Zimbabwe	13
SADC median	7.7

NOTE: The rate is the average rate of duty per imported value unit in 2007, weighted by 2006 import values. Time series data are not available, as the methodology for calculating the indicator was changed in the 2008/09 report.

SOURCE: Global Competitiveness Report.

Appendix E. Operational Efficiency Indicators

As noted in the text, the Annual Reports (ARs) of the AT are filled with tables and figures providing valuable data on many facets of revenue collection and tax administration. Yet the reports also lack many types of indicators that would provide management with better information for monitoring operational efficiency (*indicadores de desempenho*). The purpose of this appendix is to clarify this statement.

In its Annual Report for 2008 (AT, 2009) the AT presents 39 tables and 43 graphs. Without going into full detail, the main types of information are as follows:

- Revenues collected, relative to targets, by type of revenue
- Revenue foregone from the temporary suspension of tax on petroleum products in 2008
- Revenue contribution from mega-projects and financial institutions
- Number of audits and inspections, and revenue results, including post-clearance audits by customs
- Tax disputes by status and region (number and tax amounts involved)
- Refund requests received, paid , outstanding, by type of tax
- Revenue foregone due to fiscal benefits, by type of tax
- New registrations by companies and individuals, relative to targets
- Staffing levels, including education levels
- Costs of tax administration, budget and actual
- Rating of tax units, by realization of revenue targets
- New investments in AT infrastructure
- Revenue recovered as a result of internal audits
- Efficiency of tax service offices, operational cost as % of collections

Table E-1 summarizes selected indicators of operational performance from the AT Annual Reports for 2007 and 2008, showing time series comparisons where possible.

All of this information is important, but only the last-mentioned item on the foregoing list (from Table 39, p. 81 of the 2008 Annual Report) provides direct information about cost-effectiveness

or operational efficiency, as distinct from descriptive data on the level of activity, the outcomes, and characteristics of the organization.

What is missing? The latest IMF tax mission report, which is not available to the public (IMF, 2009c) provides a full page of suggested performance indicators that are standard elements of a well developed management information system for tax administration. Only few of the suggested indicators are found in the AT Annual Report, and, judging from interview results, the AT does not yet collect most of the missing information. Examples include:

- Survey findings on taxpayer satisfaction
- Survey findings on AT personnel satisfaction
- Number of taxpayer service requests handled, by function and location
- Quality of information provided to taxpayers
- Number of declarations processed, by type of tax
- Processing time per declaration
- Processing time for refund requests
- Number of audits per audit staff and type of contributor
- Average time per audit
- Percent of audits finalized and accepted by taxpayer without contest
- Percent of challenged audits settled in favor of the government
- Value and number of debts collected, and outstanding
- Average time, and stratification by value of outstanding tax debts
- Average time for contacting taxpayers about overdue payments, and initiating action
- Average time for resolving disputes
- Average time for customs inspections
- Average amounts collected per post-clearance audit
- Percent of customs declarations, by channel

As the tax data base develops, the AT should also be collecting data that will allow management to target audits, inspections, and verifications more efficiently by allocating AT resources to transactions involving high revenue risk.

Table E-1

AT Operational Indicators

Topic	Item						Source	Notes
Audit	**Auditorias e fiscalizações**							
			Number					*Other useful audit indicators*
			DAFI	DAFI/UGC	Total			Amount due per audit/process
		2006	500				AR2007, p14	Amount collected per audit/process
		2007	498	460	958		AR2007, Table 9	Amount collected/due
		2008			769		AR2008, Table 18	Number of audit staff
								Number of audits per audit staff
	Amount due (10^6 MT)							Amount due per audit staff
			DAFI	DAFI/UGC	Total			Amount collected per audit staff
		2006	660.3				AR2007, p14	Audit revenue, % GDP
		2007	780.3				AR2007, Table 10	
		2008			352.8		AR2008, Table 14, 18	
	Amounts collected (milhoes MT, excl multas)							
			DAFI	DAFI/UGC	Total			
		2006	na	na				
		2007	124.1	14	138.1		AR2007 Table 12	= 0.4% total receipts: AR2008, table 18
		2008			89.4		AR2008, Table 15, 18	= 0.2% total receipts: AR2008, table 18
	Processos de contas das empresas analisadas (a/c)							
			No.	Add'l tax collected (10^6 MT, excl multas))				
		2006	1637				AR2007 p15	
		2007	1336	17.8			AR2007 Table 12	
		2008	1478	93.1			AR2008 Table 17	
	Operações de prevenção e combate a fuga ao fisco							
			No,	Collected				
		2006	na	na				
		2007	40	na			AR2007 p14	
		2008	na	na				
	Auditorias Pós-Desembaraço Aduaneiro							
			No.	Value expected	Collected	(10^6 MT)		
		2007	59	12.8	5.04		AR2007 Table 11	
		2008	63	89.3	12.0		AR2008 Table 16	
Registration	**Registo de contribuintes**							*Other useful registration indicators*
			IRPS	IRPC	Total			Total number registered, by type of tax
		2006	96448	3779	100227		AR2007 Table 15	No. monthly returns / No. registered, by type of tax
		2007	186368	3651	190019		AR2007 Table 15	
		2008	186671	4469	191140		AR2008 Table 30	Regional breakdown available
	Number of Taxpayers							
		2005			295000		2005: IMF (2006) PRGF 4th review	
		2006			391719		2006: IMF (2007) PRGF 6th Review	
		2007			587205		2007: IMF (2008) PSI 2nd Review	
		2008			na			

Disputes (contensiosos)	**Evolução de processos de contencioso fiscal (year-end)**						
		No.	Value (10^6 MT)				
	2006	8333	1169.6			AR2007 Table 16	
	2007	8289	1315.3			AR2007 Table 16	
	2008	7606	916.24			AR2008 Table 19	
	of which	No. 2007	No. 2008	Value 2007	Value 2008	AR2008 Table 19	
	Instaurados	6.476	4489	484.4	491.4		
	Cobrados	3.638	5998	223.4	171.7		
	Anulados	27	9	7.9	1.9		
	Relaxados	2.855	1224	107.4	218.0		
	Contestados	812	1229	721.3	69.2		
	Recorr. a TA	134	230	45.1	321.5		
	Evolução de processos executivos (??)						
		No.	Value (10^6 MT)	No	Value		
	Saldo 2005	224916	1127.5			AR2007 Table 17	
	Instaurados			7408	390.5	AR2007 Table 17	
	Cobr + Anul			12887	124	AR2007 Table 17	
	Saldo 2006	219432	1380.0			AR2007 Table 17	
	Instaurados			4062	748.6	AR2007 Table 17	
	Cobr + Anul			3014	63.3	AR2007 Table 17	
				6656	26.8		
	Saldo 2007	213824	2036.6			AR2007 Table 17	
	Instaurados			4512	498.9	AR2008 Table 23	
	Cobrados			3390	85.5	AR2008 Table 23	
	Anulados			20833	990.7	AR2008 Table 23	
	Saldo 2008???	189605	1748.7			AR2008 Table 23	
	Evolução de processos de contencioso aduaneiro						
	Numbers small -- omit					AR2007 Table 18	
Refunds	**IVA - Pedidos de reembolso tratados e pagos (excl diplomatas)**						*Other useful refund indicators*
		No.	Value (10^6 MT)				% petitions closed w/in 30 days
	2006	na	na				% petitions overdue at year-end
	2007						
	Received	389	941.4			AR2007 Table 19	
	Paid	385	562.2			AR2007 Table 19	Incl pyts on petitions from prior yrs
	2008						
	Received	430	1071.9			AR2008 Table 25	
	Paid	487	863.1			AR2008 Table 25	Incl pyts on petitions from prior yrs
	IRPS - Pedidos de reembolso						
		No.	Value (10^6 MT)				
	2006	na	na				
	2007	3473	21.6			AR2007 Table 20	
	Autorizados			1069	5.6		
	Indeferido			73	1.7		
	Pendentes			2331	14.3		
	2008	4142	28.5			AR2008 Table 27	
	Autorizados			2075	12.7		
	Indeferido			189	0.9		
	Pendentes			1872	14.8		
	IRPC - Pedidos de reembolso						
		No.	Value (10^6 MT)				
	2006	na	na				
	2007	35	59			AR2007 Table 20	
	Autorizados			12	0.5		
	Indeferido			1	0.3		
	Pendentes			22	58.2		
	2008	31	94.6			AR2008 Table 28	
	Autorizados			10	11.8		
	Indeferido			1	10.4		
	Pendentes			18	72.3		

Staffing

Distribution of personnel

	Tributaria	Aduaneira	Regime Geral	Total	Source
2006	na	na			
2007	1017	1718		2735	AR2007 Table 21
2008	1324	1757	10	3091	AR2008 Anexo 2

Education level	Maestrado	Lic/Bach	Med. Prof	Med.Ger	BasicGeral	InfBasic	Source
2006	na						
2007	na	15.3%	17.9%	40.0%	22.8%	4.0%	AR2007 ???
2008	0.7%	16.0%	20.6%	38.7%	13.6%	8.3%	AR2008 Anexo 2.1

Cost of tax admin.

Distribuição pelos Centros de custos - Orc. disponivel (10^6 Mt)

	2006	2007	2008	Source
Pessoal	na	543.7	940.7	AR2007 Table 23
Bens e Servicos	na	208.4	393.9	AR2008 Table 33
Transf corr.	na	2.0	1	
Other corr.	na	103.2	79.3	
Desp capital	na	129.7	143.8	
Total	na	987.0	1558.8	
Total tax revenue (10^6 MT)	22142.1	27965.1	32315.2	ATM-GPECI - Execução da Receita do Estado
AT total cost % tax revenue		3.53%	4.82%	Calculated
AT operating cost % tax rev		3.07%	4.38%	Calculated

Other useful cost indicators

Operation cost as % receipts - DGI, DGA

Total cost as % receipts - DGA, DGA

Fiscal benefits

Isenções concedidos

	Direitos	IVA	ICE	IRPC	IRPS	Total	Source
2006	822.8	1534.3	271.8	517.4	0.2	3146.6	TA Rel CGE2007 p.V-33
2007	923.0	1857.1	112.8	3967.2	0.9	6861.0	TA Rel CGE2007 p.V-33
2008	710.0	1291.6	188.1	na	na	2191.8	AR2008 Table 29

	% total tax revenue	
2006	14.2%	
2007	24.5%	
2008	6.8%	Excludes IRPC ??

Megaprojects

Tax-registered megaprojects, end 2008 — AR2008 p28-9

Active
- Mozal, SARL;
- Sasol Petroleum Temane;
- Sasol Petroleum Moçambique;
- Projecto Areias Pesadas de Moma;
- Areias Pesadas de Chibuto;
- Hidroeléctrica de Cahora Bassa
- Companhia do Vale do Rio Doce.

Not yet active
- Projecto de Ferro e Aço de Maputo,
- Projecto da Zona Franca Industrial da Beira e de Ferro e Aço da Beira,
- Complexo Petroquímico da Beira,
- Riversdale Mozambique, Lda,
- Procana,
- Ayrs Logispics (refinaria de petróleo de Nacala).

Contribution of megaproject and financial institution (%) — AR2008 Table 11

2008	% Rec DGI	% Rec Tot	% PIB
Megaprojects	8.4%	5.5%	0.9%
Inst Fin	5.1%	3.3%	0.5%
Total	13.5%	8.8%	1.4%

Contribution of megaproject, by type of tax (10^6 MT) — AR2008 Table 12

2008	IRPS	IRPC	Imp s/ Prod	Taxa Concess	Dividendos	Total
Energia	83.5	33.4	0	338.6	0	455.4
Petróleo	0	0	0	0	0	0
Recursos Minerais	103.4	101.2	96.2	841.1	0	1141.7
Outros	132.5	284.9	0	0	129.8	547.6
Total	319.3	419.5	96.2	1179.6	129.8	2144.3

Appendix F. Revenue Effort

Jones (2009) carries out a cross-country analysis for Mozambique by comparing tax-ratios across low and middle-income countries for the period 1990 to 2003 in a panel analysis. He controls for differences in economic structure and institutional factors, the implication being that remaining differences in the tax-ratio between countries relate to differences in tax-policy and administration.[7] With average tax-ratio (tax revenue over GDP) as the dependent variable, the following are included as independent variables: real GDP per capita; the share of industry in GDP; exports as a percentage of GDP; and imports as a share of GDP. In addition, Jones (2009) attempts to account for long-run institutional differences by including the share of territory in the tropics, the colonial power, whether or not the country is landlocked, the continent to which the country belongs, and whether or not the country is resource-rich. His results lead him to conclude that 13 percent of GDP is a realistic tax-ratio for Mozambique given that the actual tax-ratio appears to faithfully follow the predicted tax-ratio according to the economic structure and institutions in place.

Davoodi and Grigorian (2006) also carry out a cross-country regression analysis of tax-effort on up to 141 countries over the period 1990 to 2004.[8] Similarly to Jones (2009) they use tax revenues as dependent variable and include GDP per capita, trade (imports plus exports per capita), and natural resources (oil) as explanatory variables, but also include the share of urban population, and the share of agriculture in the economy rather than industry, which may provide more information regarding the ease or difficulty of collecting taxes. Other variables include inflation and an estimated informal sector share using instrumental variables given that the informal sector share itself is affected by the tax-ratio.[9] Davoodi and Grigorian (2006) also attempt to account for institutional quality by employing variables from the International Country Risk Guide. Their results suggest that many low and low-middle income countries collect revenue above their predicted revenue shares, according to their economic characteristics. However, this

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[7] Economic structure variables include: GDP per capita, imports as a share of GDP, industry as a share of GDP, whether or not the country is resource-rich; while institutions are controlled for indirectly by introducing the share of the country found in the tropics, whether or not the country is land-locked, and who the colonial power, all variables variously associated with institutions in the cross-country empirical literature on growth.

[8] Davoodi, H.R., Grigorian, G.A., (2007), "Tax Potential vs Tax Effort: A Cross-Country Analysis of Armenia's Stubbornly Low Tax Collection", IMF Working Paper WP/07/106.

[9] To be an instrument, a variable must be highly correlated with the independent variable to be instrumented (relevance), but only impact the outcome through that independent variable (exogeneity).

relates to the regression methodology which implies that some countries in the sample will have tax-ratios above the estimated regression line, and some below.

Bird et al. (2007) carry out a similar exercise, including GDP per capita, the rate of population growth, trade as a share of GDP, the non-agricultural share of GDP, and index figures for voice/accountability and corruption from the World Bank's governance indicators.[10] They use a cross-section of mean tax-ratio values for the period 1990 to 1999 and find that indeed corruption and voice/accountability play a strong role in determining the tax effort of developing and transition countries. Since these institutional dummy variables may be endogenously determined, something overlooked by Davoodi and Grigorian (2006), they check for their importance by employing two-stage least squares, where these are modeled as being determined by legal origin, and an ethnic fractionalization index, leading them to conclude that "a more legitimate and responsive state is likely an essential precondition for a more adequate level of tax effort in developing countries.", and therefore that institutional factors relating to corruption and government accountability matter.[11] The variables employed in the various studies are summarized in Table F-1.

Table F-1
Variables Employed in Tax-Effort Studies

	Davoodi & Grigorian (2006)	Bird et al. (2007)	Jones (2009)
GDP per capita	x	x	x
Agricultural share	x		
Industry share			X
Nonagricultural share		x	
Trade shares	x	x	X
Institutions:	x	x	X
Bureaucratic risk	x		
Composite index	x		
Share of land in tropics			X
Colonial regime			X
Landlocked			x

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[10] Bird, R.M., Martinez-Vasquez, J., Torgler, B., (2007), "Tax Effort: The Impact of Corruption, Voice and Accountability", CREMA Working Paper 2007-13, Center for Research in Economics, Management and the Arts, Basel, Switzerland.

[11] A considerably earlier study on tax-effort focusing on 43 Sub-Saharan African countries is carried out by Stotsky and WoldeMariam (1997) using panel analysis for the period 1990 to 1995. Their explanatory variables include the share of agriculture in GDP, the share of mining, the share of manufacturing, per capita income, and the trade shares of GDP. The focus here is on the determinants of a country's tax-ratio, their results suggesting that much relies on the share of agriculture in GDP, the share of mining and the share of exports. They also test for the impact of IMF programs and find no strong effect. See J. Stotsky and A. WoldeMariam., (1997), "Tax Effort in Sub-Saharan Africa", IMF Working Paper WP/97/107.

	Davoodi & Grigorian (2006)	Bird et al. (2007)	Jones (2009)
Accountability/Voice		x	
Corruption		x	

METHODOLOGY FOR REVENUE-EFFORT ESTIMATION

A choice must be made between analyzing tax-ratios or revenue ratios. While tax-ratios are the subject of the above-cited studies, developing country data on tax-ratios is less readily available than that on total revenues. This need not be a problem and indeed there is some ambiguity about how different countries classify particular revenues, with differences arising between what is included as tax revenue and what is considered non-tax revenue. As such, total revenue is likely to be more comparable across countries as long as economic characteristics are also taken into account.

In terms of explanatory variables, similar to Bird et al. (2007) this study employs World Bank governance indicators on i) government effectiveness, ii) regulatory quality and iii) control of corruption. These are defined respectively as i) "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies"; ii) "perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development", including taxes; and iii) "perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests" (Kaufman et al., 2009). For all of these, higher scores correspond to better outcomes.[12]

The specification employed here is therefore as follows, with total revenues over GDP as the dependent variable:[13]

- *GDP per capita* – measured in constant US$2,000
- *Inflation rate* – consumer prices, annual percentage rate

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[12] For details on how these indices are calculated see D. Kaufmann, A. Kraay and M. Mastruzzi (2009), Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996-2008, World Bank Policy Research Working Paper 4978.

[13] GDP per capita, inflation, the trade share of GDP and non-agricultural share of GDP are all based on data from the World Bank's World Development Indicators (WDI) (WB, 2008). Revenue-ratio data also come from WDI except for the following developing economies for which data come from the IMF's World Economic Outlook dataset (IMF, 2009b): Angola, Botswana, Congo, Dem Rep, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Ugandan , Zambia, Zimbabwe, Vietnam.

- *Trade share of GDP* – defined as (exports of goods and services as a share of GDP)+(imports of goods and services as a share of GDP)
- *Nonagricultural share of GDP* – defined as 100-(Agricultural value-added share of GDP)
- *Government effectiveness* – aggregated index with range of approximately -2.5 to 2.5.
- *Regulatory control* - aggregated index with range of approximately -2.5 to 2.5.
- *Control of corruption* - aggregated index with range of approximately -2.5 to 2.5.

The regression equation is for estimated low and middle-income countries over three periods. The periods chosen are 1999-2007, 2003-2006, and 2005-2007 given their relevance to the period under examination in this report, data availability and in the interests of verifying robustness.

As Bolnick (1978)[14] points out, tax effort calculations are a better measure for international comparisons than simple tax-ratios, but there are clear limitations, the principal one being simultaneity. Factors considered to impact on tax capacity, such as demand factors, are themselves to some degree dependent on tax policy and therefore related to tax-ratios: revenue supply and demand are potentially determined simultaneously. Estimation in linear form is a further limitation given that capacity constraints are found to ease at an accelerating pace as income grows. This is recognized in a number of studies and dealt with through the use of instrumental variables (e.g. Bird et al. (2007) and Davoodi and Grigorian (2006)).

Explanatory variables employed in this study, such as those relating to institutions, may also be simultaneously determined along with the tax-ratio, leading to endogeneity and bias in the coefficient estimates. However, the principal objective of this analysis is to arrive at an estimate of Mozambique’s predicted tax capacity, rather than present point estimates of the impact of these institutional variables so that bias in the coefficient estimates is not considered an important constraint.

As is common practice in these analyses, to avoid the interference of dynamic effects, averages are taken of all time-varying variables. This also allows various periods to be used, allowing for robustness checks for the results obtained. Nonetheless, it is important to note that this analysis is intended to provide further indicative information regarding revenue targets based on a simple analysis given the time available. In addition to the caveats above, it should therefore also be noted that using World Development Indicators data, there are a considerable number of countries with missing data making the sample under analysis relatively small at only 43 countries.

RESULTS

The results of the revenue-effort regressions are shown in Table F-2. The regression coefficients in the table indicate that the most statistically robust determinant of revenue-ratios in these samples is the trade share of GDP, which is positively related to tax-ratios and highly statistically significant across all three periods. This is indicative of the importance of revenues related to

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[14] B. Bolnick, "Tax Effort in Developing Countries: What Do Regression Measures Really Measure?" in John Toye (ed.), *Taxation and Development*, London: Frank Cass, 1978.

trade, including duties, consumption taxes and VAT, all seen to be important for Mozambique in the discussion above. Of the institutional variables included, control of corruption emerges as being positively related to the revenue-ratio and statistically significant at the ten percent level at least, with a large effect in increasing the tax-ratio. In contrast, regulatory control is negatively associated with revenue-ratios, by a similarly sized coefficient to that on corruption control. That would suggest that the better government is perceived as implementing sound policies and taxes to promote private sector development, the lower the revenue share. These variables are likely to be collinear, although given the focus on the predicted values rather than estimated coefficients, this not of major concern.

Table F-2

Tax Effort Regression Coefficients

Period	1999-2007 (1)	2003-2006 (2)	2005-2007 (3)
GDPPC	0	0	0
	[0.002]	[0.002]	[0.002]
INFL	0.071	0.224	0.406
	[0.063]	[0.147]	[0.308]
TRADE	0.115***	0.119***	0.125***
	[0.032]	[0.032]	[0.036]
NONAG	0.213	0.207	0.340*
	[0.160]	[0.166]	[0.183]
GOV	0.11	0.095	0.059
	[0.170]	[0.173]	[0.144]
CORRUPT	5.784*	7.128**	8.025**
	[3.084]	[3.436]	[3.858]
REGUL	-5.551*	-7.570**	-8.653***
	[2.901]	[2.943]	[3.063]
Constant	-5.888	-7.323	-17.98
	[10.817]	[11.134]	[12.608]
Observations	43	43	43
R-squared	0.62	0.6	0.59
F-test	8.23	7.47	7.15

Notes: Standard errors in brackets

**significant at 10%*

*** significant at 5%*

**** significant at 1%*

Appendix G. Tax Incentives for Investment—Pros and Cons

This appendix summarizes the controversy about offering tax incentives to attract or stimulate foreign and domestic investment in developing countries.[15] The case in favor of fiscal incentives is usually advocated with great vigor by officials responsible for investment promotion and ministries responsible for industrial development, often with support from their advisors and consultants. Not surprisingly, *potential investors* are also vocal proponents of tax incentives, and frequently demand them as a condition for committing funds to a country with a weak business environment (even if they would invest anyway). The case against special tax breaks is usually put forth by ministries responsible for tax policy and public finance management, with support from their advisors and consultants. Divergent views co-exist, too, within the donor community. Many international experts advise host governments on the importance of fiscal incentives while others advise governments to scale back or eliminate them.

THE CASE IN FAVOR OF TAX INCENTIVES

The case in favor of tax incentives rests on familiar and plausible arguments:

Incentives enhance the return on investment. Investment decisions are driven by expectations about prospective risks and returns – specifically the *after tax* returns. Lowering the tax burden for designated investors boosts the expected returns and shifts the balance in favor of implementing investments.

Incentives send a signal to investors. Tax incentives are a marketing device that can get investors to look seriously at business opportunities in the host country. Getting them in the door is an important first step in investment promotion.

Incentives are essential due to tax competition. Foreign direct investment operates on a global stage. Each developing country has to compete with other destination countries for investments that will stimulate growth and job creation, including countries that offer attractive incentives.[16]

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[15] The discussion here draws heavily on Bolnick (2009a).

[16] Klemm (2009) contends that tax competition is likely to be a major driving force.

Incentives correct for externalities. Economic theory justifies interventions that alter market signals in order to stimulate investments that generate significant positive externalities. These externalities would otherwise lead to under-investment in activities such technology transfer and training, where returns to the economy generally exceed the returns faced by private investors themselves. Tax incentives are a practical tool for influencing decisions in favor of such investments.

Incentives are needed to compensate for other deficiencies in the investment climate. Tax incentives help to offset the costs and risks faced by investors in low-income countries, which are characterized by serious structural and institutional constraints such as poor infrastructure, a weak legal/judicial system, and low labor productivity due to poor education, health, and nutrition.

Incentives can work! Tax incentives have been an effective instrument for attracting foreign investment to many countries. Malaysia is a widely cited prototype, where generous incentives helped trigger the transition from a poor resource-based economy to a rapidly industrializing "tiger." Countries as diverse as Mauritius, Ireland and China followed similar strategies with similar results.

THE CASE AGAINST TAX INCENTIVES

Some arguments on the other side of the debate involve technicalities that are less familiar to nonspecialists, and therefore merit a bit more explanation for the sake of clarity.

Incentives have limited effects. Tax incentives will not affect investments for which the expected profit rate, *before tax,* falls short of the investor's risk-adjusted target rate of return– in other words, investments that are not fundamentally viable due to the underlying risks and costs of doing business in low-income countries. Many possible investments will be immune on this count to the influence of tax incentives.

Among projects that are fundamentally viable, given the local business environment, incentives will only affect the investment decision when tax considerations flip the expected return from below to above the target rate. For investments with marginally inadequate returns, incentives can indeed be a critical factor. Projects with solid fundamentals, however, would achieve the target rate of return with or without incentives. In such cases incentives are "redundant," in that they are not a determining factor driving the investment decision. [17] To be sure, the incentives still improve the recipient's cash flow and bottom line (at the expense of the Treasury). Hence, potential investors will always seek incentives and argue for their importance. This is no indication, however, that the tax breaks are required.

An important case where incentives can be decisive is in attracting internationally mobile ("footloose") export-oriented investments, which could just as well locate in another country. If

[17] Tax incentives are also redundant when granted to a U.S.-based company that repatriates profits; this is because the host-country tax break is offset by loss of a tax credit at home. Tax incentives may also be ineffective if the procedures entail costs or delays that outweigh the benefits.

alternative venues offer distinctly more favorable conditions, then even attractive incentives would be ineffectual. Also, offering generous tax holidays to lure this type of investment may lead only to short-term gains, as there is a tendency for beneficiaries to leave when the tax breaks end, or restructure to qualify again for incentives as a new entity.

Incentives are costly. Some contend that the revenue effect of fiscal incentives may be nil or even positive because in the absence of incentives there would be no income to tax from the beneficiary projects. As a generalization, this is totally invalid. Revenue losses are likely, and likely to be large. To the extent that incentives are redundant (which is difficult to measure), there is a direct revenue loss to the full extent of the tax break. Even where incentives do stimulate new investment, there is still a revenue loss to the extent that a smaller benefit would have done the trick (which is also hard to measure).

Another revenue cost arises from the fact that preferences create loopholes. Tax lawyers and accountants are in the business of structuring corporate transactions to shift income from fully taxed affiliates to tax-favored affiliates, at potentially great expense to the Treasury. A third source of revenue loss occurs indirectly, when tax-favored investors pull business away from fully taxed competitors.

Incentives create economic distortions. Taxes distort economic decisions and reduce the efficiency of resource allocation. Fiscal incentives (when they work) add to the distortions by drawing resources into tax-favored activities at the expense of others. For example, a generous tax benefit for agriculture may stimulate investment in an agriculture project with a 15 percent rate of return, instead of an alternative investment with a 25 percent rate of return. Promoting investment at the expense of productivity is not good formula for sustained growth. In addition, incentives linked to capital tend to favor capital intensity over job creation. Insofar as fiscal incentives cause a revenue loss, additional efficiency costs arise from the need to either maintain higher taxes on non-beneficiaries, or reduce government expenditures that could be used for development purposes.

Where tax incentives are well designed to foster activities generating positive externalities, then the “distortions” can be efficiency enhancing. The problem is that incentives are often driven by political considerations or special interest pressures rather than careful economic analysis. In addition, where incentives are ad hoc and discretionary, they invite rent-seeking and corruption, which can derail even the best-intentions programs (and add to the revenue risk).

Incentives create costly precedents. When incentives are given to certain investors, the precedent leads other groups to press for similar treatment. International experience suggests that it is difficult to avoid this political “slippery slope,” which leads to a proliferation of incentives, shrinkage of the tax base, and an intensification of other adverse effects.

Incentives often don’t work! Just as proponents cite selective cases where incentives have clearly worked, one can find many cases demonstrating the opposite. Thus, a study of the issue in 2004 by McKinsey Global Institute concluded that: “Governments around the world woo foreign direct

investment by offering costly tax breaks, import duty exemptions, land and power subsidies, and other enticements. Yet our evidence suggests that they are largely ineffective."[18] A Nathan Associates study of tax incentives in the SADC region similarly found that "generous tax incentives rarely stimulate a substantial investment response where the basic climate for doing business is seriously deficient."[19] This study also cited instances in Uganda and Indonesia where tax incentives were eliminated in favor of broader tax reforms, with no adverse effect on investment trends.

In general, the effectiveness of incentives varies by country and by type of investment. As noted above, "footloose" export industries are highly responsive to tax competition among potential host countries offering otherwise adequate business conditions. In contrast, tax competition is far less important for investments anchored by geography, including activities targeting the domestic market or projects involving access to natural resources. For resource-based investments, host countries should seek to maximize their share of value added, while still allowing the investor to earn a reasonable rate of return.

[18] McKinsey Global Institute, New Horizons: Multinational Company Investment in Developing Countries, San Francisco, October 2003, p. 29.

[19] B. Bolnick, Tax Reform and the Business Environment in Mozambique, Nathan Associates, 2004. p. 7-1.

Appendix H. Interview Results—Main Concerns and Issues

GOVERNMENT

1. Appropriate target tax ratio: 20% target? Converge to regional average of 22-24%? Unrealistic revenue targets lead AT to punitive treatment of taxpayers.
2. Trade-offs from lower tax rates: revenue versus growth? Offer scenarios, long-run vs. short-run impacts; impact on private sector and competitiveness.
3. E-taxation, including e-declarations, payment through banks, single window for customs, and unified IT systems within the AT.
4. Contention that large projects are not contributing enough. What is the international best practice for countries like Mozambique?
5. Need simpler, more practical system, less complicated tax forms (especially M10 for IRPS). Administrative complications from handling reconciliation of returns and refund claims. Tax administration too arbitrary.
6. Country needs more training of accountants.

DONORS

1. Need for pro-growth tax system, not just pro-revenue. Short-run/long-run trade offs, need for competitive tax environment to stimulate investment. Government focusing narrowly on revenue targets (0.5% per year increase in Rev/Y, up to 20% or 22%), to the detriment of customer service. Heavy pressure to increase receipts to reduce dependence on donors. What are the options?
2. Coherence between revenue system and objectives to promote investment and SME development. Trade off between industrial policy and revenue needs. How does tax system affect competitiveness?
3. Major issue should be improving taxpayer service and enforcement. Both needed to expand revenue base.
4. Tax system favors large and small businesses, unfair to middle-size local enterprises. System of fiscal benefits skewed to large business, creating serious equity problems.
5. Integration of AT so that customs and income tax departments provide a single face to taxpayers, with unified taxpayer database and systems for IT, audit, debt collection, risk assessment, dispute settlement, etc.
6. New IT systems vital for improving tax administration, but must be a catalyst for restructuring AT business processes ("leap forward"), not just automation of traditional

systems. But also serious risks involved in IT modernization, if the process is not well planned, well managed and well funded, with adequate technical support.

7. AT staff qualifications: training needs; capacity building. Including, especially, audit of large taxpayers, customer service, especially in the provinces.
8. Expansion of physical presence of AT to make it easier for small businesses to pay tax: new infrastructure; mobile brigades, or intermediary tax collectors (such as water utility). Decentralization of AT operations.
9. Need simplification to make people's lives easier, improve compliance.
10. Important to develop risk-selection system to allocate AT staff efforts more productively: for verification, inspection, audit. Green channel, gold card – reward the good taxpayers. Existing systems rudimentary. "Enormous room for improvement" and revenue gains through modern risk-management systems.
11. AT needs to develop internal MIS indicators to monitor and assess operational efficiency.
12. VAT refund process still far too complicated for compliance, especially by small businesses, making it impossible for them to export.
13. Donor coordination. The Common Fund is an important approach, but several donors will be providing support on tax and customs issues outside that framework. Need one uniform approach.
14. Need to broaden tax base by bringing in the informal sector via ISPC, to lower tax burden on the formal sector. The big challenge is implementation.
15. Trade facilitation. Green channel, post-clearance audit integrated with DGI audit functions.
16. Need better MIS system for monitoring operational indicators, including provincial offices.

PRIVATE SECTOR

1. Complexity of the system. Moz does not have competency in the private sector or the AT to implement the present laws effectively. Need simplification: fewer types of tax, including multiple municipal taxes. Problem: simplification of VAT, income tax difficult without opening the door to widespread abuse.
2. E-payment and single window to reduce compliance costs for taxpayers, control evasion, and reduce opportunities for corruption. As much as 30-35% increase in customs collections expected from catching unrecorded imports via single window system.
3. Training and education – for both the ATM and the private sector
4. Train more accountants! Need for better quality a/c education. Current programs turn out accountants who are incapable.
5. Tax rates too high for VAT and IRPC/IRPS, inhibiting business development. Effective income tax can be even higher due to disallowance of expenses on the basis of technical errors in the invoices or receipts. Need for exact completion of AT-approved receipts makes it difficult to develop linkages to small businesses.
6. ISPC – implementation is the key question. Will the simplified tax succeed in broadening the tax base by bringing informal enterprises into the tax net? Concern that the tax is still too high for many micro and small enterprises that operate on low margins; anyone without adequate sales records faces full 75.000 MT.
7. Rampant and blatant tax evasion. Need to catch tax evaders with assessments based on signs of wealth and third party data such as automobile registrations. Equally, need to change the

______ of paying tax. Nothing will work well without a change in attitudes – pride in paying taxes. Taxpayers must see the advantage.

8. Need modern system of risk management, including green channel for taxpayers with proven record of compliance (subject to audit).
9. Customs scanners: 100% scanning at $100 per container (plus 17% VAT). Private sector not against the concept, but it should be applied in line with international standards, implying selective approach, low fee.
10. VAT refunds much improved but still far too complicated. Payments still centralized in Maputo, and require paper documentation rather than electronic filing. Local officials who now do initial verification not well qualified. Refunds for IRPC and IRPS also functioning poorly.
11. 20% withholding punitive for many types of transactions, including payments to small farmers! Withholding tax on payments to foreign contractors simply causes them to increase invoice price by 25% to break even net of tax.
12. Both importers and exporters failing to benefit from SADC free trade area due to complexity in complying with documentation requirements for rules of origin. In Mozambique, only two officials – in Maputo – are authorized to sign ROO documents.
13. Multiplicity of taxes, taking into account the many municipal levies. Has anyone added up the tax cost and compliance cost?

SMALL BUSINESSES

1. Tax system too complex; it requires a tremendous amount of time to comply with all documentation, and reconcile at year-end tax paid with tax due; requirements not simple enough for an ordinary person to understand; further simplification needed to encourage people to comply with tax laws.
2. The bureaucracy dealing with tax documentation gives rise to corruption and bribery.
3. There is skepticism over the success of the ISPC.
4. More training and education needed on tax issues; public education on tax obligations instead of heavy tax penalties.
5. The culture of complying with tax laws is weak. People in general don't see the real benefits arising from paying taxes promptly.
6. The VAT reimbursement system is cumbersome and subject to long delays that affect the cash flow of SMEs; VAT reimbursement is centralized in Maputo, which adds to the delays; at times documentation returned without proper explanation.
7. Many tax officials and accountants working in private sector are not well trained to deal with complicated tax issues.
8. Very few small companies can afford to hire professional tax advisory or accounting firms so as to comply with the tax laws; there are very few accountants in remote areas or provinces such as Niassa; this situation increases the cost of doing business since small enterprise are heavily penalized for not presenting accounts signed by designated professional accountants.
9. The tax rates are relatively high compared to other countries in the region; Mozambique should learn from South Africa's system in terms of providing tax relief for emergent SMEs.
10. There is a tremendous tax evasion and a lot of bribery; influential people have ways to always avoid the taxes; some tax official facilitate people to evade taxes.

11. Tax payments should be done through private banks or online payment services to reduce the amount time needed to wait in queues to deal with tax documentations.

Appendix I. Persons Interviewed

IN MOZAMBIQUE

Government

Antonio Cruz	MPD/DNEAP	Director
Brendan Kelly	MPD/DNEAP	Advisor
Fausto Mafambissa	MPD/DNEAP	Head of CFMM unit
Augusto Sumburana	MOF/GEST	Director
Herminio Sueia	AT/DNEP	National Director
Ali Algy	AT/DNEP	Department Head
Tapu Mamane	AT/DSPE	Director
Arlindo Jose Antonio da Graca	AT/GPECI	Revenue Advisor
Maria Otilia Santos	AT/DGI	General Director
Ilidio Rafael Guibalo	AT/DGI	Deputy General Director
Moises Patricio Marrime	AT/DGI	General Coordinator
Danielo Nala	MPD/GANEZA	General Director
Julieta Domingas Muchine	MIC/GASP	Director
Horacio Dombo	CPI	Chief, Special Projects

Donors and Donor Programs

Nelson Guilaze	USAID	Senior Policy Analyst
Eric Johnson	USAID	Agriculture and Business Adviser
Emmy Bosten	IMF	Technical Assistance Coordinator
Antonio Nucifora	World Bank	Senior Economist
Telma LoForte	SDC	Senior Economist
Ralf Orlik	KfW	Director
Andrew Clark	DFID	Economic Advisor
Carlos Mate	Norwegian Embassy	Program Officer
Rosario Marapusse	Italian Cooperation	Economist
Alberto Musatti	Italian Cooperation	Economist

Business Representatives

Kekobad Patel	CTA	Executive Director
Carie Davies	ACIS	Executive Director
Graeme White	ACIS	President, Management Committee
Joao Martins	PWC	Partner, Tax and Legal Services
Paula Ferreira	Deloitte	Managing Partner
Maria Basto	Deloitte	Senior Manager, Consulting
Avelar da Silva	Intertek	General Manager
Filipe Franco	AFIM	Executive Director
	Matola Cargo	Managing Director

Sevi George	AFIM Mozambique Holdings	Director:
Gerry Marketos	CIMPOGEST	
Kenneth Gunn	CIMPOGEST	
Nolifer Lakhani	SGL	Executive Director
Zenalda Carlota Matsinhe	SGL	Director, Marketing
Natividade Bule	Ass. dos Empreendedores	President
Simeão Sevene Machava	Ass. dos Jovens President Agricultores	
Sudecar Novela	Ass. dos Mukherista	President
Albino Macie	Federação Moçambicana dos Empreiteiros	Executive Director
Mário Ferro	Ass. Moçambicana de Empresas de Marketing Publicidade e Relações Públicas	

IN WASHINGTON D.C.

Andrea Lemgruber	IMF	Fiscal Affairs Department
Jose Sulemane	IMF	Advisor to Exec Director for Moz.
Larry Westfall	US Treasury	Team Leader, UST support to the AT
Sebastian James	FIAS/IFC	Economist
Jim LaFleur	CTA	Economic Advisor