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EVALUATION OF REFORMS IN TAX POLICY AND ADMINISTRATION IN MOZAMBIQUE AND RELATED TA—1994–2007

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ACRONYMS

AT	Autoridade Tributária de Moçambique (Mozambican Revenue Authority)
DANIDA	Danish International Development Agency
DFID	Department of Foreign International Development
DGA	Direcção Geral de Alfândegas (Customs Directorate)
DGI	Direcção Geral de Impostos (Tax Directorate)
DNIA	Direcção Nacional de Impostos e Auditoria (Tax Department prior to reform)
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
ICE	Imposto sobre Consumos Específicos
IMF	International Monetary Fund
IRPS	Rendimento das Pessoas Singulares
IRPC	Imposto Sobre o Rendimento das Pessoas Colectivas
ISR	Lei de Imposto Sobre a Renda
IT	Information Technology
PRES	Programa de Reabilitação Económica e Social
PSI	Pre-Shipment Inspection
PDTI	Plano Director de Tecnologias de Informação
SADC	Southern Africa Development Community
SECO	State Secretariat for Economic Affairs (Switzerland)
SICR	Internal Collection and Receipts System
TIMS	Total Information Management System
UTRA	Unidade Técnica de Reestruturação das Alfândegas
URTI	Unidade de Reforma Tributária dos Impostos
VAT	Value Added Tax
WTO	World Trade Organization

SUMMARY

1. Beginning in 1994, with assistance from the IMF's Fiscal Affairs Department (FAD), Mozambique carried out a complete reform of its tax system and its administration. The general objective of the reform, which was implemented in phases, was to modernize the tax system and rectify flaws in the tax and customs administrations, creating modern institutions with the capacity to administer the new taxes in an effective and efficient manner, while also improving revenue collection.

2. This study attempts to evaluate the impact of the reforms in tax policy and administration, as well as the related technical assistance provided by the IMF in the 1994–2007 period. Other donors were active in providing technical assistance to Mozambique during the period under study and contributed to the overall success of the reforms, but the IMF took the leading role in tax reform.

3. Recognizing that such an evaluation is a somewhat difficult exercise, since it is not possible to control for all factors that might have affected the outcome of the reforms, a specific methodology for the evaluation is proposed in this paper. While, during this period, Mozambique made considerable progress in regard to government statistics,[1] there continue to be numerous gaps in this area, making it difficult to obtain certain data for the present study. Given the limited availability of accurate data in some specific areas, a quantitative evaluation is only possible with some indicators, while with others only a qualitative evaluation can be made.

Reforms in tax policy and administration

4. A broad assessment of the reform process suggests that it has produced positive results. The reforms show beneficial effects in several key indicators, as discussed below. While there was notable improvement in all selected indicators during the 1994–2007 period, considerable work remains to be done, due primarily to the fact that the substantial progress attained at the legal and institutional levels has not always been encompassed with similar advances in operations and management. Although the reformed legal and institutional framework enables a far more effective revenue administration, certain operational and management practices still in use prevent the full impact of the changes from taking effect, particularly in the area of domestic taxes.[2]

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[1] See the document, "Evaluation of Technical Assistance in Post-Conflict Countries: Mozambique and Rwanda," prepared by the Statistics Department (March 2009).

[2] While reforms in customs administration began in 1997, the process of reforming the tax administration—except for the 1999 changes made in the unit responsible for administering the VAT—did not actually begin until 2004, and continues today. Current plans provide for extending the reform process until the end of 2012.

5. **Effects on collections**. The decline in collections experienced since 1993, at which point they had fallen to 8.7 percent of GDP, reversed course after 1996. The upturn in collections that began in 1997 has been slow but steady: In the 1997-2001 period, the rate remained between 9.6 and 10.5 percent of GDP, while the figure between 2002 and 2007—the years when the full impact of the policy changes was felt—has shown a sustained upward trend, going from 10.5 to 14.4 percent of GDP.

6. **Effects on tax evasion and noncompliance.** Although there is evidence of improvement in this category, the starting point was one of very high rates of noncompliance (with nonpayment of the tax on goods at 65 percent in 1994, and with even higher rates of nonpayment for import/export duties, estimated at the time at about 75 percent), and nonpayment of taxes has continued to be a significant problem. Two studies conducted using data from 2001 and 2002 (i.e., prior to the time when the actual impact of the reforms in tax administration could be felt) show that actual collections were at the time approximately half of the potentially collectible sums, placing Mozambique among the countries with the lowest ratio of actual to potential collections in Southeast Africa. Preliminary calculations using data from 2007 show a marked improvement in this category (with collections increasing from 50.6 percent of the potential in 2002 to 66 percent in 2007), though the ratio of actual to potential collections remained low and was below that of other countries of the Southern Africa Development Community (SADC).

7. **Effects on facilitating tax compliance.** There has been significant progress since 1994, with a modern system, based on a relatively simple and accessible legal foundation—with clear language, available on the official website—replacing old and complicated taxes designed during the colonial era. However, considerable work remains in the effort to reach state of the art performance levels in this regard, particularly in connection with core operational procedures both at the tax and customs departments that are only partially supported by information technology.

8. **Effects on tax equity.** The adoption of the personal income tax (*Imposto Sobre o Rendimento das Pessoas Singulares*, or IRPS) to replace the antiquated schedular income tax dating from the colonial period clearly contributed to improving income tax equity. Nevertheless, the high degree of informality and the presence of a large number of micro-enterprises that lie outside the tax system remain an important feature of Mozambique's economy, thus pointing to an outstanding equity gap—between those few registered taxpayers that bear the burden of the IRPS and those outside of the tax system—that still needs to be narrowed.

9. **Effects on economic efficiency and GDP growth.** The significant reduction of the maximum customs tariff between 1997 and 2006, from 35% to 20%, with other rates remaining constant, results in a structure that provides decreasing effective protection for all import substitution sectors, with a consequent decrease in anti-export bias and greater economic efficiency.

10. Replacing the sales tax with the VAT eliminated the cascading effect, giving rise, in turn, to another key factor for increasing the efficiency of the economy and contributing to improved GDP performance after 2000. Finally, replacing the multiplicity of rates that existed under the Industrial Tax with the IRPC (*Imposto Sobre o Rendimento das Pessoas Colectivas*) single rate—except for the lower 10% rate applied to the agricultural sector—also helps in directing investment toward the most efficient sectors, with less attention required in dealing with tax issues. However, the legislation on exemptions (the Investment Law, the Code of Tax Concessions and the Regulation of Industrial Free Trade Zones) that accompanied the government's promotion policy provides incentives for investors to seek out tax advantages, to the detriment of efficiency in the allocation of the economy's productive resources.

11. **Effects on openness and on the business climate.** Between 1994 and 2006, Mozambique moved from having the lowest "Index of Tax Freedom" among the group of countries of Southeast Africa, to being the third-highest ranking country after Uganda and Tanzania—indisputably an important achievement. More, however, remains to be accomplished in this regard. The administrative system continues to present bureaucratic hurdles and obstacles that exert a drag on the business climate, in ways that extend beyond some outstanding regulatory hindrances to international trade.

12. **Effects on corruption.** At the time the reform was initiated, corruption problems were acute. The central government barely had control over tax collections in Maputo, and Customs officially controlled only about a third of the foreign trade operations. The complex and antiquated body of regulations provided numerous opportunities for rent-seeking activities by the staff of the revenue administration and some line ministries. The reform not only allowed the tax and customs administrations to reestablish their authority throughout the country, but also drastically reduced the proliferation of different legal standards and regulations, concentrating the authority to grant tax concessions in the Ministry of Finance.

13. Key elements of the reform that had direct impact on corruption were the development of professional career paths for the staff of both collection agencies, the adoption of codes of ethics for personnel, and the creation of internal audit and control units with broad powers to investigate cases of corruption.

14. Nevertheless, the already mentioned proliferation of legislation on exemptions, including the legal authority to grant discretionary exemptions, inevitably produces opportunities for rent-seeking activities, both in the area of customs and in that of domestic taxes (VAT and IRPC). The weakness of post-clearance controls also makes it more difficult to monitor the potential for irregular granting of customs exemptions.

15. **The reform process.** The Government of Mozambique identified and categorized the reforms in two sub-periods covering the years from 1994 to 2007.[3] First, the reform of indirect taxes took place up to 1999, including the restructuring of the administrations concerned (Customs, and, for domestic taxes, the VAT unit). The 2000–2007 period saw the reform of direct taxation and the associated administration at the tax Department, culminating in the creation, at the end of that period, of the Mozambique Revenue Authority (*Autoridade Tributária Moçambicana,* AT) with jurisdiction over both Customs and domestic taxes.

IMF technical assistance

16. The reforms were supported by considerable technical assistance (TA) from multiple sources, both multilateral and bilateral. While this paper focuses on the assistance provided by the IMF, it is clear that the overall success of the reforms can only be attributed to the coordinated efforts of all donors involved and the combination of all contributions—including the unwavering support of the Mozambican authorities to the reform effort throughout the period. Still, IMF TA during the period under study was substantial, amounting to the equivalent of 24.5-person years in the revenue policy and administration areas alone.

17. IMF technical assistance, through the FAD, was provided at three levels: first, identification and diagnosis of problems; second, proposals and recommendations; and third, implementation of solutions. Within this third level, two categories of cooperation with the Government of Mozambique can be distinguished: preparation of legal and institutional instruments, and implementation of operational and management practices. Donors played a critical role in supporting these reforms, either directly (the DFID program that supported Customs reform) or through the establishment of trust funds at the IMF that were the basis for the joint IMF/SECO and IMF/DANIDA TA projects that supported the implementation of reforms.

18. The IMF has provided ample technical assistance in identifying problems and in formulating recommendations. While hard to quantify impact, this advice appears to have spurred and supported reform in key areas. The IMF has also played a decisive role in the success achieved in developing modern, effective legal and institutional instruments. The creation of the Technical Unit for the Restructuring of Customs (*Unidade Técnica de Reestruturação das Alfândegas,* or UTRA) and of the Unit for Tax Reform (*Unidade de Reforma Tributária dos Impostos,* or URTI), and replacement of the National Taxation and Auditing Administration (*Direcção Nacional de Impostos e Auditoria*, or DNIA) with the

[3] Autoridade Tributária de Moçambique , *Plano Estratégico da Autoridade Tributária de Moçambique*, pp. 12–22. This plan identifies a third period for "Consolidation of Reforms," covering the years 2008–2012.

Directorate of Taxation (*Direcção Geral de Impostos*, or DGI), culminating in the creation of the Mozambique Revenue Authority (*Autoridade Tributária de Moçambique,* or AT), represent institutional advances attributable directly to the technical assistance provided by the IMF.

19. Preparation of the draft laws and regulations that made possible these institutional changes also drew on the IMF's technical assistance. In addition, the preparation of the draft text , proposed to the Parliament, for the VAT Law, Law 15/02 Governing the Tax System (*Lei de Bases do Sistema Tributário*), and the income tax law (*Lei de Imposto Sobre a Renda*, or ISR) involved technical assistance by the IMF (in these cases, not only through FAD, but also with the participation of LEG).

20. In short, as quantified according to the methodology described in this paper the technical assistance has been a success, although it will still be necessary to continue work on the reforms. The time sequence chosen for the reform process—and, on occasion, the lack of adequate resources for obtaining computers and developing information technology systems—delayed the implementation of some operational and management practices, which in some instances failed to keep pace with changes in the institutional and legal realms. This gap can still be perceived in the operation of the fledging Mozambique Tax Authority (AT). Its mandate specifically includes modernization of these operational and management practices, as well as the development of modern IT systems to support the core processes of the revenue administration, in the period 2008–2012.

I. INTRODUCTION

Purpose of the present study

21. This study attempts to assess the impact of the tax policy and administration reforms in Mozambique during the 1994-2007 period, along with the associated technical assistance provided by the IMF.

22. The evaluation will deal first with how these reforms affected the effectiveness of revenue collection, but will also focus, to the extent possible, on identifying the impact of the reforms on other indicators such as tax evasion, noncompliance, tax equity, cost of compliance to the taxpayers, and economic efficiency, for example.

23. The study will attempt to employ, wherever possible, a methodology that could be applied to other countries with similar conditions. This multifaceted approach is necessary, since an isolated observation of the effect on collections would not provide a true perspective on the nature of the tax reform. Indeed, any reform that primarily increases revenue collection for easily taxed sectors, such as employed persons, while leaving unchanged taxes on independent professionals and other, presumably wealthier, taxpayers would be inferior to alternatives that increased taxes more equitably, even if the effect on collections were the same under both scenarios.[4]

24. Another example: A reform that increases the collection of customs duties on selected products while promoting high rates of effective protection and an anti-export bias, would be inferior to other reform alternatives that increased collections through a VAT, which is neutral with respect to opening the economy to international trade, although the effects on collections under both types of reform could be roughly the same.

25. There are considerable difficulties in an evaluation exercise such as the one attempted in this paper. One obvious problem has to do with data difficulties, and is related to inconsistencies in statistical series along the period chosen. Another obstacle, probably greater, is a methodological issue: what one would ideally like to have is a well-defined counterfactual of what would have happened without the reforms and donor involvement. That means in practice being able to control for all other factors that might affect the aspects of performance one is interested in—ideally by finding a country exactly like Mozambique (or differing systematically only in things that are observable) that did not go through the

[4] This issue is emphasized in Casanegra de Jantscher, M. and Bird, R., "*The Reform of Tax Administration*," and in Bird, R. and Casanegra de Jantscher, M., *"Improving Tax Administration in Developing Countries"* (Washington D.C., IMF, 1992), p. 1.

same reforms.[5] But all that is in effect impossible, and it is therefore necessary to have to fall back on more "impressionistic" analysis.

26. After presenting a summary of the conditions prior to the reform and providing an outline of the key measures that constituted the reform, the study starts with a section that sets forth the methodology, followed by another that summarizes the combined effects on collections from all of the reforms, and two final sections of conclusions—one covering the tax reforms, the other dealing with the IMF's technical assistance. Also included is an appendix with seven sections devoted to each of the areas selected for examination (a detailed description and analysis of the variables considered and underlying data and an interpretation and evaluation of the respective results), and a section describing the combined effect of all of the reforms on GDP, on investment, and on the Index of Economic Freedom.

II. The Fiscal Reform Program

Background and conditions prior to the reform

27. Mozambique gained its independence from Portugal in 1975, and suffered a civil war beginning in early 1980 and ending in 1992. During this period the economy contracted significantly, and the revenue administration essentially collapsed. Between 1981 and 1985, real GDP fell by approximately 25 percent, with service of the external debt representing more than 200 percent of exports of goods and services. Estimates from that period indicated that the informal economy accounted for more than 70 percent of GDP.

28. In 1987, Mozambique adopted a market economy and the government launched an Economic and Social Rehabilitation Program (*Programa de Reabilitação Económica e Social*, or PRES), with support from the international community. The country began to adjust its exchange rate to market rules, while price controls and import restrictions were gradually eliminated.

29. Along with the introduction of the PRES in 1987, the authorities decided to initiate a tax reform. As a first step, the basic principles of a more modern tax policy were established through Law 3/87. According to this law, four direct income taxes were established for employed individuals and businesses, along with a number of indirect taxes on consumption, including a sales tax, a consumption tax, customs duties, and other taxes and levies.

30. This reform effort was carried out with support from the IMF and the World Bank, which, through a number of missions, provided specific recommendations on customs tariffs, tax policy and administration, and the possible introduction of a VAT. These developments

[5] Or have some reforms that, say, were implemented only in parts of Mozambique.

were accompanied by an easing of customs protection, and the decision to join the Southern African Development Community (SADC).

31. In 1992, peace accords were signed, allowing for the demobilization of the majority of combatants, along with a call for free elections. These accords put an end to the civil war that had lasted for more than 16 years and had decimated the economy and most governmental institutions. Notably, during much of the conflict, the central government was only able to exert its full operational authority in the southernmost part of the country, around the capital, Maputo, and at Mozambique's border with South Africa. Revenue collection was essentially limited to these areas, and relied heavily on customs duties levied at the port of Maputo.

32. Also in 1992, and again with the support of the international community, the authorities undertook a study of the tax burden. The study aimed at introducing changes into the tax system consistent with the full adoption of a market economy and with the need to increase collections and make the tax system more equitable and sustainable. As a result of this study, Law 6/93 (of 17 December 1993) introduced a number of reforms to Law 3/87. These reforms were intended to reduce the tax burden on businesses and individuals, and to promote investment and exports through reductions in nominal rates, differential rates, and deferral of payments for certain investments, along with the suspension of export duties. In 1993, the authorities eliminated all price controls and adopted a free floating exchange rate.

Rationale for the reform and key measures

33. In 1994, with the new government taking office in the wake of free elections held in the framework of the 1992 peace accords, the period of internal conflict that had plagued Mozambique for nearly two decades came to an end. The tax and customs administrations were both extremely weak, with very limited institutional capacity and incomplete coverage across the country.

34. In addition to the general lack of infrastructure and resources, there was rampant corruption, particularly in the case of customs. The power vacuum that encompassed the transition period resulted in a drop in customs collections amounting to more than 1 percent of GDP in 1992/93 alone—from 5.3 to 4.0 percent of GDP—despite increased trade flows.

35. The new authorities recognized the seriousness of the country's fiscal situation and, on the basis of the available assessments and with FAD assistance, designed and adopted a strategy to reform the tax system and its tax administration. In order to implement this strategy, the Government of Mozambique drew on financing from bilateral donors—DFID,

SECO, DANIDA[6]—as well as multilateral institutions, particularly the World Bank and the IMF.

36. The general objective of the reform, which was implemented in phases, was to modernize the tax system and rectify flaws in the tax and customs administrations, creating institutions with the capacity to administer the new taxes in an effective and efficient manner, while also enhancing collections. Boxes 1 to 4 present a summary of the situation at the beginning of the reform process in each area of policy and administration, the principal recommendations resulting from the assessments, and the main outcomes obtained.

37. The Government of Mozambique identified and categorized the reforms into two sub-periods covering the years from 1994 to 2007.[7] From 1994 to 1999, indirect taxes were reformed, customs was thoroughly reorganized, and the restructuring of the tax administration was begun. The 2000–2007 period saw the reforms of direct taxation and its administration, culminating in the creation of the Mozambique Revenue Authority (AT) with jurisdiction over customs and domestic taxes.

38. For a better understanding of the reform process, two related but independent events that took place in the 1994-1999 period will be considered separately: first, the reform of customs policy (tariff rates) and its administration, followed by the introduction of the VAT and of excise taxes to replace the old sales tax and the general consumption tax.

39. The main focus in the 2000–2007 period was the reform of direct taxes and the domestic tax administration, while customs reforms were consolidated. A management unit, the "Unit for the Reform of the Domestic Tax System" (*Unidade de Reforma Tributária dos Impostos Internos*, or URTI) was established to oversee, among other matters, the preparation of the Law Governing the Tax System (adopted as Law 15, of 26 June 2002). This law led to the replacement of the old and inadequate income tax with the "Tax on the Income of Individual and of Juridical Persons" as mandated by Decrees 20 and 21, respectively, of 30 July 2003.

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[6] DFID: Department for International Development; SECO: State Secretariat for Economic Affairs; DANIDA: Danish International Development Agency—the international cooperation agencies of the U.K., Switzerland and Denmark, respectively.

[7] Autoridade Tributária de Moçambique , *Plano Estratégico da Autoridade Tributária de Moçambique*, pp. 12–22. This plan identifies a third period for "Consolidation of Reforms," covering the years 2008–2012.

Box 1. Mozambique—Assessment and Recommendations in the Area of Trade/Customs Policy

Assessment

- Wide tariff dispersion, with numerous levels (more than 30) and multiple rates (from 10 to 370%)
- Very high effective levels of protection that fostered contraband and corruption
- The WCO harmonized code was not used
- No use of WTO valuation rules
- Customs Law dating from the colonial era (1929)
- *Ad hoc* exemptions granted by numerous authorities, without centralized control or specific regulations
- Mandatory and widespread use of prior import licenses
- Mandatory use of pre-shipment inspection (PSI), without the customs administration actually making use of the results of this expensive service

Recommendations and Outcomes

- Radically simplify the tariff *(initial reform in 1996, updated in 1997 and 2001)*
- Reduce effective protection *(lowering of the average tariff from 9.3 to 4.3 percent over the entire period)*
- Adopt the WCO harmonized code *(implemented in 1996)*
- Adopt WTO valuation rules *(implemented in 2002)*
- Promulgate a new, modern customs law in line with the Kyoto Convention *(new Code approved in 1998, modified in 2002)*
- Eliminate or drastically reduce exemptions and institute control and monitoring mechanisms for those that are retained *(A code of tax benefits was instituted in 1996 and modified in 2002; however, the government's economic policy has continued to foster exemptions)*
- Eliminate prior licenses *(eliminated in 1998)*
- Improve the efficiency of the PSI as an initial step in eliminating it *(new contract in 1996, used on an optional basis by the importers since 2001 except for sensitive goods and in cases where there is doubt as to value)*

Box 2. Mozambique—Assessment and Recommendations in the Area of Customs Administration

Assessment

- Lack of territorial control and insufficient presence at border crossings, except on the border with South Africa
- Inadequate or nonexistent infrastructure
- Rampant corruption
- No accounting of personnel, training plans or career path for personnel; fewer than 5 percent of the 945 employees were professionals
- Lack of compliance (under-valuation, contraband), estimated at 75 percent
- Average time for clearance of imports nearly one month
- Total lack of information technology support
- Antiquated procedures and manuals, based on reviewing all shipments prior to release
- Lack of risk criteria and of verification channels
- Customs disputes regulated by a law from the colonial era (1929)
- No exchange of information with the tax administration, with no usage of post-release audits

Recommendations and Outcomes

- Design and implement a comprehensive program for the reform of the customs system *(beginning in 1997, with the contracting of Crown Agents, until 2005)*
- Investment in facilities and support infrastructure (communications, vehicles, etc.) *(1997–1999, 2002–2005)*
- Adoption of an inspection strategy based on selectivity and subsequent inspections *(as of 1997/8, but not actually used in all cases)*
- Creation of a professional career path for customs employees *(1998; 750 employees dismissed, with 776 recruited under new rules, with professionals constituting 32 percent of the total)*
- Implementation of a comprehensive information technology system for customs clearance *(TIMS adopted in 1997, partial implementation in 2000/1; certain modules—transit, valuation—remain to be completed, with no technological updates since that time)*
- Creation of anti-smuggling groups and adoption of a global strategy on the issue *(beginning in 1997, three "FAST" groups have been in operation, with positive results)*
- Creation of specialized customs courts to deal with customs disputes *(Law in 2002 establishing the Customs Tribunals, effectively created in 2004)*
- Use of a unique tax identification number and creation of mechanisms for exchange of information *(1999, adoption of the Single Tax Identification Number, or NUIT, issued by the DNIA, and ongoing exchange mechanisms with the DNIA)*

Box 3. Mozambique—Assessment and Recommendations in the Area of Tax Policy

Assessment

Antiquated and inefficient tax system, based on legal procedures and principles from the colonial era

- **Direct Taxation:** Schedular tax, multiple rates and categories, inefficient and difficult to administer
- **Indirect Taxation:** Cascading tax on goods, with multiple rates, and cascading consumption tax with assessments on more than 350 goods
- **Other Taxes:** Numerous minor taxes that are difficult to administer and with very low yield
- Framework law and tax disputes defined based on an antiquated colonial law (1946)

Recommendations and Outcomes

Complete revision of the tax system *(accepted, carried out in phases between 1999 and 2007)*

- **Direct Taxation:** Adoption of a modern income tax; in the case of physical persons, this included a smaller number of progressive rates, and in the case of juridical persons, a uniform rate *(new taxes adopted in 2003, IRPS with 6 rates from 0 to 32%, IRPC with a single rate of 32%)*
- **Indirect Taxation:** Adoption of a broad-based VAT, a single rate with no exemptions, and an excise tax with a limited number of different rates and a smaller number of products taxed *(VAT adopted in June 1999, with a single rate of 17 percent and with exemptions limited to a small number of basic goods)*
- **Other Taxes:** Modernization of the stamp tax and inheritance tax, elimination or transfer of minor taxes to other jurisdictions *(new stamp tax in 2005, taxes on transfer of real property—SISA—and inheritance in 2006)*
- Adoption of a new framework law for the system and creation of new tax courts to deal with tax matters *(Framework Law on the Tax System approved in 2002, law on tax courts in 2006, implemented in 2008)*

Box 4. Mozambique—Assessment and Recommendations in the Area of Tax Administration

Assessment

- Very limited institutional capacity
- Inadequate infrastructure
- Lack of training plans or career path for personnel; less than 12 percent of employees were professionals
- Lack of compliance (under-declaration, evasion), estimated at about 65 percent for the sales tax
- Antiquated organizational structure, separated according to type of tax
- Total lack of information technology support
- Antiquated procedures and manuals
- Rudimentary and incomplete taxpayer registry
- Weak audit/inspection regime (no risk criteria for selection of cases, no operational or management plans, only 17 trained inspectors)
- Enforced collection practically nonexistent
- No exchange of information with customs

Recommendations and Outcomes

- Develop a program for the comprehensive reform of the tax administration *(in stages, beginning in 1999, with the creation of the VAT Department, until the creation of the Mozambique Tax Authority—AT—in 2006)*
- Investment in facilities and support infrastructure (communications, vehicles, etc.) *(1999–2000 for the VAT, 2003 creation of the DGI and of the large taxpayers unit —UGC; from 2004, relative lack of investment)*
- Creation of a career system for employees in the tax administration *(initial improvements in 1999 with the VAT, in 2003/2004 with the DGI, and in 2008, under the new AT, career path established equivalent to that of customs; beginning in 2002, large-scale training plan established for personnel)*
- Implementation of information technology systems to support operations *(VIPS adopted for the VAT in 1997, partial implementation in 2000/1; NUIT and SICR systems implemented in 2003/5; since then, however, no updating of the technology)*
- Creation of the taxpayer registry and widespread implementation of the TIN for other entities *(1999, adoption of the NUIT, used on a mandatory basis at DGA)*
- Creation of mechanisms for exchange of information with customs and other entities *(beginning in 1999, mechanisms for ongoing exchange of information with DGA)*
- Strengthening of inspections, recruitment of at least 30 auditors, creation of annual inspection plans and adoption of a management system *(beginning in 1999, 20 auditors recruited; rudimentary inspection plans established, still without a management control system)*
- Creation of a specialized collections unit and new enforced collection procedures *(initiated in 1999 for the VAT; from 2003, consolidated with the creation of DGI)*

40. During this period, the National Directorate of Taxes and Audits (*Direcção Nacional de Impostos e Auditoría*, or DNIA) was replaced by the General Directorate of Domestic Taxes (*Direcção Geral de Impostos Internos*, or DGI), aligning its institutional structure with that of the General Directorate of Customs (*Direcção Geral das Alfândegas*, or DGA) and improving the allocation of resources for the domestic tax administration. This laid the groundwork for the subsequent creation of the Mozambique Revenue Authority, responsible for all aspects of revenue administration (including in the area of customs). The performance of this new agency, launched in 2007, lies beyond the scope of this study.

III. Methodology

41. The first step in the study consists of identifying the indicators that will be required in the case of Mozambique to evaluate the reforms. The particular conditions of a country will determine the choice of variables to be used as indicators—variables which, prior to the reforms, signaled the main deficiencies of the tax system. In the case of Mozambique, the following seven indicators were selected:

- Collections
- Tax evasion, avoidance and noncompliance
- The quality of customs and domestic tax procedures, and their impact on taxpayer compliance
- Tax equity
- Economic efficiency and growth
- Economic openness and improvement of the business climate
- Controlling corruption

42. The second step involves identifying the specific events that signal key reforms in tax policy and administration, given that there are always changes in administrative procedures or in legislation that do not, in themselves, constitute tax reform. The identified reforms are shown in the first column of Table 1.

43. The third step consists of identifying the points in time when the reforms were implemented, thus making it possible to assess the sequencing of reforms—e.g., the effectiveness of the order chosen for implementation of the different measures**.**

44. The fourth and final step consists of finding empirical (preferably quantitative) evidence of the effects of the reforms on the indicators cited in the previous section. This involves identifying evidence that could serve as a basis for evaluating the items (though not necessarily all) in the boxes of Table 1. (Table 4 at the end of the document, reproduces the structure of Table 1, summarizing the effects in each area.)

Table 1. Mozambique: Evaluation of Tax Reform, 1994–2007

Reforms	Year begun	Effects on						
		Collections	Evasion and noncompliance	Ease of tax compliance	Tax equity	Economic efficiency and GDP growth	Economic openness and business climate	Control of corruption
Reform of Customs Policy	1994	x		x		x	x	x
Creation of UTRA and Reform of the Customs Administration	1995	x	x	x			x	x
Adoption of VAT and Excise Tax (ICE)	1999	x	x	x	x	x	x	x
Creation of the URTI and Reform of the Domestic Tax Administration	2001	x		x			x	x
Law 15/02 Governing the Tax System	2002			x			x	
Reform of the Income Tax	2003	x	x	x	x	x	x	
Creation of the DGI	2005	x	x	x			x	x
Integration of the DGA and the DGI, with creation of the AT	2006	x	x	x			x	x

45. The relative lack of statistical information (incomplete data series in some cases, or inconsistencies in the available information due to methodological changes introduced during the period being studied) requires that some of the analysis be conducted using data from non-Mozambican sources, when available.

46. Not all tax reform measures will, under normal circumstances, have an impact on all of the selected indicators; thus, some boxes in the table remain empty. Appendix 1 provides a detailed analysis of each reform presented in Table 1 and its impact on each of the seven

areas selected for study. Due to the relevance of the subject, the following section presents an analysis of the effectiveness of collections, before proceeding to the final conclusions.

IV. Effectiveness of Collections

47. Although it is not the only indicator, the effectiveness of collections remains a key factor when assessing the success or failure of a tax reform effort. Given the conditions in Mozambique during the period of the reforms (which remain in force today), with a substantial portion of the budget being financed by direct contributions from donors, demands for greater government spending in the social sphere cannot be met without increasing revenue collection.

48. The economic policies of the first half of the 1980s, when GDP declined by nearly 25 percent, led to a collapse between 1985 and 1986, with revenue collection falling to approximately 5 percent of GDP for those years. In 1987, with an inflation rate of 160 percent, Mozambique adopted its first Structural Adjustment Program—a program of fiscal adjustment, price liberalization and monetary controls. The enhanced economic and political stability provided for more normal economic performance, and tax collections gradually increased to slightly above 11 percent of GDP in 1992, the year in which the peace accords were signed and 17 years of civil war came to an end.

49. Tables 2 and 3 show (as a percentage of GDP, and in millions of current meticais, respectively) changes in collections during the period analyzed in this study. Despite the theoretically more favorable economic and political conditions after the signature of the peace accords,[8] collections declined, falling to 8.7 percent of GDP in 1996, as can be seen in Table 2. The recovery in collections, responding to efforts begun in 1997, has been slow but sustained—in the 1997–2001 period collections remained between 9.6 and 10.5 percent of GDP, with an upward trend in the 2002–2007 period (when the full impact of the policy changes took effect), steadily growing from 10.5 to 14.4 percent of GDP.[9]

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[8] Between 1993 and 1998, real GDP grew at an average annual rate of 8.5%; low inflation was maintained, while prices continued to be liberalized; an exchange rate based on the currency market was adopted; and the State's role in the economy continued to be reduced.

[9] For greater detail on the effectiveness of collections up to 2003, see Byers, B., "Tax Reform and Revenue Performance in Mozambique since Independence," Discussion Paper No. 12E of the National Directorate of Studies and Policy Analysis (Mozambique, Ministry of Planning and Development, 2005).

Table 2. Mozambique: Tax Revenues, 1993–2007

(as percentage of GDP)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Tax Revenues	**12.42**	**10.51**	**10.65**	**8.71**	**9.63**	**9.60**	**9.95**	**10.51**	**10.30**	**10.52**	**11.94**	**12.01**	**12.20**	**13.41**	**14.40**
Income Tax:															
Individuals	0.95	1.04	1.04	0.97	1.12	0.97	0.78	0.97	1.14	1.40	1.58	1.89	1.96	2.02	2.53
Businesses	1.01	1.02	0.89	0.76	0.88	0.91	0.72	0.57	0.64	0.71	0.66	0.84	0.94	1.67	1.94
Tax on goods															
	3.99	3.48	3.28	2.71	3.02	3.04	1.82								
VAT							2.08	4.44	4.48	4.37	4.46	4.87	4.92	5.31	5.57
Fuel tax															
	0.79	0.96	0.94	0.91	1.43	1.46	1.31	1.18	0.98	0.87	1.18	1.20	1.21	1.14	1.12
Excise Tax															
	1.88	1.11	1.35	1.09	0.98	1.11	0.92	0.96	0.92	0.96	1.01	1.00	1.01	0.96	0.98
Customs duties	3.48	2.58	2.80	1.89	1.85	1.82	1.75	1.95	1.75	1.86	2.00	1.78	1.92	1.93	1.92
Other	0.31	0.32	0.34	0.38	0.35	0.29	0.57	0.44	0.40	0.35	0.63	0.43	0.24	0.38	0.34

Source: Calculations based on data from the IMF and from the Mozambique Tax Authority.

Table 3. Mozambique: Tax Revenues, 1993–2007

(in millions of current meticais for each year)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Income Tax Individuals	76	138	216	355	491	498	462	661	977	1,412	1,753	2,432	3,084	3,571	5,096
Businesses	81	136	184	278	388	465	415	371	542	709	732	1,081	1,479	2,953	3,908
Tax on Goods or VAT	320	463	678	993	1330	1,559	2,261	2,914	3,782	4,348	4,949	6,266	7,741	9,388	11,220
Fuel Tax	63	128	195	334	627	751	761	773	824	865	1,309	1,544	1,904	2,016	2,256
Excise Tax	151	148	280	399	432	572	536	629	773	951	1,121	1,287	1,589	1,856	1,974
Customs Duties	279	343	579	693	812	937	1,013	1,279	1,477	1,851	2,219	2,290	3,021	3,412	3,868
Other	25	42	70	140	156	150	329	289	333	345	699	553	378	672	685
Tax Collections	995	1,398	2,202	3,192	4,236	4,932	5,777	6,916	8,708	10,481	12,782	15,453	19,186	23,798	29,007
GDP	8,011.5	13,319.20	20,678.1	36,611.2	43,981.4	51,351.5	57,951.5	65,630.8	84,368.4	99,479.0	110,972.8	128,668.0	157,345.0	176,804.0	201,437.0

Source: IMF and Mozambique Revenue Authority.

50. The steady increase in collections since 1997 is due to two factors: the increase in taxes on consumption (VAT and Excise Tax), primarily following the implementation of the VAT in 1999; and increased taxes on income, following the implementation of the new income tax in 2003.

51. Taxes on consumption, for which collections fluctuated between 42 and 44 percent of total collections prior to 1999, came to represent between 48 and 52 percent of collections after that year, helped in large part by the marked increase in revenue originated in the VAT. Income taxes, for which collections were below 20 percent of total collections up until 2003, grew to become about 23, 25, 27.5 and 31 percent of collections in 2004, 2005, 2006 and 2007, respectively (see Table 2).

52. Although taxes on consumption predominated throughout the entire period during which revenue collections recovered—begun in 1997, income taxes also increased as a percentage of total collections. On the other hand, collections for taxes on foreign trade,[10] fuel and other minor taxes decreased as a percentage of the total.

V. Conclusions—Impact of the Tax Reform

53. ***The reform showed clear positive results in all of the indicators, though more so in some than in others.*** Because of the limited availability of data, a quantitative analysis was only possible for some of the indicators, and the remainder have been assessed only qualitatively. Whether evaluated quantitatively or qualitatively, all of the indicators show that the progress achieved in the 1994–2007 period, though significant, leaves still room for improvement. Substantial progress at the legal and institutional levels has not always been matched in the operational and management realms, where the situation remained virtually unchanged during the initial years of reform. This is particularly true of domestic taxes. While there has been noticeable improvement in recent years, there continues to be a gap, which the authorities expect to narrow in the following phase of reforms, as set forth in their Strategic Plan for the 2008–2012 period.

54. Notably, Varsano, et al.,[11] describe Mozambique's tax administration as "… a system that seems to be betwixt and between, having lost the ability to function in the old way, yet without having mastered the new techniques." The constraints in terms of antiquated information technology systems (in the case of customs) and insufficient budgetary resources

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[10] Consistent with the increasing openness of the economy and Mozambique's integration into the region.

[11] Varsano, R.; Oliveira, M.; Villela, R.; and Yackovlev, I., "*Moçambique: Avaliação do Sistema Tributário Pós-Reformas*" [Mozambique: Assessment of the Post-Reform Tax System] (Fiscal Affairs Department, IMF, April 2007), p. 8.

(in the case of the domestic tax system), along with certain limitations in regard to human resources, have also contributed to a somewhat deficient system, especially in light of the changes achieved in the legal and institutional frameworks.

55. The effects of the advances, to end-2007, by the tax reform are summarized below, according to the procedure indicated in Table 1.

1. Effects on collections

56. As indicated in Tables 2 and 3, the downward trend in collections was reversed after 1996, when collections had fallen to 8.7 percent of GDP. ***The upturn in collections that began in 1997 has been slow but steady: In the 1997-2001 period, the rate was between 9.6 and 10.5 percent of GDP, while the figure between 2002 and 2007 has shown a sustained upward trend, going from 10.5 to 14.4 percent of GDP.***

Customs reform and collections

57. Customs reform has two components: policy reform (changes in exemptions and rates for customs duties) and customs administration.

58. The objective of the policy reform was to open Mozambique's economy to trade and to international investment, and was designed to significantly lower tariffs and provide for the selective granting of exemptions for foreign investment—a policy that could not be expected to increase collections. Moreover, in granting exemptions, in spite of the Governments initial intentions to the contrary, there was a less than strict selection process (see Section I of the Appendix). That, in turn, resulted in a proliferation of exemptions, as shown in Tables 1 and 2 of the Appendix.

59. Nevertheless, this reform was accompanied by a comprehensive reform of the customs administration, discussed in Section II of the appendix. ***The combination of policy reform and reform of the customs administration resulted in maintaining collections of customs duties within a relatively narrow range of between 1.73 percent and 2 percent of GDP during the 1996-2006 period (see Table 2), despite gradual but steady reductions in the weighted average rate of customs duties (see Table 4 of the Appendix).***

Adoption of the VAT and Excise Tax and collections

60. While collections of the tax on goods hovered around 3 percent of GDP in the years before it was replaced, the VAT, with a rate of 17 percent, generated collections of between 4.4 percent and 5.5 percent of GDP from the time it was adopted, trending upwards subsequently. Despite its relatively low productivity, the VAT represented the largest source of collections during the 1994-2007 period. In the most recent decade, collections of the excise tax have been stable, both before and after Decree 52/98, remaining within a range of between 0.92 percent and 1.09 percent of GDP (see Table 2).

Reform of the administration of domestic taxes and collections

61. As indicated in Section V of the Appendix, it is difficult to quantify the effects of this reform. However, the sustained increase in collections in the 2002-2007 period, the successful implementation of the new income tax which was accompanied by new administrative procedures, and improvements in the productivity of the VAT—though modest—indicate that ***the tax administration reforms accompanying the changes in policy have at least had a positive effect on collections.*** In terms of specific measures, the creation of the Large Taxpayers Units occurred only very recently, and coverage remains too limited to gauge the effect on collections. The scant data available on inspections and enforced collections also indicate very modest impact on revenue collection (see Table 7 of the Appendix).

Reform of the income tax and collections

62. ***Collections of the new Income Tax are clearly superior to those of its predecessor.*** While collections of the old tax represented less than 2 percent of GDP, collections of the new Income Tax in 2006 were 4.47 percent of GDP (see Table 2). This is due both to the greater efficiency of the new taxes, and the broadening of the tax base that encompassed their implementation.

Creation of the DGI and subsequent creation of the AT and collections

63. The new structure of the DGI, including the creation of the Large Taxpayers Units, along with the subsequent creation of the AT, accompanied by the allocation of additional resources, contributed to the improvement in collections. Given the limited time passed since these reforms, their contribution to improved collections cannot be adequately measured.

2. Effects on evasion and noncompliance

64. Failure to meet tax obligations remains a major problem which, while not reaching the levels of the 1994-1996 period, only recently seems to be improving. Two relatively recent studies—though based on data from 2001 and 2002, i.e., before the full impact of the reforms could be felt (see Section III of the Appendix)—show that actual collections during that period were approximately half of the potential. This means that Mozambique, together with Uganda, had in those years the lowest ratio of actual to potential collections in Southeast Africa. Even updating these data for 2007, when for the first time collections exceeded 14 percent of GDP, actual collections are only two thirds of the potential, still below the average for the other SADC countries.

Customs reform and evasion and noncompliance

65. Notwithstanding notable improvements that kept collections stable despite the sharp reduction in customs duties rates, the continuing significant gap between actual and potential collections—which exceeds the already lavish amount of exemptions granted—can only be construed as a symptom of outstanding problems, in spite of efforts to reform the customs administration (see Section II of the Appendix).

Adoption of the VAT and Excise Tax and evasion and noncompliance

66. Despite the notable increase in collections attributable to this reform, the relatively low productivity of the VAT attests to a high degree of taxpayer noncompliance for this tax. The productivity of the VAT in Mozambique, 32.8%, still remains below that of most of the other countries of Southeast Africa (see Section III of the Appendix).

Law 15/02 and evasion and noncompliance

67. Though no numerical results are available to quantify the effect of Law 15/02 on evasion and noncompliance, this law has direct consequences on controlling noncompliance: it defines the guarantees and obligations of taxpayers, as well as of the tax administration, and institutes the regime for tax violations and applicable penalties. Previously, these issues were not well addressed by the law and were not widely publicized. Nor were tax administration procedures enshrined in a single legal document, but rather were contained in a variety of different levels of legal instruments (diplomas, decrees or laws). Law 15/02 provides a single legal foundation for these procedures. In light of the weaknesses of the earlier legal framework, the promulgation of this law is bound to have a positive impact on evasion and noncompliance.

Reform of the Income Tax and evasion and noncompliance

68. Collections of this tax more than doubled between 2002 and 2007, a clear indication of a positive impact. However, available data show that compliance with this tax is not even across the range of taxpayers subject to it. As indicated in Section VII of the Appendix, even after the reform there continues to be evidence of noncompliance with the IRPS for all types of taxpayers except the first category (employed individuals subject to withholding at the source), a situation, however, not all that different from that of many other countries, whether developed or developing. (See Table 16 of the Appendix).

Creation of the DGI and subsequent creation of the AT and evasion and noncompliance

69. The autonomy of the DGI gives it greater capacity to perform inspections than the old DNIA. However, there is not yet evidence that this increased capacity is being put to use.

Similarly, the integration of the DGA and the DGI facilitates the exchange of information and the possibility of joint inspections, but it is too early to assess the impact.

3. Effects on facilitating tax compliance

Customs reform and facilitation of tax compliance

70. The reason the Government of Mozambique made customs reform a top priority was that the customs system had essentially collapsed in 1994 and was incapable of performing its institutional mandate of overseeing collections and facilitating legitimate foreign trade. Given this highly problematic situation, ***progress has, without doubt, been significant.*** As indicated in Section II of the Appendix, there continue to be certain administrative deficiencies, which still hamper compliance on the part of taxpayers and do not promote the flow of legitimate trade.

71. Due to the limited availability of information technology resources that could support the widespread use of electronic declarations, Uniform Export/Import Documents are processed using manual controls. The clearance process consists of a mixture of manual and electronic procedures. Clearance of goods involves multiple stages and agents who perform verifications and re-verifications of documents, largely on paper. Self-assessment of customs duties is not fully utilized, since all documents and declarations are reviewed manually before the corresponding tax is paid, and, although contemplated by the regulations, there is, in practice, no “green channel” to allow for automatic customs clearance with no physical or documentary checks prior to release of goods.

72. The average time required to complete the various stages of the customs clearance process, though significantly improved since 1994—when it was 25.6 days—was 11.26 days in 2006, the last year when clearance time was measured, still excessively long by international standards. Nearly two thirds of this time is after payment of the customs duties and before the goods are retrieved from customs. (During this period, in addition to customs, a number of public and private actors play a role; thus, these delays are not solely attributable to customs.)

Reform of domestic taxes and facilitation of tax compliance

73. The new procedures are simpler and more modern and facilitate compliance, though considerable improvement remains to be achieved, particularly in terms of information technology support at the operational and management levels. As indicated in Section III of the Appendix, there continue to be certain administrative deficiencies, which do little to facilitate taxpayer compliance. The process of administrative modernization seems to be halfway through: the main focus of tax administration continues to be primarily a matter of receiving returns and payments, and has not moved toward a system that places priority on ensuring compliance and providing service to taxpayers.

74. The offices are designed to receive payments and returns—generally presented manually (only returns for IRPS wage withholding at the source can be submitted electronically). The input of data and initial verification are normally carried out with the taxpayer present, at the time the person submits the declaration. The offices do not provide specific services to assist taxpayers; such services are provided by the same people receiving the returns, who, in practice, are the ones who answer taxpayer questions in person or by telephone.

75. The self-assessment mechanism, though provided for in the legislation and in the associated regulations, is essentially ignored in practice, given the procedures actually adopted by the administration. Applying in full these provisions would imply receiving the returns at some time prior to inputting data into systems and verifying information, rather than simultaneously and in the presence of the taxpayer as is the case now. Given this situation, increased taxpayer assistance is needed to facilitate compliance with the requirement to deliver the return.

76. To date, progress in implementing the system for paying taxes through the banking network remains unsatisfactory. At present, taxpayers must make payments at the tax offices through a manual procedure that both poses security risks and creates practical problems, particularly in regard to payments by check.[12]

77. Another limitation in current procedures and practices is that taxpayers are required to submit returns or make payments only at the offices where they are registered, thus creating an additional obstacle to voluntary compliance.[13]

[12] Implementation of payments through the banks is linked to another comprehensive reform effort in the fiscal area initiated in the late 1990's , calling for the deployment of a modern IT system supporting budget and treasury operations, the e-SISTAFE. The revenue collection module of this system, called *e-Tributação*, is scheduled for gradual implementation from 2009.

[13] Again, this problem is due to limitations with the IT systems that support operations. It should be pointed out that in 2006 the AT, with assistance from the IMF, carried out an in-depth diagnostic study and strategy definition exercise for information technology systems (called PDTI, for *Plano Director de Tecnologias de Informação*, or Information Technology Framework Strategy.) The resulting document set out the basis of an integrated management system, the implementation of which would resolve the majority of the problems pointed out in this study. The PDTI would be implemented during the 2008-2012 period with funding from a recently created common fund which receives contributions from various donors, including DFID, SECO and GTZ.

4. Effects on tax equity

Customs reform, creation of the VAT and equity

78. No broad-based surveys of family expenditures or any other statistical source for gauging the composition of family expenditures according to families' income levels were available at the time of the study. Thus, there is no direct way to measure how the adoption of the VAT and the reform of customs duties have affected equity.

Reform of the Income Tax and equity

79. ***This reform was designed with the goal of having the maximum effect on equity.*** Adoption of the IRPS meant abandoning the old schedular income tax, under which each person was taxed separately on income from sources that were classified according to separate schedules. Under the IRPS, on the other hand, all income (regardless of source) is added together to arrive at an overall income, which determines the tax to be paid.

80. In practice, however, the fairness of the IRPS is compromised by the limited enforcement capacity of the administration and the manner in which the tax is collected. Taxpayers whose income is subject to withholding by their employer (income from the first category—wages paid to employees) cannot evade the tax, whereas taxpayers in the other categories that are not subject to withholding can, in practice, end up paying less tax, even though they may have higher incomes. In fact, collections from the first category of IRPS represent between 87 and 90 percent of all IRPS collections.

5. Effects on economic efficiency and GDP growth

81. It should be pointed out from the start when assessing impact on the efficiency and growth criterion that the literature gives very little guidance on what types of tax reform are good for growth. The assessments in this section should be considered in the light of this methodological qualification.

Reform of customs policy and efficiency

82. The policy of reducing the customs tariff rates was initiated in 1997; that year, rates for raw materials, intermediate inputs, and machinery and equipment were reduced by 50 percent (in come cases to zero). Over subsequent years the 35% rate for consumption goods was reduced to 20% by December 2006. The significant reduction in the maximum rate, between 1997 and 2006, from 35% to 20%—keeping the other rates constant—results in a structure that provides decreasing effective protection for all import substitution sectors, with a consequent decrease in anti-export bias, and greater economic efficiency.

83. ***While the upward trend in GDP during the last decade (see Table 8 of the Appendix) cannot be attributed exclusively to customs policy, within the existing state of knowledge it is reasonable to suppose that the increased efficiency generated by this policy has had a contributing role.***

Reform of the customs administration and efficiency

84. Customs reform involved revising and simplifying all operational procedures and adopting more modern management techniques, with support from information technology systems, resulting in increased efficiency in customs procedures. However, despite these advances, the recent drop in the Index of Freedom of International Trade (see Appendix Section IV and Table 10) indicates that not all the regulatory and bureaucratic obstacles to international trade have been effectively corrected in the reform process.

Adoption of the VAT and efficiency

85. ***Replacement of the tax on goods by the VAT eliminated the cascading effect, thus adding an important factor in increasing the efficiency of the economy and, thereby, contributing to improved GDP performance from 2000.***

Reform of the IRPC and efficiency

86. Replacing the multiplicity of rates that existed under the Industrial Tax with the IRPC uniform rate (except for the lower 10% rate for the agricultural sector) has also helped in orienting investment toward the most efficient sectors. The legislation on exemptions (the Investment Law, the Code of Tax Concessions and the Regulation of Industrial Free Trade Zones), however, still provides incentives for investments to seek out tax advantages, to the detriment of efficiently allocating the economy's productive resources.

6. Effects on openness and on the business climate

87. The 1994-2006 period showed a pronounced improvement in the Index of Economic Freedom and, specifically, in one of its components, the "Index of Tax Freedom" (see Section IV of the Appendix). Table 9 of the Appendix compares these indices with the corresponding indices for a group of six countries of Southeast Africa, showing that Mozambique experienced the greatest increase in both indices.

88. Between 1994 and 2006, Mozambique moved from having the lowest "Index of Tax Freedom" among this group of countries to being the third-highest ranking country, after Uganda and Tanzania. It is impossible to determine which of the reforms in particular accounts for this result. It may, in fact, be attributable to all in combination—and, specially, to the reduction in the rates of customs duties, as well as to the reform of the IRPC and the adoption of the VAT to replace a tax that suffered from the cascading effect.

89. These significant improvement notwithstanding, in the administrative realm there continue to be bureaucratic hurdles and obstacles that exert a drag on the business climate, in ways that extend beyond those already discussed involving international trade.

7. Effects on corruption

90. The internationally renowned *Transparency International* corruption perception index has been published for more than a decade.[14] By using this cross-country information, one could attempt to identify a specific trend in corruption as experienced in Mozambique, and link this trend to the reform process.

91. It is revealing that in 2000 Mozambique was ranked 81 out of 90 jurisdictions as being one of the most corrupt countries assessed. In 2004, 145 countries were evaluated with Mozambique ranked 90; in 2008 Mozambique is ranked 126 out of a total of 180 countries.

92. While perception of corruption still seems to be significant in Mozambique, the situation has improved during the time where the reforms were implemented, and it can be argued that part of this improvement at least can be attributed to the reform.[15]

93. The rationalization of decisions regarding exemptions and other concessions (creation of a unified set of legal documents, centralization of decisions within the Ministry of Finance) has gone a considerable way toward eliminating the numerous opportunities for corruption available under prior rules.

94. Reform of the DGA professionalized the career path for personnel, and a code of ethics was adopted, with severe sanctions for any violations. Internal audits were established, with a mandate to investigate cases of corruption. The integration of the DGA and DGI within the AT, the creation and mandatory enforcement of codes of ethics for personnel, and the creation of professionalized career paths for those employees have all had positive effects on reducing corruption.

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[14] See Transparency International, www.transparency.org.

[15] A simple calculation could shed light on how has Mozambique performed over the years in terms of the corruption perception index. For any given year, a country ranked the least corrupt would be close to 0 (=0.01), whereas the most corrupt would be 1. Using the relative rankings for the selected years yields the following table:

Year	Corruption index
2000	0.9
2004	0.6
2008	0.6

95. In spite of these advances, the proliferation of legislation on exemptions (the Investment Law, the Code of Tax Concessions and the Regulation of Industrial Free Trade Zones), including the authority to grant discretionary exemptions delegated to the executive level, inevitably produces opportunities for corruption in both the customs and the domestic tax (VAT and IRPC) systems. This applies in particular to the increased complexity of core tax and customs administration procedures required by the need to closely monitor exempt goods to ensure that they are effectively used for the purposes originally claimed and that they are not deviated into domestic consumption. The relative weakness of post-clearance controls, cited in Section VI.2, also makes it more difficult to monitor any irregular granting of customs exemptions or discover falsified certificates and related documents.

VI. Assessment of the Technical Assistance from the Fiscal Affairs Department

96. The Fiscal Affairs Department (FAD) provided technical assistance at three levels: first, identification and assessment of problems; second, proposals and recommendations; and third, support to the actual implementation of solutions.

97. The third level entailed in turn two types of cooperation with the government of Mozambique: preparation of legal and institutional instruments, and implementation of operational and management practices.

98. FAD technical assistance for the revenue policy and administration areas was substantial during the period under study: it comprised 31 missions from headquarters, equivalent to about 2.34 person/years; one, and at times two, resident advisors during several years of the reform, equivalent to a total of 12.75 person/years; peripatetic visits by ten different advisors, totaling about 6.82 person/years; and short-term visits by seven advisors, totaling about 2.56 person/years (see table 17 in the Appendix for a breakdown of this assistance by year).

1. Identification and assessment of problems

99. An IMF technical assistance mission[16] had already identified serious deficiencies in the customs administration in 1993, specifically in the following areas: (1) control of goods until customs clearance; (2) clearing procedures; (3) control of abuses in allowing exemptions; (4) control of temporary import programs; (5) valuation of goods; (6) organization and control of human and physical resources and exchange of information with the domestic tax administration; and (7) modernization and compilation of disparate, confusing customs legislation. (See Appendix, Section II).

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[16] Goorman, A.; Tavares, J.; Correia, A.; and Viana, G., "*Moçambique: Racionalização do sistema fiscal*" [Mozambique: Streamlining the Tax System](Fiscal Affairs Department, IMF, August 1993), Goorman et Al. 1.

100. In the customs area, the IMF prepared preliminary estimates[17] (sufficient for indicative purposes) of forgone customs revenue for the 2001-2005 period, including smuggling and the revenue gap. Such losses, which amounted to about 75 percent of effective revenue in 1993, were at the time estimated at approximately 50 percent. (See Appendix, Section II)—no doubt an improvement, but still a significant gap.

101. IMF technical assistance also covered the area of domestic taxes. In 1987, and again in 1990, technical assistance missions pointed out the distortionary impact of the tax on the circulation of goods. A 1993 mission[18] reiterated that this tax should be replaced with a modern, broad based value-added tax (VAT). Once more in 1995[19], and again in 1998,[20] IMF technical assistance helped the authorities identify problems with adopting VAT in Mozambique.

102. IMF technical assistance was also requested resulting an effort to address low VAT productivity levels. A preliminary estimate[21] (sufficient for indicative purposes) indicates that, in 2001 and 2002, cases of noncompliance (including evasion, avoidance, and payment delinquencies) amounted to approximately 130 percent to 140 percent of effective revenue. It was also estimated in connection with this technical assistance that the fiscal cost of VAT exemptions amounted to approximately half of the effective revenue during that period.

103. More recently, IMF technical assistance[22] in the tax policy area considered the number of items subject to excise tax (*Imposto sobre Consumos Específicos*—ICE) to be excessive, while the rates for tobacco and alcoholic beverages (which account for the bulk of the revenue) were considered low.

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[17] Schenone, O., "*Una metodología para la estimación de recaudación tributaria*" [A Methodology for Estimating Tax Revenue] (Fiscal Affairs Department, IMF, 2004), and "*La metodología de estimación de recaudación tributaria*" [Methodology for Estimating Tax Revenue] (Fiscal Affairs Department, IMF, 2007).

[18] Goorman, A.; J. Tavares, A. Correia; and G. Viana, "*Proposta de um Imposto sobre o Valor Acrescentado*" [Value-Added Tax Proposal] (Fiscal Affairs Department, IMF, August 1993). (Goorman et Al. 2)

[19] Castro, P.; Alexandre, M.; and Cunningham, B., "*Mocambique: Introducao do IVA e Reforma do Sistema Aduaneiro*" [Mozambique: Introduction of VAT and Customs System Reform] (Fiscal Affairs Department, IMF, April 1995).

[20] Castro, P.; J. Toro; and A. Teixeira "*Moçambique: Situação Actual e Perspectivas da Introdução do IVA e Reforma Aduaneira*" [Mozambique: Current Situation and Outlook for the Introduction of VAT and Customs Reform] (Fiscal Affairs Department, IMF, July 1998).

[21] Schenone, O.,*op. cit.*

[22] Varsano, R., Oliveira, M., Villela, R. y Yackovlev, I., *op. cit.*

104. The other significant domestic tax reform, in addition to VAT, was the income tax. In 2001, an IMF technical assistance mission[23] found that the income tax was not meeting the Mozambique economy's requirements, owing to distortions resulting from a series of amendments to accommodate particular cases and generous exemption schemes that had eroded the assessment base, leading to a steadily declining share in total revenue. These findings paved the way to the comprehensive reform of the income tax carried out in 2003.

2. Proposals and recommendations

105. Despite the IMF's recommendations in 1993 and the authorities' willingness to move forward with the reform, the country's institutional situation and the lack of human resources prevented any significant changes in customs operations until 1996-1997. Then, following a 1995 IMF mission's[24] recommendations, a technical unit was established to devise effective solutions to the customs administration's problems. The unit was given ample mandate to oversee operations and recommend changes, and was instrumental in the effective implementation of the customs administration reform. (See Appendix, Section II).

106. In the area of domestic taxes, the VAT proposals included institutional procedures for its adoption; the sequence of administrative steps to be followed; a timetable for implementation; calculation of projected revenue and the tax rate; and preparation of a series of drafts of the legislation and related regulations.

107. Concerning the excise tax , IMF technical assistance[25] recommended reducing the number of taxable goods and increasing the original 1998 rates for tobacco and alcoholic beverages, which account for the bulk of the revenue. Finally, in connection with the income tax, IMF technical assistance[26] in 2001 recommended combining the three existing taxes into one income tax, with features quite similar to those ultimately adopted in 2003.

3. Implementation of solutions

Legal and institutional framework

108. IMF technical assistance has been abundant and seemingly effective, and has made a significant contribution to success in implementing modern, effective legal and institutional instruments. The establishment of the UTRA and the Domestic Tax Reform Unit (URTI),

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[23] Coelho, I.; dos Santos, P.; Teixeira, A.; Tomás, J.; and Varsano, R., "Mozambique: Toward a Reform of the Tax System and Administration" (Fiscal Affairs Department, IMF, 2001).

[24] Castro, P.; Alexandre, M.; and Cunningham, B., *op. cit.*

[25] Varsano, R., Oliveira, M., Villela, R. y Yackovlev, I., *op. cit.*

[26] Coelho, I.; dos Santos, P.; Teixeira, A.; Tomás, J.; and Varsano, R., *op. cit.*

and the replacement of the National Tax and Audit Unit (DNIA) with the Domestic Tax Department (DGI), culminating with the establishment of the Mozambique Revenue Authority, were key reforms where IMF technical assistance played a decisive role.

109. The preparation of the legislation paving the way for these institutional changes also benefited from IMF technical assistance. The preparation of a VAT Law proposed to parliament, for Law 15/02 in Respect of the Foundations of the Tax System, as well as the Law on Income Tax (ISR), benefited from IMF technical assistance.

Operation and management practices

110. In parallel with the design of the new body of laws and regulations, considerable IMF technical assistance was provided to support the modernization of the procedures related to the core business processes of the tax and customs administrations. Progress in this area, however, still lags behind legal changes. In practice, the legal and institutional instruments available after the reform are still not fully utilized and a number of measures recommended by IMF technical assistance to improve operational procedures and management practices still await implementation.

111. For example, performance indicators are not regularly used as a management tool at the revenue administration. While a set of performance indicators that, regularly updated, could form the basis of a modern management system have been defined with IMF technical assistance, they have only been implemented on a rudimentary basis, pending the deployment of a computer-based management system capable of automating the generation and control of indicators. Tax administration management continues primarily to focus on the reception of returns or declarations and payments, and has yet to evolve to prioritizing compliance control and taxpayer service.

112. As indicated in Sections II, III and V of the Appendix, owing to limitations in the IT systems supporting operations, processing of customs documents is mostly based on manual controls, and the self-assessment system is not applied in full neither by customs nor by the DGI. Lack of progress with the implementation of a tax payment scheme through the banking system has already been mentioned. The recently created large taxpayer units, which account for at least 70 percent of total domestic tax revenue, follow ineffective operating procedures and lack sufficient resources to provide adequate taxpayer services and exercise proper control over the subset of the taxpayer population under their responsibility.

113. Post-release audit of import operations is another area requiring more attention from the customs administration. In the area of domestic taxes, coordination between the audit and enforced collections departments is insufficient, preventing the latter from taking timely precautionary measures when, for example, audit detects money laundering risks. In addition, the capacity to use systematic criteria for selecting taxpayers based on risk analysis has not been exploited, nor have available external sources been tapped to cross-check information.

4. Outstanding issues and the way forward

114. It would be feasible to put in practice most of the new procedures described in the preceding section, which have been recommended at different times by successive technical assistance missions, within the existing legal and institutional frameworks devised with technical assistance from the IMF. Full implementation has not been completed, however, even with IMF technical assistance.[27] Achieving this complete modernization of procedures is still a challenge to be addressed by the Mozambican tax authorities in their Strategic Plan for 2008-2012.

115. Finally, in terms of next steps, one of the lessons from this evaluation exercise is the need to strengthen the generation of regular reports, to the attention of the policy makers, on the state of revenue collection. It can be argued that part of the reforms to come need to be sustained by more data, which could already be generated through simple changes. In line with this, the authorities could move from an accounting approach to a more economic approach, by strengthening the capacity of the revenue administration to generate and revise on a regular basis revenue projections based on on-the-field intelligence on the state of the economy, including key performance indicators.

[27] Implementation of modern operational and management technologies in revenue administration is a complex process requiring considerable effort, and institutional capacity can only be increased gradually. The extent of the gap still existing here can be exemplified by the 13 "critical projects" that an IMF technical assistance mission recommended in November 2007 for implementation during 2008-2010 (See P. dos Santos; R. Junquera; and O. Schenone, "*Moçambique: Sugestões para o Plano de Acção 2008-2010*" [Mozambique: Suggestions for the Action Plan 2008-2010], Fiscal Affairs Department, IMF, November 2007). Some of these projects cover basic areas of a revenue administration.

Table 4. Mozambique: Summary of the Tax Reform Assessment, 1994–2006

Reforms	Effects on: Revenue	Evasion and noncompliance	Tax compliance facility	Tax equity	Economic efficiency and GDP growth	Economic liberalization and business climate	Control of corruption
Customs policy reform (Introduced in 1994)	It is impossible to make the distinction of impact between administration and policy reforms in customs. As a result of the combined customs administration and policy reforms, customs revenue was maintained within a narrow band of 1.73-2 percent of GDP during the decade 1996-2006, despite the steady reductions in the average weighted customs duty rate.		As the reforms have facilitated tax compliance, it is impossible to isolate the effects of each reform on this objective. While the new procedures are simpler and facilitate compliance, there is much room for improvement, particularly in computerized support for operations. Owing to the lack of electronic declaration capabilities, the customs authorities process the single documents based on manual controls and the clearing process uses a		The reduction in the maximum rate between 1997 and 2006 from 35 percent to 20 percent while holding the remaining rates constant reduces effective protection for import substitution and the bias against exports. This approach has enhanced economic efficiency.	The period 1994-2006 shows a marked increase in the economic freedom index, and specifically in one of its components, the tax freedom index. The comparison of these indices with those of a group of Southeast African countries shows that Mozambique registers the greatest increase in both indices. During the period 1994-2006, Mozambique moved from the lowest tax freedom index in the group to the third highest after Uganda	The rationalization of decisions on exemptions and other incentives has had a positive effect and has eliminated opportunities for corruption. The Customs Department (DGA) reform created staff career paths and adopted a code of ethics with severe penalties for noncompliance. The internal audit unit was established to investigate cases of corruption. The proliferation of legislation on exemptions (the Law on Investments, the Code of Tax Incentives, and the Regulation on
Establishment of UTRA and Customs Administration Reform. (Introduced in 1995)		Despite the improvements that have made it possible to maintain revenue levels and expand the number of operations declared, there remains a considerable gap between potential and effective revenue, exceeding the amount of the already generous exemptions granted.			The customs reform included the revision of operational procedures and the adoption of modern management technologies supported by systems. The recent deterioration in the international trade freedom index indicates that the regulatory and bureaucratic barriers to international trade were not corrected sufficiently during the reform process.		

Reforms	Effects on:						
	Revenue	**Evasion and noncompliance**	**Tax compliance facility**	**Tax equity**	**Economic efficiency and GDP growth**	**Economic liberalization and business climate**	**Control of corruption**
VAT and Excise Tax adoption (Introduced in 1999)	VAT, at a rate of 17 percent, generated revenue in the range of 4.4-4.9 percent of GDP from the time of its adoption. Despite its low productivity, VAT generated the highest revenue effects during the period 1994-2007. Excise tax revenue remained stable at around 1 percent of GDP before and after Decree 52/98.	Despite a substantial increase in revenue attributable to this reform, VAT productivity indicates a high level of noncompliance among those subject to this tax. VAT productivity in Mozambique (32.8 percent) still falls short of the other countries in Southeast Africa.	combination of manual and electronic procedures. Self-assessment of customs duties is not effectively available. The average time required to complete the various phases of the customs clearance process declined from 25.6 days in 1994 to 11.26 days in 2006, although this is still a substantial lag. In terms of domestic taxes, tax	The absence of household expenditure surveys or any other source of statistics describing the composition of household expenditure by household income level prevents us from examining the equity of adopting VAT and the customs tariff reform.	The replacement of the turnover tax with VAT eliminated the cascade effect, constituting an important factor in increasing economic efficiency and thus enhancing GDP performance since 2000.	and Tanzania. It is impossible to determine which of these reforms is responsible for this progress; it might be the result of the combination of reforms--in particular, the reduction in customs duty rates, the corporate income tax (IRPC) reform, and adoption of VAT to replace a tax having a cascade effect.	Industrial Fee Trade Areas), including the power to grant discretionary exemptions, adds complexity and leads to greater opportunities for corruption in both the customs and domestic tax administration areas (VAT and IRPC). The weakness of post-customs clearance inspections makes irregular approval of customs

Reforms	Effects on:						
	Revenue	Evasion and noncompliance	Tax compliance facility	Tax equity	Economic efficiency and GDP growth	Economic liberalization and business climate	Control of corruption
Establishment of the domestic tax reform unit (URTI) and reform of the domestic tax administration. (Introduced in 2001)	This reform has had moderate revenue effects. The large taxpayer units did not provide information that could be used to estimate its revenue effects, and the lack of information on oversight indicates a relatively limited effect.		administration management continues primarily to receive returns and payments, and has not evolved toward management that places priority on compliance control and taxpayer service. Computerized management support systems are still incomplete. The self-assessment mechanism is not effectively applied as controls are maintained in the presence of taxpayers before payments are accepted. The agencies focus primarily on receiving payments and returns,			However, in the administrative framework there are still bureaucratic barriers and obstacles affecting the business climate in general and specifically the flow of legitimate international trade, without eliminating smuggling.	exemptions more difficult to verify. Post-customs clearance inspections are essential in a legal system such as Mozambique's, which permits substantial exemptions, multiple customs schemes, and different tariff levels (depending on the type of goods and areas of origin). However, even in the present situation, the teams working on these controls are quite limited and do not have an adequate database, nor do they interact sufficiently with other areas of the tax administration.
Law 15/02 Foundations of the Tax System (Introduced in 2002)		This law directly affects tax compliance as it defines the guarantees and obligations of taxpayers and tax administration and institutes the scheme of violations and the applicable penalties.					

Reforms	Effects on:						
	Revenue	Evasion and noncompliance	Tax compliance facility	Tax equity	Economic efficiency and GDP growth	Economic liberalization and business climate	Control of corruption
Income tax reform. (Introduced in 2003)	While the former income tax (IR) collected less than 2 percent of GDP, the new income tax in 2007 generated revenue amounting to 2.53 percent of GDP.	This source of revenue more than doubled, while the number of registered taxpayers tripled. There is lingering evidence of noncompliance with the IRPS in all categories except the first (employees).	generally on a manual basis, and do not have sufficient resources for taxpayer assistance. The law provides that taxpayers may not file returns or pay taxes at agencies where they are not registered. This impedes voluntary compliance, which is precisely the area that should be enhanced.	This reform was designed to be more equitable. The IPRS replaced the schedular tax levied on revenue from different sources. Under the IRPS, revenue is aggregated to produce total revenue which is used as a basis for calculating the tax payable. In practice, however, IPRS equity has been compromised by the collection method: employees cannot evade this tax, while taxpayers in the other categories are not subject to withholding at source and can ultimately pay less taxes than employees, even if they earn more money.	The replacement of multiple tax rates in the industrial tax with the single-rate IRPC (save for the 10 percent rate for agriculture) aims at investments in the most efficient sectors. Legislation on exemptions (the Investment Law, Code of Tax Incentives, and Regulation on Industrial Free Trade Areas), however, provides incentives for investments to be directed towards tax incentives at the expense of overall economic efficiency.		
Establishment of the DGI (Introduced in 2005)	The new organization of the DGI, including the establishment of large taxpayer units, supports the revenue enhancements.	The DGI's autonomy gives it a greater capacity for oversight than the DNIA. However, there is no evidence that this enhanced capacity has been used.					The establishment of the DGI made it possible to increase staff remuneration and to introduce staff career paths.

Reforms	Effects on:						
	Revenue	Evasion and noncompliance	Tax compliance facility	Tax equity	Economic efficiency and GDP growth	Economic liberalization and business climate	Control of corruption
Integration of the DGA and DGI with establishment of Tax Authorities (ATs) (Introduced in 2006)	The establishment of ATs consolidated the changes introduced in the DGI, and can be expected to help increase revenue. The reform is too recent to assess its impact.	The integration of the DGA and DGI facilitate the exchange of information and the possibility of joint oversight. The reform is too recent to assess its impact.	The establishment of the AT was accompanied with enhanced resources for taxpayer assistance and advertising campaigns to promote tax compliance.				The establishment and mandatory application of codes of ethics for staff and the establishment of more professional career paths for employees have had positive effects on the efforts to control corruption.

APPENDIX I. ANALYSIS OF POLICY AND ADMINISTRATIVE REFORM

I. CUSTOMS POLICY REFORM

116. Customs tax policy primarily entails two components: changes in customs duty rates and changes in exemptions.[28] The FAD technical assistance authorities strongly recommended reducing exemptions, and, along with the World Bank, also explicitly intervened in the area of customs duty rates. In addition, Mozambique's increasing integration into the regional framework (The Southern African Development Community—SADC) has limited the authorities' headroom in terms of unilateral changes to customs duty rates, helping to align government policy with the IMF recommendations.

Exemption policy

117. While there is a proliferation of legal underpinnings for granting exemptions (including discretionary exemptions), most exemptions are based on Law 3 of 1993 (Law on Investments) and its Regulatory Decree 14 of 1993. Later, Decree 37 of 1995 broadened incentives, while Decree 45 of 1996 limited them, only to expand them once again with Decree 16 of 1998, with an extension the following year (in the form of tax deferrals) to hotel and tourism activities under Decree 73 of 1999. The same year, Decree 62 established legislation on free trade areas.

The most recent legislation on exemptions, Decree 16/02, Code of Tax Incentives, dating from 2002, combines legislation spanning a lengthy period of time and eliminates duplications and contradictions. Tables 1 and 2 partially illustrate customs duty exemptions for 2002 and 2003. Owing to data processing problems, the authorities were unable to provide disaggregated data on exemptions for the period 2004-2006.[29]

118. These tables demonstrate the importance of exemptions allowed in connection with "special authorizations." Such authorizations are allowed by the Minister of Finance (and from time to time by the Council of Ministers) in cases not provided by law, but that the Minister of Finance deems to be justified. Exemptions are granted to other types of public undertakings, including infrastructure investments and private projects. Exemptions for

[28] Although in some cases legislation on temporary imports, nontariff restrictions, and anti-dumping can also be important factors, in Mozambique's cases, tariffs and exemption rates are still the most important issues.

[29] During that period, a special interpretation of the use of computer tools meant that DGA staff did not use the Total Information Management System (TIMS) to register exempt operations as they were “fiscally insignificant." Although this situation was later corrected, it has not been possible to populate the databases with the historical data. Nor was there time for this study with consolidated data for 2007.

imports of emergency aid to address the serious flooding from which the country suffered repeatedly during the period studied are also included.

Table 1. Mozambique: Customs Duty Exemptions by Category, Not Including Megaprojects, 2002

(in millions of meticais)

Category	CIF value of exempted imports	Exemption value	Average exempt rates
Not specified	93.3	3.6	4%
Emergencies	20.8	2.1	10%
Investments	522.1	25.9	5%
Customs schedule	90.0	24.3	27%
Political parties	10.3	2.4	23%
Deputies	8.7	2.6	30%
Diplomatic personnel	38.5	5.8	15%
Mining	0.5	0.03	5%
Oil prospecting	98.0	6.1	6%
Pipeline	0.5	0.03	5%
Companhia Agro-Industrial Lonrho Mocambique Lda. (Lomaco)	5.9	0.6	10%
Hydro-electric Cahora Bassa (HCB)	302.8	13.3	4%
Crown Agents	0.2	0.01	7%
United Nations	0.6	0.05	9%
International arrangements	5.8	1.6	28%
Special authorizations	1,164.7	84.3	7%
TOTAL	**2,362.6**	**172.6**	**7.3%**

Source: Customs Department.

Table 2. Mozambique: Customs Duty Exemptions by Category, Not Including Megaprojects, 2003

(in millions of meticais)

Category	CIF value of exempted imports	Exemption value	Average exempt rates
Not specified	121.2	11.1	9%
Emergencies	15.9	1.3	8%
Investments	534.3	30.4	6%
Customs schedule	146.1	13.5	9%
Political parties	10.2	2.3	22%
Deputies	7.4	1.8	25%
Diplomatic personnel	0.8	0.05	6%
Mining	198.9	31.1	16%
Oil prospecting	0.5	0.08	18%
Pipeline	149.4	8.8	6%
Lomaco	0.04	0.002	5%
HCB	339.0	23.4	7%
Crown Agents	94.7	2.4	3%
United Nations	2.6	0.4	17%
International arrangements	11.0	2.1	19%
Special authorizations	1,660.1	108.2	7%
TOTAL	**3,387.5**	**239.4**	**7.1%**

Source: Customs Department.

119. Tables 1 and 2, however, do not adequately represent exemptions as they do not include imports (or the relevant exemptions) for what is known in Mozambique as "megaprojects,"[30] which are duty free. Such imports have been particularly substantial since 1998. Table 3 shows total imports for the period 1993-2007, making the distinction between imports by megaprojects and others. The remaining items may include exempt imports such as those classified in Tables 1 and 2.

120. Although there is no breakdown in the exemption values for 2005 and 2006 such as those shown in Tables 1 and 2 for 2002 and 2003, it is interesting to note that the total value of exemptions—including megaprojects—registers a sharply increasing trend: from Mt 172.6 million in 2002, this value rose to Mt 239.4 million in 2003, to Mt 1,280 million in

[30] At the time of this study, the megaprojects were: Mozal, Areias Moma, Sasol, Areias Chibuto, MGC, CRVD, and Soma.

2005, and Mt 2,652 million in 2006. In other words, this value increased 1,500 percent in four years.[31]

Table 3. Mozambique: Megaproject and Other Imports, 1993–2006

Year	Imports			
	Megaprojects		Other	
	Millions of US$	Share of GDP	Millions of US$	Share of GDP
1993			830	37.4
1994			881	38.1
1995			727	29.8
1996			783	26.7
1997			760	21.6
1998	87.3	2.2	730	18.7
1999	514.6	11.2	685.2	15.0
2000	119.0	2.7	1,044.0	24.1
2001	231.0	5.6	832.0	20.2
2002	390.0	9.0	1,141.0	27.0
2003	337.0	7.0	1,403.0	29.6
2004	322.0	5.9	1,712.0	31.0
2005	423.0	6.9	2,044	30.7
2006	701.0	10.1	2.213	29.4
2007	688.0	8.64	2.404	30.19

Source: IMF Country Reports, various years.

121. The IMF has repeatedly expressed concern regarding the preference of the Mozambican authorities to adopt broad exemption policies. In general, to promote business through customs exemptions, the areas where promotion is beneficial to society as a whole, and not only to the investors involved, must be identified. Any errors that may occur in identifying such areas would be excessively costly to the taxpayers not selected. In addition, there is no mechanism to ensure that only involuntary, honest errors would be committed, thus leaving scope for rent-seeking activities, which is another disadvantage of such a broad exemption policy as Mozambique's (see also discussion in Section VII on income tax treatment of corporate earnings from enterprises with foreign capital benefiting from exemptions).

[31]The government of Mozambique undertook studies on the efficiency of tax incentives in attracting investments in the exploitation of mining and petroleum resources. Based on these studies, draft laws were proposed in 2006 that were approved the following year (Laws 11, 12, and 13 of 2007), and that changed tax incentives in mining and petroleum operations to create a framework to more effectively protect the interests of the government of Mozambique.

Customs duty policy

122. While the maximum customs duty rate was maintained at 35 percent, Decree 17 of June 19, 1991 reduced the number of customs duty rates from 12 to five. Many discretionary exemptions were eliminated several years later (40 percent of total imports were still exempt in 1992).[32]

123. The rates under Decree 17/91 were 5 percent, 10 percent, 15 percent, 25 percent, and 35 percent (the rate of 0 percent was eliminated), in line with the level of processing of the goods, with a clear protectionist stance. The uniform surcharge (general customs fee) was maintained for all imports at 7.5 percent until its reduction to 5 percent in 1994; it is now a fixed charge of US$50 per import (regardless of the value) applicable to imports exempt from duty and other taxes.

124. This decree was replaced on October 15, 1996 with Decree 42/96 that applied rates of 0 percent, 2.5 percent, 5 percent, 7.5 percent, and 35 percent. The rates apply to raw materials, intermediate inputs, and capital goods (0-7.5 percent) while the rate of 35 percent is maintained for final consumption goods.

125. The rates applicable to raw materials, intermediate inputs, and capital goods have remained in this range to date, while the rate applicable to final consumption goods was reduced to 30 percent under Decree 39/99 of 24 May and later to 25 percent by Decree 39/02 of December 26, 2002. This trend towards trade liberalization was confirmed with the reduction of the maximum rate to 20 percent beginning in 2007.

126. The average customs duty, weighted to reflect the share of taxes in each customs category, registered a declining trend throughout the period 1993-2006, is shown in Table 4. The declining trend in average customs duty is also explained by tariff reductions under the SADC commercial protocol phased in from 2000 for increasingly expanded lists of specific goods.

127. Despite the continuous reductions in the average weighted customs duty rate, customs duty revenue during the decade 1996-2006 oscillated within a relatively narrow band of 1.73-2 percent of GDP (See Table 2). These results can be attributed to a combination of at least two factors: (1) the increasing trend of imports not attributable to megaprojects as a share of GDP during the period 1997-2007 (see Table 3), encouraged precisely by the decrease in the average rate; and (2) improvements in customs administration beginning in 1997.

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[32]Goorman, A.et Al., 1, *op.cit.* page 44.

Table 4. Mozambique: Customs Duty, 1993–2006

(in percent)

Year	Average customs duty (weighted to reflect share in imports) All imports	Not including megaprojects
1993	9.31	9.31
1994	6.77	6.77
1995	9.40	9.40
1996	7.08	7.08
1997	8.57	8.57
1998	8.71	9.73
1999	6.68	11.67
2000	7.28	8.09
2001	6.78	8.66
2002	5.17	6.89
2003	5.46	6.76
2004	4.69	5.58
2005	4.76	5.83
2006	4.39	5.78
2007	4.26	5.61

Source: Tables 2 and 3.

128. The significant decline in the maximum rate during 1996-2007, from 35 percent to 20 percent, while maintaining the other rates constant, led to an effective protective structure for all import substitution sectors and consequently to an equally declining anti-export bias.

129. ***The customs duty policy reform therefore contributed positively to economic liberalization and therefore to the efficient allocation of economic resources. This reform was supplemented on a satisfactory basis with the customs administration reform, which made it possible to achieve the positive effects on economic liberalization and economic efficiency while maintaining approximately constant revenue.***

130. The absence of country-wide household expenditure surveys, or other statistical sources describing the composition of household expenditure by household income level, prevents examining the effects of the customs tariff reform on equity.

II. CUSTOMS ADMINISTRATION REFORM

131. This reform was based primarily on three pillars: (1) establishment of the Technical Unit for Customs Reorganization (UTRA); (2) hiring of the Crown Agents, a private enterprise, to manage and operate customs and implement the reform project; and (3) hiring of a specialized private enterprise to conduct preshipment inspections of goods (while preshipment inspection services (PSI) had existed in Mozambique since 1989, its impact on revenue collection and improved control was negligible during the first half of the 1990s.).

132. An IMF technical assistance mission[33] had already diagnosed serious deficiencies in 1993. Changes in the following areas were specifically recommended: (1) control of goods until customs clearance; (2) clearing procedures; (3) control of unfair practices in granting exemptions; (4) control of temporary import programs; (5) valuation of goods; (6) organization and control of human and physical resources and exchange of information with the domestic tax administration; and (7) modernization and compilation of disparate, confusing customs legislation.

133. While the authorities were in broad agreement with these recommendations—all of these issues were substantially addressed to varying degrees[34] in the reform that was subsequently implemented—for a number of reasons no action was taken until 1995. That year, an IMF technical assistance mission[35] suggested that, to effectively resolve the problems in the customs administration, a technical unit should be established and dedicated exclusively to the oversight of a comprehensive reform of the customs administration.

134. The Technical Unit for Customs Reorganization (UTRA) was established in 1996; during the same year, two international tenders were held. As a result, a new company was hired to provide PSI services under modern procedures that incorporated stringent controls than the prior contract; and the Crown Agents were contracted to manage and operate the customs services and to implement the reform project. These activities began in May 1997. This ambitious project was partially funded by the UK Department of Foreign International Development (DFID), which provided approximately £20 million for the project's initial three years. Crown Agents's contract continued until May 2005, although its involvement was gradually phased out from the fourth year of the contract, and the company took on a purely advisory role beginning in 2002.

[33] Goorman, A. et al.1, *Op. Cit*..

[34] There are lingering problems deriving from the limits of the computer systems in use and in certain obsolete procedures. In 2007, the customs authorities were still using a manual inspection system for statements, to reconcile the data from manifests with customs declarations. The general objective of streamlining and simplifying *ex ante* inspections using selection criteria based on risk analyses to reduce clearing time for goods has only been applied to a very limited extent.

[35] Castro, P.; Alexandre, M.; and Cunningham, B., *Op.Cit.*

135. In summary, as a result of very limited human and material resources, even with an accurate diagnostic of the situation (the IMF recommendations from 1993), it was not possible to introduce significant changes in customs operations until 1996-97.

136. The nearly halving of customs revenue as a share of GDP between 1993 and 1997, from 3.48 percent to 1.85 percent (see Table 2), including a one percentage point of GDP decline between 1993 and 1994, without any tariff or administrative reform and in the context of sharp economic growth following the peace agreements,[36] may have been partially attributable to this delay that exacerbated the already deteriorated conditions in customs operations in 1993.

137. Moreover, the decrease in imports as a percentage of GDP from more than 38 percent in 1994 to only 21.6 percent in 1997 (see Table 6) also contributed to this decline in revenue.

138. The improvement experienced in customs operations is demonstrated by the behavior of customs revenue during the decade 1996-2007, which oscillated within a relatively narrow band of 1.73-2 percent of GDP (see Table 2), despite the substantial reductions in the average weighted customs duty rate.

139. This improvement, however, has been somewhat hampered due to administrative problems with the implementation of the SADC Trade Protocol since 2000: the existence of lists of goods subject to different tariffs according to the country of origin raises the risk of slippage and fraud, introduces further complications in effective tariff classification control, and creates opportunities for corruption.

140. Despite the improved operating conditions at customs, there remains a broad scope for improvement in administrative efficiency, as indicated by the still substantial gap between potential and effective revenue, which exceeds the amount of exemptions granted.

141. A preliminary estimate (albeit sufficient at least for indicative purposes) of this revenue gap[37] for 2001, 2002, 2004, and 2005 yields the following results, expressed as a percentage of effective revenue[38]:

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[36] As a result of this quite sharp, inexplicable decline in customs revenue at a time of extreme requirement for social resources, the authorities made customs reform a top priority in 1995.

[37] Revenue gap, in the case of customs, refers to potential revenue not effectively collected and not explained by exemptions, and can be calculated as follows:

> Potential revenue = Total CIF value of all imports in each customs category, including megaprojects, times the respective duty rates

less

> Total exemptions, including megaprojects

(continued...)

- 2001: 29.6 percent;
- 2002: 29.6 percent;
- 2004: 35.0 percent;
- 2005: 38.9 percent.

142. The estimated customs revenue gap does not include the effect of smuggling. While the gap is calculated using data collected by customs, smuggling, by its own nature, does not involve any recording of information. An estimate of the impact of smuggling, however, can be made through the comparison of export values from other countries to Mozambique (recorded, for example, in the *Direction of Trade* statistics published by the IMF) with the value of Mozambique's imports as recorded by customs.[39]

143. Thus, if the difference in the value of Mozambique's imports according to these sources can be construed as an approximate quantification for smuggling, these statistics can be used to estimate the amount of revenue lost as a result of such activities. This forgone revenue can be estimated by applying a weighted average of the maximum customs duty rates to the estimated smuggling figures, under the assumption that the goods subject to these rates are inherently those most likely to be smuggled.

144. A preliminary estimate[40] (albeit sufficient at least for indicative purposes) of smuggling indicates that, in 2001 and 2002, this activity represented respectively 4 and 7 percent of the value of total imports. Forgone revenue as a result of smuggling is obtained by applying a tariff of 22.75 percent to the estimated amount of evasion, reflecting a representative average of the tariffs corresponding to smuggled goods. Forgone revenue

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less

Effective revenue

equals

Revenue gap.

[38]Schenone, O., *Op.Cit*.

[39]IMF Country Report 07/258 mentions, as an example of smuggling from neighboring countries, that the value of exports from South Africa to Mozambique in 2004 exceeded the value of imports recorded in Mozambique coming from South Africa by approximately 29 percent. During the same year, the value of exports from Tanzania to Mozambique exceeded the imports recorded in Mozambique by 37 percent (pp. 60/61). However, these figures should be used with caution, as the export statistics often reflect transactions that are not actually finalized, particularly in the presence of export incentive programs, such as the case of South Africa, or when there are insufficient controls applied to VAT reimbursements for exports. In such cases, the discrepancies may reflect not only smuggling into Mozambique, but also export fraud in the country of origin.

[40] Schenone, O.,*Op.Cit.*.

therefore represented, respectively in 2001 and 2002, approximately 12 percent and 17 percent of effective revenue.[41]

145. In summary, the combination of smuggling and the revenue gap reflect an estimated total customs revenue loss of approximately 50 percent of effective revenue for 2001 and 2002. These values should be compared with the estimates for 1993 which placed forgone revenue at approximately 75 percent of effective revenue.

Pre-release procedures

146. The number of Single Import Documents (DU) processed has been steadily increasing in recent years: In 2004, 201,814 import DUs and 8,540 export DUs were processed; In 2005, 256,031 and 10,180 import and export DUs were processed; and in 2006 these numbers increased to 269,633 and 12,843 respectively.[42]

147. Dealing with this increased workload, however, is impeded by the absence of a computerized system allowing the widespread use of electronic declaration by users. Accordingly, processing of the DUs is largely based on manual controls. The clearance process in fact involves a combination of manual and electronic procedures: all documents are submitted in hardcopy form, and are later entered into the electronic system, with the exception of a few documents that are still only entered manually (all road transit operations, for example, are entered manually).[43]

148. In addition to the role of the customs clearing agents (who are private companies or individuals) in the management of customs procedures, the clearance of goods involves many stages and customs staff who check and double-check each step of the process. As a result, there is no real self-assessment of customs duties.

149. All documents and declarations are revised manually before the appropriate tax is paid, and although the regulations theoretically contemplate this channel, there is in practice no "green lane" for automatic clearance without prior physical controls or manual documentary inspections. Thus, the same resources are invested in inspecting operations of frequent importers who are well-known and have a history of compliance, as are applied to operations of highly suspicious importers as indicated by generally-accepted risk criteria.

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[41] Unfortunately, for reasons already mentioned concerning the recording of customs operations in the IT system, these calculations could not be reproduced for the period 2003-2006. No figures for 2007were available at the time of this study.

[42]Data for 2007 were not available.

[43]At end-2007, new computerized procedures were introduced to control the entry of travelers into the country, through on-line registration of passenger data. Computerized registration of road transits was also introduced at the borders with South Africa.

150. In 1994, the various stages of the customs clearance process required an average of 25.6 days to complete. This declined substantially to 14.39 days in 2004 and to 11.26 days in 2006, placing Mozambique slightly above the regional average (with the exception of South Africa). However, this lag is still too high compared with international standards. Almost two thirds of this lag occur after duty is paid and before the goods are withdrawn from customs. This stage includes double-checking of the documentation and physical inspection (even though many containers at this stage of the process have already been scanned).[44]

Post-clearance controls

151. Post-clearance controls, including audit, which did not exist in 1994, are essential in a legal system such as Mozambique's, which allows ample exemptions, multiple customs schemes, and different tariff levels (depending on the type of goods and the areas of origin). The customs reform program included the establishment of an *ex post* inspection unit and external training for the staff assigned to such functions. Even in 2007, however, the number of staff assigned to such controls was quite limited, they lacked an adequate database to support their work, and interaction with other areas of the revenue administration was insufficient.

152. Controls were initially limited to the *ex post* manual review of the documents supporting each operation by a specialized team, although no actual audits were conducted based on visits to importers or reviews of their accounting records. Post-release field audits were only introduced in mid-2006 (with 10 audits completed that year). For 2007, 60 audits were programmed, 51 of which were begun during the first nine months of the year. No consolidated information on the outcome of these audits was available at the time of this study.

153. Since the analysis in these post-clearance audits focused on importer activities and features (specifically the regularity of their imports and the relationships between their imports and business), rather than on the physical goods in each individual transaction, work with the DGI in this area has been particularly beneficial, although there is scope for its further development in Mozambique.

154. It should be noted that positive results in this area are also due to the comprehensive and successful customs reform project implemented by the Crown Agents in the period 1997-2005, which was supported by a substantial grant by the DFID.

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[44] This lag is not the exclusive responsibility of the customs agency, as other agents, both public and private (customs house brokers, port operators, warehouse operators, and transportation agents), are involved in the process. There is, however, much scope for improvement in customs operations *per se*.

III. ADOPTION OF VALUE-ADDED TAX AND EXCISE TAX

155. While the sales tax (‘tax on the circulation of goods”) accounted for approximately 3 percent of GDP during the years prior to its replacement, the 17 percent VAT has generated between 4.4 and 5.6 percent of GDP since its adoption. Although this increase in revenue is quite significant, potential VAT revenue yet to be collected is also substantial, as indicated by the relatively low VAT productivity levels. This productivity varied in the range of 25.5-32.8 percent during each year the tax was effective, gradually increasing as shown in Table 5. Most countries in the region have higher VAT productivity rates, as shown in Table 6.

Table 5. Mozambique: VAT Productivity, 2000–2006

Year	2000	2001	2002	2003	2004	2005	2006	2007
Productivity	0.261	0.264	0.257	0.262	0.286	0.289	0.312	0.328

Source: Table 2.

Table 6. VAT Productivity in African Countries

Country	Year	VAT rate (in percent)	VAT revenue (as a share of GDP)	VAT productivity based on GDP
South Africa	2002	14.0	6.05	0.432
Botswana	2004	10.0	4.00	0.400
Ghana	2002	12.5	4.76	0.381
Namibia	2001	15.0	5.67	0.378
Kenya	2004	16.0	5.30	0.331
Mozambique	2006	17.0	5.31	0.312
Malawi	2001	17.5	5.19	0.297
Zambia	2005	17.5	5.04	0.288
Uganda	2004	17.0	4.00	0.235
Tanzania	2002	20.0	4.10	0.205
Unweighted average		15.7	4.87	0.321

Source: IMF, Country documents; *World Economic Outlook* (IMF); *African Tax Systems* (IBFD); *Corporate Taxes 2003-2004, Worldwide Summaries* (Price Waterhouse Coopers); and mission estimates.

156. These low productivity levels can be explained in part by the still high level of noncompliance with this tax. A preliminary estimate[45] (albeit sufficient for indicative purposes) shows that noncompliance (including evasion, avoidance, and delinquent

[45] Schenone, O., “Una metodología para la estimación de recaudación tributaria” (Fiscal Affairs Department, IMF, 2004).

payments), for 2001 and 2002, amounted to approximately 130-140 percent of effective revenue (it should be borne in mind that a 1993 estimate indicated a noncompliance level of 285 percent of revenue for the old sales tax). These numbers clearly indicate the difficulty involved in implementing the tax, and point to the progress that remains to be made in reducing noncompliance.

157. ***The authorities made the right decision when they postponed the adoption of the VAT to replace the sales tax was until the reform of customs administration was well under way. Since approximately 60 percent of VAT revenue is generated by imported goods and an even greater percentage of VAT revenue deductions derive from imported inputs, VAT implementation would have been seriously compromised if it had to operate with a customs service suffering from the serious deficiencies identified by the IMF in 1993.***[46]

158. Actual work on the VAT began in March 1997 and, two months later, the VAT Commission was established. This commission, proposed by the IMF in the 1995 VAT report, was responsible for adopting and designing the administrative steps, the timetable to be followed, and the development of the required legislation. The Commission was chaired by a representative from the Ministry of Planning and Finance and focused on the oversight of the execution of the action plan to be implemented under the responsibility of the VAT Unit, which had an initial staff of 14 persons.

159. A resident IMF advisor was appointed when the VAT Unit and Commission began to operate. In June 1998 the VAT Unit, which had grown to more that 30 staff, was superseded by the VAT Implementation Unit, organized along five functional lines corresponding to specific tasks to be carried out. Finally, in June 1999 and after 26 months (four months less than originally estimated in the Goorman report),[47] the new tax was successfully implemented. At the time, a total of 83 staff members had been selected and trained to manage the new tax.

160. The VAT and excise tax laws were promulgated in December 1998. A single VAT rate was adopted and a list of exempt sectors (agriculture, fishing, finance, education, health, and housing rental) was selected, while all other areas were automatically subject to VAT. The zero rate was limited to exports and to a number of selected goods (corn flour and wheat, rice, bread, powdered milk, tomatoes, animal feed, petroleum for lighting, jet fuel, bicycles, condoms, and mosquito nets). A preliminary estimate[48] (albeit sufficient at least for

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[46] Goorman *et. al.*, 1, *Op. Cit.*.

[47] Goorman, A.; J. Tavares, A. Correia; and G. Viana, "*Moçambique: Proposta de um Imposto sobre o Valor Acrescentado*" (Fiscal Affairs Department, IMF, August 1993).

[48] Schenone, O., *Op.Cit*.

indicative purposes) indicates that the fiscal cost of all exemptions for 2001 and 2002 amounted to approximately half of the revenue effectively collected.

161. VAT exemptions complicate the administration of the tax both for taxpayers and for the DGI. Taxpayers who sell exempt products and taxable products must allocate credits for VAT paid in connection with their purchases and with all sales, which complicates accounting. In addition, there is the temptation to claim all VAT credits, as if all purchases involved taxable products. This risk substantially complicates the DGI's audit and enforcement activities.[49]

162. In connection with the broadening of the tax base, the incorporation of registered taxpayers into the tax net shows a clearly positive trend—supported as well the by the good performance of the economy throughout the period. The taxpayers registry included in 1999, when the VAT was introduced, 18,854 entities subject to the tax, 8,142 of which were below the minimum annual amount of sales set as the threshold to be subject to VAT, and therefore exempt; 4,431 taxpayers qualified for the simplified scheme; and only 6,281 taxpayers were classified as belonging to the regular regime. One year later, the number of taxpayers had reached 23,871, 8,100 of which were subject to the regular regime. In mid-2007, there were 51,940 taxpayers (36,685 individuals and 15,255 enterprises), 21,181 of which were subject to the regular regime.

163. The excise tax (*Imposto sobre Consumos Específicos*—ICE) established under Decree 52/98 originally included rates of 20 percent, 35 percent, 50 percent, and 75 percent with a list of approximately 140 items. In 1999 (Decree 31/99), the rates were reduced to 15 percent, 30 percent, 40 percent, and 65 percent; the highest rates were applied to alcoholic beverages and tobacco, and the number of taxable goods was increased to188.

164. In 2002 (Decree 37/02), the rates were reduced again to 40 percent for alcoholic beverages; from 40 percent or 65 percent for vehicles (depending on the type of vehicle) to 30 percent; for sporting goods, motorcycles, and parlor games, to 15 percent; and for motor boats and firearms, to 40 percent and 30 percent, respectively.

165. The expansion of the list of goods subject to this tax indicates that its purpose went beyond discouraging sales of certain items considered harmful to health (tobacco and alcohol) or to the environment (vehicles), or considered luxury or unnecessary goods (planes, boats, luxury vehicles, etc.). The inclusion of flowers, sporting goods, musical instruments, and other similar products seems to be less justified and generates limited revenue.

[49] This situation was considered from the beginning by the authors of the legislation, which included the *pro rata* mechanism for deductions of VAT applicable to inputs.

166. IMF technical assistance[50] repeatedly indicated that an excessive number of goods were subject to this tax, while it recommended raising the taxes applicable to tobacco, alcoholic beverages, and beer, which account for the bulk of the revenue, to the original 1998 levels. During the last decade, ICE revenue remained stable within a band of 0.92-1.09 percent of GDP (See Table 2).

167. As already mentioned, household expenditure surveys or similar statistical sources that could describe the composition of household expenditure by household income level were not available for this study, thus making it impossible to examine the effects on equity of the adoption of the VAT and excise tax.

168. To some extent, however, the experience of countries that have the information required to study the effects on equity of adopting a VAT can offset the effects of this lack of information.

169. L. Ebrill *et. al*.[51] observe that the truly interesting factor in determining the equity of a tax is the ratio between how much the taxpayer (or group of taxpayers) pays in this connection and the consumption—not the income—of the group in question, as it is consumption rather than income that determines consumer well-being. These authors cite studies for Madagascar, Ivory Coast, Guinea, and Tanzania, that show that the proportion of VAT paid by the poor is lower than their respective share in total consumption. In other words, properly measured against consumption, the studies show that VAT is progressive.

170. In an IMF study in Uruguay,[52] it was found that 40 percent of households (in the two wealthier quintiles) represented 73.2 percent of consumer expenditure. Accordingly, this group would contribute 73 out of every 100 pesos of VAT revenue, while the remaining 60 percent of the population would contribute 27 pesos. In this example, the heaviest tax burden is borne by the rich households.

171. In a study for Chile,[53] it was found that VAT has such a negligible effect on income distribution that if the rate were increased from 18 to 25 percent, the Gini inequality coefficient would change from 0.4920 to 0.4963. Similarly, another study for Guatemala— a country whose socioeconomic indicators are closer to Mozambique than Uruguay or Chile— indicates that a VAT does not have a significant redistributive effect. The study by

[50] Varsano, R.et Al., *Op.Cit.*

[51] Ebrill, L.; M. Keen; J.P. Bodin; and V. Summers, *The Modern VAT*, (IMF, Washington, D.C., 2001), pp. 106-109.

[52] Seade, J.; E. Ley; D. Romera; and O. Schenone, "Uruguay: Reforma Tributaria" [Uruguay: Tax Reform] (Fiscal Affairs Department, IMF, December 2001), p. 49. The VAT rate in Uruguay is 23 percent.

[53] Engel, E.; A. Galetovic; and C. Raddatz, "Taxes and Income Distribution in Chile: Some Unpleasant Redistributive Arithmetic" *Journal of Development Economics* (Vol. 59, No. 1, June 1999), pp. 155-192.

S. Auguste and D. Artana found that the existence of VAT caused the Gini coefficient to change from 0.5627 to 0.5688.[54].

172. In conclusion, based on studies of other countries and allowing for the gaps between the examples cited above and the Mozambican economy, it can be argued that the introduction of the VAT had a positive effect in equity, as comparison with the situation extant when the old sales tax, with its distortionary effects and extremely narrow base, was in effect.

IV. Changes in GDP, investment, and the Index of Economic Freedom

173. The performance of GDP, investment, and the Index of Economic Freedom during the period 1994 to 2007 cannot be attributed solely to tax policy and administration reforms. Still, it is possible to ascertain whether these reforms may have had a beneficial role in contributing to the changes seen in these indicators, along with other developments that took place during the period.

174. The initial part of the period, up to 1997, was characterized by middling economic performance, a decline in investment from the equivalent of 28 percent of GDP to 18 percent (see Table 7), and a drop in imports as a proportion of GDP (see Table 3), while GDP itself grew an average of only 3.1 percent a year (see Table 8).

175. During this period, tax performance was perfectly synchronized with the rest of the economy: total revenue collected for each of the main taxes also fell (especially customs duties, which fell by nearly a half; see Table 2). Arguably, the tax reforms had not yet have any impact on revenue, since the UTRA was only set up in 1996 and the private company responsible for managing and operating the Customs Service only began operations in May 1997.

[54] Auguste, S. and D. Artana "Guatemala. Impacto Distributivo de la Reforma Fiscal 2004 y de Algunas Propuestas Recientes" [Guatemala. Distributive Impact of the 2004 Tax Reform and Some Recent Proposals], (Centro de Investigaciones Económicas Nacionales, August 2005), p. 44.

Table 7. Mozambique: Gross Public and Private Investment, 1995 to 2006

(as a percentage of GDP)

Year	Private investment	Public investment	Total investment
1995			28.0
1996			20.9
1997			18.3
1998	15.2	9.0	24.2
1999	25.1	11.6	36.7
2000	23.2	10.4	33.6
2001	10.5	15.4	25.9
2002	17.3	12.5	29.8
2003	14.2	11.7	25.9
2004	13.2	9.4	22.6
2005	13.2	8.2	21.4
2006	13.1	11.7	24.8
2007	13.2	11.7	24.9

Source: IMF, Country Reports, various years.

176. In 1997, the tariff-reduction policy began to have an impact, as the customs tariffs on raw materials, intermediate inputs, and machinery and equipment were halved (and in some cases reduced to zero). In subsequent years, the 35 percent tariff on consumer goods was reduced, reaching 20 percent in December 2006. In spite of these reductions, trade-related revenue remained largely constant. ***Thus, within the existing state of knowledge, it can be argued that the reform of the customs tariff policy made a positive contribution to opening up the economy, lowering effective levels of protection, and reducing the anti-export bias, thereby helping improve efficiency in resource allocation in the economy.***

Table 8. Mozambique: Real annual GDP growth, 1992 to 2006

(in percent)

	1992-1996	1996-2004	2005-2006	1992-2006
Total GDP	3.1	8.5	7.4	6.5
Agriculture and fisheries sector GDP	6.0	6.6		6.2[1]
Industrial sector GDP	5.6	22.6		16.4[1]
– Mining	–0.1	44.1		32.0[1]
– Manufacturing	1.4	17.2		11.0[1]
– Electric power and water	4.9	45.6		32.0[1]
– Construction	16.7	17.2		16.5[1]
Services sector GDP	3.5	5.8		5.3[1]
GDP from other sectors	6.0	8.8		7.7[1]

[1] Subject to revision when final 2006 data become available.
Source: IMF, Country Report 05/311, page 8, and Country Report 07/262, page 34.

177. ***Replacing the sales tax with the VAT eliminated the cascade effect, thereby giving rise to another important factor for increasing economic efficiency and thus helping to strengthen GDP performance from 2000 onward.***

178. From 1999 onwards the volume and value of imports experienced a sustained growth (regardless of whether or not megaprojects are counted) and, with the customs administration reform beginning to show an impact, customs revenues stabilized at around 1.8 percent of GDP. Total revenue collected as a percentage of GDP started on a growing trend which was maintained throughout the period under study. The main drivers of this trend have been the VAT, adopted in 1999, and the income tax, adopted in 2003.

179. The decline in investment was also reversed in 1998, with investment holding steady to date at about 25 percent of GDP on average. As can be seen in Table 8 , since 1996 GDP grew at more than double the rate recorded during the preparatory years of the reform (1994 to 1996) and the preceding years.

180. The period 1994 to 1996 shows a sharp increase in the Index of Economic Freedom[55] calculated by the Heritage Foundation, and in one of its components in particular, the Index of Fiscal Freedom.[56] Table 9 compares the overall Index of Economic Freedom scores and

[55] The Index of Economic Freedom is calculated as an average of 10 component indices: (1) ease of starting a business, (2) freedom from impediments to international trade, (3) fiscal freedom, (4) limitation on government expenditure, (5) low inflation with freedom to set prices, (6) freedom to invest and treatment of foreign investment, (7) freedom to carry out financial transactions, (8) protection of property rights, (9) freedom from corruption, and (10) labor freedom. Source: Heritage Foundation, <http://www.heritage.org/index/>.

[56] This component of the overall index takes into account the tax burden, the types of taxes levied, and the rates of such taxes.

the Index of Fiscal Freedom scores for Mozambique and other countries in Southeastern Africa, and shows that Mozambique is the country in which the two indices have seen the sharpest rise. Nevertheless, in 2006 Mozambique still ranked at the 101st place in the Index of Economic Freedom out of a total of 157 countries studied (and in 14th place out of the 40 countries in the region).

Table 9. Mozambique: Index of Economic Freedom for a group of Southeastern African countries, 1994 to 2006

	Overall Index of Economic Freedom scores							Index of Fiscal Freedom scores						
Year	SA	**Mo**	Sw	Ma	Za	Ug	Ta	SA	**Mo**	Sw	Ma	Za	Ug	Ta
1994	61.4	**43.1**	61.4	51.9	54.5	65.1	54.6	74.1	**73.6**	75.7	79.6	81.6	87.7	85.2
1995	60.9	**45.8**	56.6	53.5	59.0	68.4	54.8	75.7	**82.8**	75.7	82.2	82.1	87.5	85.0
1996	65.2	**40.8**	57.4	50.9	62.8	68.8	56.7	74.2	**78.7**	75.4	80.8	81.1	87.3	85.0
1997	63.5	**42.2**	62.4	51.4	61.0	70.0	57.0	74.2	**78.6**	74.6	80.6	81.5	87.3	85.0
1998	61.1	**48.2**	62.4	53.8	62.3	70.1	57.4	73.9	**78.7**	75.5	79.3	81.3	87.2	84.9
1999	61.3	**51.4**	63.0	66.5	62.4	60.3	56.9	73.7	**79.8**	75.4	86.2	81.3	82.0	85.0
2000	60.6	**55.7**	63.7	52.3	57.4	61.2	55.7	76.7	**88.4**	82.0	80.6	79.0	87.3	87.3
2001	62.8	**56.8**	60.2	54.1	57.7	58.8	57.7	76.8	**88.4**	81.8	82.0	83.9	87.2	87.3
2002	66.0	**58.1**	60.1	51.3	53.5	57.9	54.1	78.7	**88.3**	82.3	81.8	83.4	87.3	87.2
2003	65.0	**55.5**	78.5	52.0	51.9	61.6	57.3	79.7	**87.3**	87.1	79.6	83.5	87.2	87.3
2004	61.5	**54.6**	58.0	53.4	54.5	61.4	54.0	79.8	**87.3**	82.9	79.1	79.1	87.2	87.2
2005	66.3	**55.1**	62.2	57.9	59.1	64.9	59.3	79.8	**85.4**	82.7	80.3	80.4	87.1	87.1
2006	64.1	**56.6**	61.6	55.5	57.9	63.4	56.4	79.8	**85.5**	81.5	80.6	80.4	87.1	87.1

Key: SA – South Africa; Mo – Mozambique; Sw – Swaziland; Ma – Malawi; Za – Zambia; Ug – Uganda; Ta – Tanzania

181. ***From 1994 to 2006, Mozambique went from having the lowest Index of Fiscal Freedom in this group of countries to having the third-highest, after Uganda and Tanzania.***

182. Although average customs duties were significantly lowered (see Table 4), the Index of International Trade Freedom was lower in 2006 than in 1994, after a slight growth in 1998-2000 (see Table 10). Regulatory and bureaucratic impediments to international trade in Mozambique have been repeatedly cited as the main reasons for this negative trend in the country's international trade liberalization. These impediments, of course, are not the sole responsibility of customs, since a number of governmental agencies intervene in trade.

Table 10. Mozambique: Index of International Trade Freedom for a Group of Southeastern African countries, 1994 to 2006

	Index of International Trade Freedom scores						
Year	SA	**Mo**	Sw	Ma	Za	Ug	Ta
1994	58.0	**70.0**	53.0	59.0	76.2	52.8	48.8
1995	51.4	**70.0**	53.0	59.0	76.2	52.8	48.8
1996	50.0	**68.6**	41.6	44.8	89.0	52.2	62.8
1997	56.0	**46.0**	76.0	49.6	64.1	40.0	62.8
1998	56.0	**78.0**	76.0	53.0	68.0	40.0	62.8
1999	56.0	**78.0**	76.0	57.0	64.1	40.0	52.6
2000	56.0	**80.0**	76.0	59.8	64.5	67.2	60.0
2001	56.0	**72.4**	76.0	60.0	62.6	67.2	61.0
2002	63.0	**65.2**	83.0	57.0	53.8	67.8	51.6
2003	57.2	**52.4**	57.2	63.6	53.8	66.2	51.0
2004	72.8	**61.2**	72.8	55.0	63.2	66.4	49.2
2005	92.8	**60.2**	72.8	59.6	61.2	69.0	63.6
2006	68.8	**60.2**	59.0	59.6	60.8	58.8	63.6

Key: SA – South Africa; Mo – Mozambique; Sw – Swaziland; Ma – Malawi; Za – Zambia; Ug – Uganda; Ta – Tanzania
Source: Heritage Foundation, "Index of Economic Freedom," <http://www.heritage.org/index/>.

183. Using the latest comparable information available, according to the World Bank,[57] in 2008 Mozambique ranked 140 out of a total of 181 countries listed by order of increasing "cost of engaging in international trade." On this list, South Africa is ranked 147th, due to increasing congestion in ports because of overly bureaucratic procedures and delays in infrastructure upgrades. Tanzania ranked 103th and Mauritius ranked 21st.

184. Of the 10 component indices making up the overall Index of Economic Freedom, the Index of International Trade Freedom was the only one that declined between 1994 and 2006. To reverse this trend, in 2007 the IMF suggested that Mozambique's trade-policy priority should be to develop a favorable business climate by reducing the burden of international trade regulations, particularly for small and medium-sized enterprises.[58]

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[57] World Bank, *Doing Business* report, Washington, D.C., 2009.

[58] IMF, Country Report 07/258, page 64.

V. Establishment of the Domestic Tax Reform Unit (URTI), and Reform of Domestic Tax Administration

185. The process of adopting the VAT, with technical assistance from the IMF, had an unheralded impact on the administration of domestic taxes: it introduced the concept of "self-assessment" in Mozambique (whereby the taxpayer declares his tax obligation and pays it, and the tax administration verifies it after the fact); it established an efficient system for the regular processing of tax returns; and it provided a provisional taxpayer registration number, which was the precursor to the current Single Taxpayer Identification Number (NUIT) which was adopted in its present form in 2002 pursuant to Law 15/02.

186. However, except for the establishment of the VAT unit within the National Tax and Audit Directorate (DNIA), the organizational structure and core procedures of the tax administration remained virtually unchanged. The reform of domestic tax administration was formally launched with the establishment in 2001 of the Domestic Tax Reform Unit (URTI). The subsequent establishment of the Directorate-General of Domestic Taxation (DGI) in 2005 consolidated a series of initiatives by the URTI in the tax administration area, and resulted in a modern organizational structure conceived along lines of functional specialization. The URTI was also instrumental in defining and developing basic IT systems tailored to the new taxes.[59]

187. At present, tax offices are concerned primarily with receiving returns and payments. Most returns are filed manually (the declaration of withholding of personal income tax (IRPS) from an employee's salary at the source is the only one that can be filed electronically). As a rule, data are entered into the system and an initial check is made in the taxpayer's presence at the time the return is filed. Tax offices do not have staff specifically assigned to assist taxpayers; in practice, the same staff who receive returns are the people who answer any questions taxpayers might have or deal with telephone enquiries.

188. This means that self-assessment is not being applied effectively or in a generalized fashion. Full implementation would mean that returns are received without data being entered and an initial check being made at the same time, in the taxpayer's presence. Only after the fact should data be entered and information be checked.

189. In line with FAD's recommendations, and in the context of setting up the AT, resources should be redirected from these unproductive tasks to provide increased assistance

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[59] Nevertheless, these new IT systems (referred to as the Internal Collection and Receipts System (SICR)) were designed as transitional tools to be used only until a comprehensive IT systems strategy could be implemented under which modern, integrated management systems would be put in place. Because of a lack of resources, however, the transitional systems are still in service today, resulting in data management limitations as described in the text.

to enable taxpayers to fulfill their obligations in filing returns. In 2007, there was only one unit created to provide taxpayer assistance, in Maputo (there were no such units in Beira or Nampula), and it had only three staff members and two telephone lines.[60]

190. Although data from tax returns are entered in the IT system, the data are then used manually (for example, to follow up on late filers or non-filers). This is due both to technical limitations in the systems themselves, and to the design of the operational procedures in use. Thus the IT system provides very limited support to the core functions in tax administration.

191. Since 2001, technical assistance experts from the IMF have been recommending that the banking system be used for receiving payments,[61] but to date no significant process has been made in this regard. Although the banking system has progressed during the interim from its infancy to being a reasonably robust system, in 2007 taxpayers were still making their payments in tax offices by means of a manual procedure bringing with it a variety of practical problems, particularly in regard to payments by check, as well as the security problems inherent in the handling of cash.

192. In short, despite the significant progress made during the period under study, the tax administration has not been able to keep pace with the sweeping changes in tax policy, and remains short of its goal of becoming a modern and efficient tax administration. It is still only halfway along in its evolution from an organization that merely receives returns and payments into an organization that puts the highest priority on monitoring compliance and providing services to taxpayers.

Taxpayer registry

193. The taxpayer registry is the centerpiece of the control process, and if it is to be used in the best way possible it requires regular, systematic procedures for updating and culling information. There are seven types of tax returns for which taxpayers need to be included in the Registry and have an NUIT assigned. When work began on instituting reforms, there was no NUIT and there was no reliable taxpayer registry: registration was not unified, and those registers that did exist were for only one type of tax each, and were kept and updated manually.

194. As described earlier in the section on the VAT, a key aspect of the reform was the establishment of the NUIT and the consolidation of different taxpayer registers into a single centralized taxpayer registry, the RUC. Subsystems were developed in the SICR in 2004 and 2005 to maintain and administer the RUC, and they are operating with a reasonable degree of reliability. Nevertheless, the SICR's limitations in regard to subsystems for administering the

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[60] The next phase of the reform program calls for resources to be allocated for this purpose by 2010.

[61] I. Coelho, et Al., *Op.Cit.*

different taxes are having a negative impact on the quality of the RUC because they hamper efficient updating and culling of information.

195. A significant gap now exists between the number of taxpayers registered (391,719 as of December 2006) and the number of returns processed, although it has not been possible to quantify the gap. It is not always possible to distinguish between inactive taxpayers (who should be deleted from the system) and nonfilers. There are instances where the system has identified as nonfilers taxpayers that have not really failed to file a return but rather that have had no commercial activity (such as churches) or have engaged in activities that are exempt. The same problem arises when a taxpayer moves from a district served by one tax office to a district served by a different tax office, and is recorded by the first tax office as a nonfiler despite meeting all obligations with the second tax office.[62]

196. The proliferation of registered persons who subsequently turn out not to be active taxpayers may have an impact on administrative processes. There is a need to do a careful evaluation of the advantages and disadvantages of extending the use of the NUIT to all transactions having tax implications, given that the IT system is unable to deal reliably with such a large volume of information.

197. At present, the register does not identify IRPS taxpayers who engage in business-related or professional activities for the purpose of distinguishing them from IRPS taxpayers for whom salaries are the only source of income, even though to do so would make it possible to include information in the system that would be useful for preventive checks on such taxpayers, such as the number and frequency of tax obligations, historical compliance data, risk profiles, and expected compliance projections.

198. Under the current rules, taxpayers are not permitted to file returns or make payments at a tax office other than the one where they are registered. Although the overall aim of the revenue administration is supposed to be to promote voluntary compliance, this restriction represents an important obstacle.

Large Taxpayer Units

199. Another of the recommendations by IMF technical assistance experts was the establishment of Large Taxpayer Units (UGCs) to deal in consolidated way with the needs of

[62] The regulations provide specifically for situations of this kind. However, even though the SICR provided national coverage when it went into operation, from the IT point of view it operated in a decentralized fashion and had no efficient way to update the unified national taxpayer database. Implementation of an upgraded version of the SICR began in 2007: although its operation remains decentralized, its architecture uses a centralized database. This has helped to strengthen RUC controls.

the largest taxpayers, who are responsible for about half of total tax revenue. This was done through the creation of units in Maputo in 2002, in Beira in 2003, and in Nampula in 2004.

200. The criterion used to determine whether a taxpayer falls within the UGC category is business turnover. One question that needs to be addressed, however, is that of the UGCs' geographical coverage. Can a company operating in Maputo, Beira, and Nampula divide up its business activities so as not to fall under the jurisdiction of any of the three UGCs? To ensure that cannot happen, consideration should be given to having a single nationwide UGC, and limiting the activities of individual unit offices to the receiving of returns and payments and the provision of information and assistance to taxpayers.[63]

201. As of mid-2007, the UGC in Maputo had 353 taxpayers registered (32 individuals and 321 companies), although its staffing level was inadequate, with only 18 people, while the UGC in Beira had 167 taxpayers registered (27 individuals and 140 companies) and the UGC in Nampula had 110 registered (31 individuals and 79 companies).

202. The total number of taxpayers registered in 2006 was 391,708, of which 601 were large taxpayers. Although large taxpayers accounted for only 0.15 percent of the total number registered (leaving the rest accounting for 99.85 percent), the revenues collected from them in respect of customs duties, IRPC, and VAT represented 45 percent of the total in 2006 (and 51 percent in 2007).[64] More than 90 percent of total tax revenues collected by the UGCs are collected by the UGC in Maputo; in 2006, the volume collected by the UGCs in Beira and Nampula was practically negligible.

203. The UGCs' main function is to ensure that the taxpayers registered with them are on time in making payments by issuing precautionary reminders, and if a payment is late to request that the delinquent taxpayer be audited. The UGCs perform virtually no audit functions, except for verifying the accounting information contained in returns and checking the accuracy of VAT invoices. When any matter needs to be looked into more closely, the UGCs forward the file to the Audit Directorate to request that the corresponding audit be undertaken. In accordance with the IMF's recommendations and usual practice in this area, the UGCs should be responsible for all the core functions of tax administration, and in

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[63] In fact, the criterion for classifying a taxpayer as a "large taxpayer" has never been defined formally, or spelled out in the documents setting up the UGCs. Recent IMF missions have done studies in this area and recommended that the concept of the UGCs be revised, that each UGC have its own territorial jurisdiction, and that specific criteria be adopted to define a "large taxpayer." See, in this regard, *Moçambique: Análisis da Capacidade Operacional da Autoridade Tributária de Moçambique* [*Mozambique: Analysis of the Operational Capacity of the Mozambican Tax Authority*] by Raúl Junquera-Varela *et al.* (January 2008, pages 49 *et seq.*)

[64] These percentages are considered low in comparison with international standards, which as a rule are around 70 percent or 80 percent. The IMF's recommendations, which the authorities have included in the AT strategic plan, called for the UGCs' coverage to be expanded to about 70 percent of total tax revenues by 2011.

particular should have the power to conduct external audits and pursue enforced collections, beginning with the UGC in Maputo.

204. Because the UGCs have only been set up relatively recently, and owing to the limitations of the IT systems, it has not been possible to obtain data with which to assess the UGCs' performance. The performance indicators which ideally should be looked at are (a) changes in the number of large taxpayers that are delinquent since the UGCs were set up and (b) changes in the number of audits conducted since the UGCs were set up, in comparison with the number of audits that were conducted previously.

Audit

205. At the beginning of the reform process, one of the weakest areas was the audit function. Not only was there no clear strategy for this essential function, but the number of staff assigned to this area was minuscule (fewer than 20 people). When the VAT was implemented, a major effort was made to recruit and train about 50 new auditors. The total number of auditors has declined since its peak in 2001, as a result of the expansion in the private sector opening up new employment opportunities for well-trained specialists and the broadening gap between DGI salaries and those paid by the private sector.

206. Although the DGI has not been able to retain a number of inspectors or to replace all the inspectors who have left, at least there is now a directorate in place responsible for the audit function at the national level, and which prepares and carries out annual plans. The yearly reports prepared by the National Tax and Audit Directorate (DNIA) and subsequently by the Directorate-General of Taxation (DGI), under the title "*Execução da Política Fiscal*" ["Implementation of fiscal policy"] began providing information on the results of inspections only from 2000.

207. Table 11 shows the results of inspections carried out in 2005 and 2006, which are the first two years for which disaggregated information is available. The amounts collected in 2006 totaled 140 million meticais, and adding to that figure the amounts collected up to October 2007 gives 205 million meticais.

208. Owing to the limitations of the systems used to oversee the work of DGI auditors, it is not possible to determine the years in which the audits took place to which these amounts correspond; in other words, it cannot be determined whether the total of 205 million meticais includes taxes collected as a result of audits conducted before 2006. But even if this total is derived from audits conducted in 2006 alone, that would mean that taxes collected as a result of audits would account for only 0.88 percent of the total tax revenues collected in 2006. This percentage is substantially lower than the standard figure for most modern tax administrations (where the percentage is typically 2 percent to 3 percent of total tax revenues), and shows that there is still significant ground to be made up to meet international standards in terms of effectiveness of the audit function.

Table 11. Mozambique: Results of inspections, 2005 and 2006

(in millions of meticais, and as a percentage of total revenues collected for each tax)

Year	Undeclared tax base		Tax assessed	Tax paid	
	Millions of meticais		Millions of meticais	Millions of meticais	Percentage of revenues
2005	Industrial contribution	126.7			
	VAT: Undeclared sales	640.6	106.9		
	VAT: Improper deductions	271.2	46.1		
	IRPC	591.2			
	IRT "A" and IRPS	97.8	25.4		
2006	Stamp tax		12.5	12.5	0.053
	VAT: Undeclared sales	2,179.0	352.8	All VAT 41.9	0.179
	VAT: Improper deductions	901.2	153.2		
	IRPC	834.5	129.5	80.3	0.343
	IRPS	23.9	6.2	0.4	0.002
	Fuel tax		5.3	5.3	0.023

Source: "Execução da Política Fiscal" ["Implementation of fiscal policy"], various years.

209. Despite the fact that a considerable amount of specific technical assistance has been received from the IMF since 2005, this area still suffers from significant operational limitations. The low staffing levels already mentioned become an obstacle for the timely execution of the audit plan. In addition to the lack of IT support for managing the audit function (the SICR was never upgraded with the modules designed for this purpose, owing to budget restrictions), the ability to use systematic criteria for selecting taxpayers on the basis of risk assessment has not been adequately applied. The lack of resources also means that proper use cannot be made of external sources of information which would allow cross-checking, and this adversely affects the auditors' productivity as they must go about their work without having reasonably up-to-date tools at their disposal.

Enforced collection

210. At the time the reform program got under way, no systematic enforced collection procedures were in place, nor were statistics kept for this area. Quantitative information on revenue collection and outstanding debt only started to be compiled from 2005, after the establishment of the DGI. Consequently, it is impossible to analyze changes in the amounts outstanding over the entire period under study.

211. At the beginning of 2006, total taxes outstanding stood at 1,128 million meticais, comprising 229,916 cases. By the middle of 2007, the number of cases had declined to 210,525, while taxes outstanding had risen to 1,707 million meticais. Taking the ratio of

taxes outstanding to total domestic tax revenues as an indicator, this figure rose from 6.8 percent at the beginning of 2006 to 10.4 percent by the middle of 2007.

212. Although a situation in which taxes outstanding and hence subject to enforced collection amount to approximately 10 percent of total tax revenues is not necessarily cause for concern in an economy that is experiencing strong growth and undergoing a gradual consolidation into formal structures, this increase needs to be analyzed closely given that it indicates the likelihood of a problem which might need to be addressed.

213. According to government information, taxes outstanding are classified as debt less than one year old or debt more than one year old. The usual practice in other tax administrations is to use three classifications: debt more than one year old; debt between one and three years old; and debt more than three years old. Adopting this practice would make it easier to identify debt which is more likely to be collectible.

214. Another novel element of the reform was the replacement of legislation concerned with court procedures involving tax cases, as legislation from the colonial period was still in force. In addition, customs courts were established in 2002 and tax courts in 2004. The process of transferring cases from courts of administrative law to the new tax courts is still under way since the new courts are not yet operational (see below). In the interim, while this transition goes ahead, the number of cases resolved by traditional means is a matter of concern: at the beginning of 2006 there were 5,022 cases pending, and during 2006 6,612 new cases were filed while only 2,985 cases saw collections made. This accumulation of disputed outstanding taxes is another concern that requires attention from the authorities.

215. There is inadequate coordination between the areas of audit and enforced collection. This means that, if the first area detects a risk that assets might be transferred to third parties or removed, there is no mechanism to ensure that the second area will quickly take the corresponding precautionary measures established under the law.

216. Although the Organic Law on Tax Courts was approved in January 2004, these courts are not scheduled to begin operation until early 2008 owing to budget limitations and, above all, a lack of trained judges. A new Tax Procedures Code has been developed to systematize a broad array of different rules and regulations and to incorporate modern techniques. Although the draft Tax Procedures Code was completed in 2007, by mid-2008 it was still awaiting legislative approval.

217. The relatively weak results of the audit and enforced collection functions are of greater concern in light of the difference between potential and actual tax revenues in the country. It was the extremely high levels of noncompliance that led the authorities in 1994-95 to adopt the reform strategy whose implementation has been under way since 1997 and whose results are the object of this study. Two relatively recent studies—although based on data from 2001 and 2002, which was before the full impact of the reforms was felt—indicate that a great deal of attention needs to be paid to this issue.

218. One of the studies, which looked at the four most important taxes in Mozambique—the VAT, the IRPC, the IRPS, and customs duties—concluded that the total amounts actually collected of these taxes represented only 50.1 percent of potential tax proceeds in 2001 and 50.7 percent of potential tax proceeds in 2002 respectively.[65] The other study, also by the IMF's Fiscal Affairs Department,[66] used a methodology that looked at all taxes as a whole and estimated the difference between actual collection and potential collection for 23 African countries. It found that in Mozambique actual collection of all taxes amounted to 49.5 percent of potential collection in 2001, and 50.6 percent of potential collection in 2002. These findings are presented in Table 12.

Table 12. Mozambique: Ratio of Actual Collection to Potential Collection in Southeastern African Countries

Country	Year	Actual collection as a percentage of GDP	Potential collection as a percentage of GDP	Actual collection as a percentage of potential collection
South Africa	2001	24.6	28.2	86.9
Swaziland	2000	26.7	30.7	86.8
Malawi	1990	17.4	20.8	84.1
Tanzania	2004	12.4	17.2	72.1
Mozambique (est.)	***2007***	***14.4***	***21.8***	***66.0***
Rwanda	1992	8.5	13.0	65.4
Mauritius	2001	15.3	25.4	60.0
Mozambique	**2002**	**11.0**	**21.8**	**50.6**
Uganda	2001	10.6	20.9	50.5

Source: R. Varsano *et al.*, page 24. Preliminary figures for 2007 prepared for this study

219. As the table shows, Mozambique and Uganda had, at that time, the lowest ratios of actual collection to potential collection of all Southeastern African countries. Even considering the increase in actual collection that took place from 2002 to 2007, from the equivalent of just under 11 percent of GDP to 14.4 percent of GDP, and assuming that potential collection remained constant during that time,[67] the ratio of actual collection to potential collection ought to have reached 66 percent, a better result but one that still places Mozambique in the bottom half of the countries listed in the table.

220. A percentage of 78 percent, which would be roughly comparable to the figure for other countries in the Southern African Development Community (SADC), would mean that actual collection would be equivalent to 17 percent of GDP and would be in line with the medium-term objectives established by the Mozambican authorities for 2012. This gap shows

[65] O. Schenone, *op. cit.*, page 26.

[66] R. Varsano et Al., *Op.Cit.*

[67] For a description of a methodology used to estimate potential collection, see Appendix I to the report "Tanzania: Tax policy issues and reforms" by R. Varsano *et al.*, October 2006.

the major work that still needs to be accomplished to reduce noncompliance, requiring a sustained effort in the areas of audit and enforced collection.

Tax refunds

221. Prior to the introduction of the VAT, there was no provision for tax refunds for exports. The authorities decided to adopt new modern procedures for refunding the new taxes, in line with the most advanced legislative and administrative techniques, while being aware of the additional effort this represented for tax administrations possessing relatively limited institutional capacity. In the case of the VAT, the statutory time-frame set for responding to refund requests, initially put at 90 days, now stands at 30 days (a shorter period than normally stipulated in more advanced tax administrations); in practice, however, requests take much longer to fulfill, typically between 90 and 120 days.[68]

222. Plans call for a Special Exporters Register to be established in coordination with the customs service, to facilitate the assessment of VAT refund requests, but this is still pending. This register would be used to identify regular exporters and streamline the refunds process, while providing for selective audit of requests from taxpayers considered to present higher risk, as in the case of a taxpayer applying for an unusually large refund, or a newly established company.

223. Table 13 shows that during the years 2002 to 2006, in the case of the VAT, between 30 percent and 40 percent of the refunds requested were left outstanding. For the IRPS and the IRPC, no data are available until 2005, which was the year in which credits for 2004 (the first full year in which the new taxes were applied) began to take effect.

[68] When the VAT was established, the statutory time-frame was 180 days. That was reduced first to 120 days, and then to the present 30 days in response to complaints by the private sector, claiming that budgetary reasons were the cause of unjustified delays. However, this time-frame is subject to the taxpayer presenting complete documentation in a timely fashion: this requirement is rarely met, and so the processing of the refund is interrupted so that the taxpayer can submit additional documentation at the request of the tax administration.

Table 13. Mozambique: Tax refunds, 2001 to 2006

(in millions of meticais, and as a percentage of the amount applied for)

Year	Tax	New and from previous years		Paid		Denied		Pending		
		Number of requests	Amount	Number of requests	Amount	Number of requests	Amount	Number of requests	Amount	% of amount requested
2001	IRPS									
	IRPC									
	Standard VAT	343	295.80	237	200.30	32	16.50	53	21.30	7.20
	Diplomatic VAT	269	18.00	138	9.20	11	0.60	9	1.30	7.22
2002	IRPS									
	IRPC									
	Standard VAT	344	328.40	303	216.40	49	31.80	101	101.2	30.82
	Diplomatic VAT	286	22.20	435	22.90	6	0	19	0.50	2.25
2003	IRPS									
	IRPC									
	Standard VAT	308	480.40	228	184.20	47	34.50			
	Diplomatic VAT	301	55.10	267	36.90	4	4.90			
2004	IRPS									
	IRPC									
	Standard VAT	660	1,656.67	368	885.51	194	116.43	98	633.91	38.26
	Diplomatic VAT	622	108.29	335	10.87	257	67.47	30	21.78	20.11
2005	IRPS									
	IRPC									
	Standard VAT	521	1,225.37	336	607.02	70	134.45	115	366.53	29.91
	Diplomatic VAT	408	51.55	356	17.61	22	8.02	29	25.04	48.57
2006	IRPS	3,166	22.04	547	6.54	48	0.95	2,571	15.85	71.91
	IRPC	50	48.78	4	4.41	10	3.80	37	50.24	
	Standard VAT	493	1,094.12	286	387.08	49	57.84	221	549.20	59.33
	Diplomatic VAT	456	82.16	385	19.72	36	7.13	47	55.29	67.30

Source: “Execução da Política Fiscal” [“Implementation of fiscal policy”], various years.

224. In the case of the IRPS, refunds were first paid for 2005. In 2006, 2,571 refund requests remained pending out of a total of 3,166 requests submitted. It has not been possible to break down the total number on the basis of the reasons why requests remain outstanding, so it is impossible to determine whether this high percentage is simply due to the procedures being new and unfamiliar, both for taxpayers and for the DGI, with the result that refund requests contain numerous formal errors, or whether there are other reasons.

225. In the case of the IRPC, the number of refund requests submitted was unusually small (only 40), perhaps because all requests are subject to audit procedures. Something similar happened in 2006, when only 50 requests were submitted; of these, 37 are still pending, following the same pattern as for the IRPS.

226. Table 14 provides comparative figures for VAT refund performance in Mozambique and for a number of other countries included in a recent IMF study.

Table 14. Mozambique: VAT Refunds for Different Regions and Countries

(as a percentage of gross VAT receipts)

Country or region	Average, 1998 to 2001	Average, 2001 to 2006
Canada	50.3	
European Union	38.1	
Eastern Europe	36.8	
New Zealand	35.5	
Countries of the former USSR	29.6	
Latin America	17.4	
Middle East	16.2	
Mozambique	**—**	**6.8**
Asia (except Singapore)	6.0	
Africa (except South Africa)		

Source: G. Harrison, and R. Krelove, "VAT refunds: A review of country experience," IMF Working Paper, 2005.

VI. Law 15/02. Organizational basis of the tax system

227. Law 15/02 established the organizational basis of Mozambique's tax system, bringing together and ordering different taxes scattered among different pieces of legislation. In identifying the various domestic taxes applicable in the country, Law 15/02 created a new income tax regime, with one income tax for individuals (the IRPS) and another for companies (the IRPC). The law also unified under a single overarching code other taxes that already existed under other legislation, such as the VAT and the excises tax or ICE.

228. Law 15/02 outlined the general principles of Mozambican taxation; it made explicit the legislature's intent that indirect taxation should not have a cascade effect, but should consist of the VAT, the ICE, and customs duties; and it established that direct taxation should not consist of schedular taxes but rather of global taxes as provided in the IRPS code.

229. In addition, the Single Taxpayer Identification Number (NUIT), already in use prior to Law 15/02, was given a legal basis under this law, which included a provision on its mandatory use for all taxes, including customs duties. As of mid-2007, more than half a million NUITs had been issued, 460,300 to IRPS taxpayers in Category 1, 36,676 to IRPS taxpayers in other categories, and 15,254 to companies.

230. Law 15/02 also defines the guarantees and obligations of both taxpayers and the tax administration, establishes basic procedures for payment and collection of taxes (including a provision that outstanding tax debts are extinguished after 15 years), requires the tax

administration to establish specific regulations for the performance of the audit function, and institutes the regime for tax offenses.

231. The definition of tax offenses, whether constituting criminal intent or negligence, the establishment of the corresponding penalties, and the extinguishing of responsibility for offenses are all areas for which no legislation was in place (or was scattered throughout the body of law from the colonial era and virtually unknown). Bringing them together in a modern piece of legislation was an important contribution of Law 15/02.

232. Administrative procedures relating to taxation were likewise scattered among a wide range of documents of varying degrees of legal authority (directives, decrees, and laws). Here, too, Law 15/02 established a unified legal foundation for these procedures. In regard to inspection and audit procedures, the law establishes that the competent entities may access taxpayers' premises, examine their accounting records, and access their computer systems. The law also sets out the obligations of the tax administration vis-à-vis the taxpayers and provides for the confidentiality of these procedures.

VII. Income tax reform

233. Before the 2003 reform, taxes on income were collected through three components: the industrial contribution; the employment income tax; and the supplementary tax.

234. The industrial contribution was levied on a business's earnings, at different rates according to the nature of the business. Large and medium-sized companies with comprehensive accounting systems were subject to a 35-percent levy except for agricultural firms, for which the levy was 10 percent, and nonresident companies receiving income from certain sources specified by law, for which the levy was 15 percent. Craft-workers and other small-scale producers were subject to tax rates established by each provincial government for each area of business activity in which they were engaged.

235. The employment income tax also classified taxpayers into different categories. A salaried worker in an employee-employer relationship was subject to progressive tax rates of 10 percent, 15 percent, and 20 percent, except for civil servants, who were exempt. Self-employed workers were subject to progressive rates of 15 percent and 20 percent. Nonresidents were subject to a single rate of 20 percent. And lastly, cooperatives and individual farmers and fishermen were subject to rates ranging from 1 percent to 30 percent.

236. The supplementary tax was levied on income earned on capital, with progressive rates of 5 percent to 40 percent. This tax yielded a very small volume of revenue for the government because interest earnings paid on public-debt securities or on deposits with lending institutions, or capital gains on shares traded on the Mozambican Stock Exchange, were exempt.

237. An IMF mission[69] in 2001 recommended that these three taxes be combined into a single income tax with a series of features very similar to those finally adopted in 2003.[70]

238. Today, corporate income tax (the IRPC) is levied on the earnings of all companies at a rate of 32 percent, or 10 percent in the case of agricultural enterprises, while personal income tax (the IRPS) is levied on the income of all individuals, including civil servants, craft-workers, self-employed workers, and one-person businesses, at progressive rates of 10 percent, 15 percent, 20 percent, 25 percent, and 32 percent.

239. The revenue-producing capability of the new income tax is clearly superior to that of the tax it replaced. Whereas the old tax yielded revenues equivalent to less than 2 percent of GDP, in 2007 the new income tax yielded revenues equivalent to 4.47 percent of GDP (see Table 2).

240. The IRPC is consistent with the standard rules of corporate income tax worldwide, and consequently—unlike the old industrial contribution—it is helping to improve the business climate and is not an impediment to opening up the economy to international capital flows.

241. Nevertheless, the IRPC's contribution to tax neutrality and hence to economic efficiency is severely limited by the legislation on tax benefits that accompanies the policy adopted by the government of promoting economic growth, in particular the Law on Investment, the Tax Benefit Code, and the Industrial Free Trade Zone Regulations. This legislation creates incentives in such a way that investments are geared to producing tax benefits rather than assuring the efficient allocation of the productive resources of the economy; moreover, the procedure for authorizing incentives may open up opportunities for corruption.

242. In addition, in the case of foreign investors, there is a need to consider the tax treatment on earnings in the countries where the investors are domiciled. If those countries have a worldwide profits tax regime under which an offsetting tax credit is allowed for tax paid in Mozambique, then any IRPC exemptions or reductions will not really offer any incentive to a foreign investor; instead, they will simply transfer the collection of taxes from the Mozambican tax administration to the foreign tax administration.

243. Arguments favoring the granting of tax credits often cite the need to compete with neighboring countries to ensure that investment comes to Mozambique. Within the SADC,

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[69] I. Coelho, et Al., *Op.Cit.*

[70] Contrary to one of the IMF recommendations, interest earnings paid on deposits and on public-debt securities remained tax-exempt.

there has been discussion of a proposed Code of Conduct to break the vicious circle of countries offering tax benefits simply to keep pace with the benefits being offered by their neighbors. However, Mozambique and its SADC partners have been unable to reach an agreement on establishing such a Code of Conduct and thus to break that vicious circle.

244. Adopting the IRPS meant leaving behind the schedular income tax, under which each individual paid separate taxes on earnings from different sources classified in separate schedules. Under the IRPS, in contrast, all earnings regardless of their source are added together, and that total income is used as a basis for determining the amount of tax payable.

245. The schedular personal income tax system was a significant source of tax inequity, because earnings from different sources were not added together to determine the amount of tax to be paid. Take, for example, the situation of a taxpayer (Mr. A) who is a civil servant and who also engages in self-employed professional activity and receives dividends from a company. Under the schedular system, his earnings from those three sources were not added together to determine the amount of tax he had to pay. He could well wind up paying **less** tax than another taxpayer (Mr. B) who had the **same** total income but earned it only from employment in the private sector. Mr. A could also wind up paying **more** tax than a third taxpayer (Mr. C) who had the **same** total income but earned it only from employment in the public sector.

246. In principle, then, adopting the IRPS has helped make income tax fairer. In practice, though, the fairness of the IRPS is compromised because of the way the tax is collected. Taxpayers whose taxes are withheld by the employer (those with income in Category 1, remuneration of workers in an employee-employer relationship) cannot evade the tax, whereas taxpayers in the other categories (those with income from self-employment, from earnings on capital, or from rent payments) are not subject to withholding at the source and may in practice end up paying less tax than workers in an employee-employer relationship.[71]

247. No data exist on IRPS tax revenues broken down by income level, or on the number of taxpayers in each income category (quintiles, deciles, etc.). Because there are no data, it is impossible to make a quantitative estimate of the effect on the fairness of the IRPS, or to calculate Gini coefficients or other similar indicators.

248. The scale of differences in noncompliance (and the corresponding inequity) between different groups of taxpayers can be seen clearly in the breakdown of total IRPS tax revenues presented in Table 15. Where tax receipts from Category 1 IRPS taxpayers account for 87 percent to 90 percent of total IRPS tax revenues, the other four categories account for only

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[71] Income in Category 4, gambling winnings, is subject to withholding at the source according to a series of tax rates, but is subject to no further taxes.

a very small proportion of total revenues. Table 16 compares tax revenues withheld at the source with total revenues from personal income tax for several countries.

249. Although workers in an employee-employer relationship do include supervisory personnel, whose incomes are relatively high in comparison with those of other employees, it is highly unlikely that all workers in an employee-employer relationship as a whole have higher incomes than professionals and other self-employed people, in the same proportion by which the amount of tax withheld per person from members of the first group exceeds the amount of tax paid per person by members of the second group (who are not subject to withholding, and therefore are more likely to evade tax).

250. Table 16 shows that this characteristic is not peculiar to Mozambique. Indeed, in most countries, the personal income tax burden falls disproportionately on workers in an employee-employer relationship.

Table 15. Mozambique: Breakdown of total IRPS tax revenues, 2003 to 2006

(in millions of meticais and in percent)

	2003		2004		2005		2006	
IRPS	Millions of meticais	Percent	Millions of meticais	Percent	Millions of meticais	Percent	Millions of meticais	Percent
Total tax revenues	1,727	100	2,382	100	2,909	100	3,784	100
Category 1	1,547	89.6	2,118	88.9	2,547	87.6	3,326	87.9
Category 2	121	7.0	165	6.9	237	8.1	322	8.5
Category 3	8	0.5	10	0.4	19	0.7	13	0.3
Category 4	49	2.8	88	3.7	103	3.5	119	3.1
Category 5	1	0.1	1	0.1	3	0.1	8	0.2

Source: AT

Table 16. Mozambique: Comparison of Tax Revenues Withheld at the Source for Several Countries

(in percent)

Country (time period)	Workers in an employee-employer relationship, with taxes withheld at the source	Other taxpayers
Spain (2004)	81.0	19.0
Croatia (average 1999-2000)	90.0	10.0
Peru (average 1999-2000)	75.0	25.0
Ecuador (1991)	91.0	9.0
Romania (average 1991-1993)	88.0	12.0
Australia (average 1979-1989)	77.2	22.8
Suriname (average 2002-2004)	91.0	9.0
Guyana (average 1990-2003)	93.4	6.6
Jamaica (average 1989-2003)	94.3	5.7
Ethiopia (average 1986-1991	81.6	18.4
Mozambique (2006)	88.0	12.0
Mongolia (2003)	96.0	4.0

Sources: (1) Technical assistance reports of the Fiscal Affairs Department of the International Monetary Fund; (2) P. Dos Santos, and L. Bain, *Survey of the Caribbean Tax Systems*, CARTAC, Barbados, July 2004, pages 178 and 186; and (3) M. Porter and C. Trengove, “Tax Reform in Australia,” in M. Boskin and C. McLure (editors), *World Tax Reform*, International Center for Economic Growth, California, 1990.

VIII. Establishment of the DGI

251. The Directorate-General of Taxation (DGI) was established pursuant to Decree 5/04 of April 2004, replacing the National Tax and Audit Directorate (DNIA). This measure provided the domestic tax administration with the operational and budgetary autonomy it had previously been lacking.

252. The DNIA did not have its own budget and had no decision-making capacity in regard to the allocation of its resources. Staff recruitment, spending on services, and the procurement of equipment were subject to the personnel policies, purchasing policies, and capital-expenditure policies of the Ministry of Planning and Finance. Internal procedures for assigning staff to audit and enforced collection tasks required ministerial approval.

253. In contrast, the Directorate-General of Customs (DGA) was responsible for customs administration. It had all the budget autonomy normally appertaining to a directorate-general, as well as a professional career systems for its staff with a salary scale offering higher salaries than the DNIA’s.

254. ***Given these disparities, it was not feasible to simply combine the domestic tax administration and the customs administration within a single tax authority, as had been the government's original intent. The IMF recommended that the first step was to place the two administrations on the same footing at the same level in terms of autonomy and institutional capacity) before attempting to combine them. This was the strategy wisely adopted by the government.***

255. Finally, in 2004, the administration of domestic taxes was placed under the responsibility of a directorate-general, the DGI, having administrative autonomy and decision-making capacity in regard to the allocation of its resources. The DGI's salary scale was brought more closely into line with the DGA's. This paved the way for merging the two directorates-general to form the Mozambican Revenue Authority (AT) in 2007.

256. In 2006, the cost of tax administration, as measured by adding together the budgets of the DGI and the DGA, represented about 3.5 percent of the total tax revenues collected by the two directorates-general. This indicates that there is still plenty of room to increase the efficiency of tax administration in the new phase marked by the establishment of the AT.[72] In its first year of operation, the cost of operating the AT was about 4 percent of total tax revenues, and the draft budgets for 2008 and 2009, which call for heavy investment in IT systems and physical infrastructure, places the cost at about 5 percent.

257. One indicator of the DGI's increased operating capacity is the larger number of taxpayers being served. Including civil servants as payers of income tax added over 200,000 new taxpayers to the tax rolls. In addition, the number of companies listed as taxpayers also increased when the old industrial contribution was replaced with the new corporate income tax (IRPC), more than doubling the number of corporate taxpayers being served.

IX. The IMF Technical Assistance in Support of the Reform

258. IMF technical assistance in the revenue policy and administration area was substantial during the period under study. It comprised headquarters missions, both for diagnostics and follow-up; long-term, peripatetic and short term advisors, equivalent to a total of about 24.5 person/years.

259. Most of this assistance was delivered by FAD, although LEG was responsible for about .85 person/years of assistance in support of legal drafting. Headquarters missions were fully funded by the IMF, while most of the expert assistance was donor-funded. SECO and

[72] Various studies of developing countries in Latin America and Eastern Europe point to a cost of administration ranging from 2 percent for tax authorities that have already consolidated their operations to 3.6 percent for tax authorities just beginning the process of reform.

DANIDA contributed about US$ 4.2 million and 7.5 million respectively, in support of successive IMF-executed technical assistance projects between 1997 and 2007. A large part of these funds were used to cover the cost of the numerous advisors that provided focused assistance to the Mozambican counterparts, although about US$ 1.2 million were also used in support of the acquisition of minor office equipment, computers and the development of IT systems in support of the new taxes.[73]

260. The following table summarizes IMF assistance in the revenue policy and administration areas during the period under review, for the IMF fiscal years 1995 through 2007. Given the number of missions and experts involved, the table presents only the number of individual missions/visits and the total equivalent in person/days at the duty station.[74]

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[73] In parallel to these efforts, DFID contributed substantial amounts—about 4 million Sterling Pounds in total—for the development of IT systems and direct technical assistance in the IT area. These amounts do not include the expenditures on IT as part of the comprehensive customs reform program managed by the Crown Agents.

[74] As a reference, under IMF standard costing rules, one person/year of field advice is equivalent to 260 person/days at the duty station.

Table 17: Mozambique: summary of IMF technical assistance in revenue policy and administration, FY 1995 to 2007

	95		96		97		98		99		0		1		2		3		4		5		6		7		Total		
Assistance delivered	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	qty	PPY	Q	PPY	
HQ missions	1	27	3	48	2	28	2	25	2	26	2	24	3	128	3	42	2	34	3	48	2	23	3	82	3	74	31	609	2.34
LT Experts					2	496	2	489	1	216					1	256	1	260	2	447	2	517	2	453	1	178	14	3312	12.74
Peripatetic Experts									2	137			1	170	2	105	3	210	3	223	5	251	6	330	5	347	27	1773	6.82
ST Experts	2	71	1	32	2	105	2	40	1	32	2	81	2	107	2	63	1	23	1	21	1	33	1	31	1	27	19	666	2.56

PPY=Person days per year

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