CURRENT MODEL OF TRANSFER TO COMMUNITIES CAN GENERATE ECONOMIC AND SOCIAL INEQUALITIES

- THE TRANSFER FEE SHOULD BE REVISED FROM 2.75% TO 5.75%

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Acronyms

AC	Administrative Court
AR	Parliament
CB	Citizen's Budget
CIP	Centre for Public Integrity
DRC	Democratic Republic of Congo
EI	Extractive Industry
ESPDB	Economic, Social Plan and District Budget
USA	United States of America
GJ	Gigajoule
HMM	Hayu Mozambique Mining
EITI	Extractive Industry Transparency Initiative
LAC	Local Advisory Council
LNG	Liquefied Natural Gas
LSO	Social License to Operate
MEF	Ministry of Economy and Finance
MF	Ministry of Finance
MPD	Ministry of Planning and Development
MRM	Montepuez Rubi Mining Lda.
Mtpa	Millions of Tons per Year
CSO	Civil Society Organizations
RPCGE	Report and Opinion on the General State Account
SB	State Budget
SBER	State Budget Execution Report
SBL	State Budget Law
SE	State of Emergency
SISTAFE	State Financial Administration System
SPR	Revenue Sharing System
STI	Intergovernmental Transfer System
Tcm	Trillion Cubic Meters
UAE	United Arab Emirates

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1. Introduction

The governance of the extractive industry in Africa has gained important space in the debate on natural resource management, and on issues of structural transformation of the economy and development of resource-rich countries. Expectations of rapid economic progress and social welfare generation are widely covered in studies of political economics of natural resources (Frynas and Buur, 2020). The significance and implications of natural resource extraction for the development of producing countries and communities hosting extractive operations have raised important questions of sovereignty over resource ownership, and legitimacy of access to resource extraction benefits (Augustina et al, 2012).

Between 2010 and 2013, Mozambique witnessed one of the most remarkable moments of transition to the category of resource-rich countries. The discoveries of very high volumes of natural gas in the Rovuma Basin in Cabo Delgado, with about 180 trillion cubic meters (tcm), represents an important vector of this transition (Salimo et. al, 2020). The investments planned for areas 1 and 4 of the Rovuma Basin, operated by multinationals Total (Area 1) and Exxon Mobil and Eni (Area 4), contribute to making the country one of the world's leading liquefied natural gas (LNG) export giants (Idem.). At least 3 LNG projects, of which two onshore and one offshore, with a total production capacity of around 31 million tons per year (mtpa) could be operational within this decade. Mozambique has been producing natural gas from the Pande and Temane fields, located in the districts of Govuro and Inhassoro in Inhambane Province, exported to South Africa via an 865 Km pipeline that connects Temane to Secunda in South Africa since 2004.

Mozambique may also become one of the ten largest coal producers in the world. The country's largest reserves are in the central province of Tete, estimated at over 23 billion tons (Monjane, 2019: 88). In the province of Cabo Delgado, in the quiet region of Namanhumbir, in the district of Montepuez, rubies are being extracted. The deposit of rubies from Montepuez was considered the most significant among those recently discovered worldwide. The country is rich in mineral resources. Several types of resources are scattered in various parts of the country. Some of these resources are in the production phase by large scale extractive companies, and others are in the exploration phase. There is also a no less important share of resources extracted through formal, as well as informal artisan activities.

A recurring question about the exploitation of natural resources arises around the gains they generate for the country and for the communities affected by extractive operations. This is the whole debate on the models of governance of natural resources. While extractive companies have an interest in maintaining and guaranteeing the sustainability of their operations and generating profits from their investments, governments want to put revenues into the state coffers (Salimo, 2018), and on another dimension are communities that are exposed to strong negative externalities associated with the cumulative effects of natural resource exploration and production activities, generally characterized by environmental degradation, loss of ecosystems, impoverishment of socio-economic conditions, and conflicts (Bauer et. Al, 2016a).

The consequences of weak attention to the implications of poor governance and the lack of mechanisms for sharing the income from the exploitation of natural resources impose high risks on society, as well as on extractive companies (Davis and Franks, 2014). The discourse on the social license to operate (SLO) is a consequence of these gaps and discontinuities between expectations in the exploitation of resources capable of generating large rents and stimulating development, vis-à-vis the absence of perceived benefits in the communities that host the resources, and that suffer directly from the harmful social, economic and environmental impacts that place populations in difficulty in accessing the means of life and the human conditions for survival.

In 2013 the Mozambican Government adopted an instrument for the transfer of revenues from the extractive industries to the communities affected by the extractive enterprises. Local advisory councils (LAC) are the main mechanisms for the "representation" of local community interests in the decision-making process. The decision-making process for determining options for resource allocation is done at the LAC level, in articulation with the governments of resource-producing districts, the latter having the prerogative of managing and applying the revenues shared with the communities.

The Mining and Petroleum Laws, both approved in 2014, consolidated this government initiative on revenue sharing by leaving it inscribed that part of the revenue generated for the state by mining and oil operations is channelled to the development of the communities where the projects are implemented. Since 2013, the government has systematically defined, through the State Budget Law (SBL), the percentage of 2.75% that is levied on production tax. The production tax is the only source of transfers to the communities.

This study analyses the dynamics of determining, channelling and allocating the transfers of the 2.75% of the tax revenue from mining and oil production to communities and their consequences on local development, and seeks to understand the basis for maintaining the percentage of revenue shared with communities since its adoption.

The specific objectives of the study are the following:

• Assess the specific benefits generated by the 2.75% concession to communities in terms of infrastructure and other investments;

• Discuss the experiences of other countries with sub-national transfers of revenues from the extractive sector; and

• Based on international experiences and the analysis of the dynamics in the country on transfers to the communities, propose a reasonable rate of compensation capable of boosting the development of communities.

1.1. Methodology

The study is qualitative and combines documentary analysis and interviews. Documents from government and independent institutions of transparency in the extractive industry, such as the Extractive Industry Transparency Initiative (EITI), the Report and Opinion on the General State Account (ORGCA) produced by the Administrative Court (TA), reports from civil society organizations (CSOs), and articles published in newspapers were analyzed to inform details and reflections on transfers to communities.

A literature review of international experiences on revenue-sharing transfers from the extractive sector was conducted. These experiences identified elements that inform reflection on the assumptions to be considered for a potential improvement of the current framework for revenue transfers to communities affected by extractive sector operations and its consequences.

Interviews were conducted, many of them were not face-to-face interviews, but via phone, zoom and Skype. A few meetings were held with small groups of up to 4 people mainly with community-level associations in production regions, as well as with members of communities affected by extractive operations and/or are part of communities benefiting from the 2.75% of revenues transferred in the context of revenue sharing with communities. All the people contacted were selected on the basis of their prior knowledge of the link or knowledge they have with the processes related to the extractive industries, in particular with the transfers of revenues to the communities. The fieldwork was carried out in three provinces, Inhambane, Nampula, and Tete, and involved going to some producing districts, namely Inhassoro, in Inhambane; Larde, in Nampula; and Moatize, in Tete.

To preserve sources of information given the sensitivity associated with the extractive industry sector, interviewees, whether from government, civil society or communities, were rendered anonymous to protect them from possible reprisals in a context where discernment between the right to information, transparency in public management processes and resources are becoming increasingly vulnerable to violence by individuals who are likely to become voluntarily involved due to excessive zeal for the protection of State and group interests. Respondents included district government officials, and in some cases also provincial governments, members of civil society organizations working on extractive sector issues, researchers, community leaders, and members of district association platforms as well as natural resource management committees.

1.2. Research constraints

This study was conducted in a very complex phase from the point of view of mobility and access to people because of the declaration of a State of Emergency (SE) due to the pandemic caused by COVID-19. The constraints associated with the limits imposed by the health protocol and SE in the framework of COVID-19 determined some limitations in access to information and therefore the study had to drag on for some time longer than initially anticipated. A period of only one month had been defined. Given the complexity of the sector and the nature of the study, and the requirement for fieldwork in remote regions, the period of one month was already quite short regardless of the circumstances imposed by the pandemic. The extractive industries sector is described as sensitive at least at the level of State bureaucracy officials and the government political elite, and is therefore characterized by little openness to information provision.

1.3. Report Organization

The study is organized in four parts, including this introductory section. The second section reviews international experiences of revenue sharing from the extractive industry. The third section analyses the political economy of revenue transfers from mining and natural gas in Mozambique, analyzes in different dimensions the practices on transfers to communities, their outlines and consequences in relation to the development objectives of the beneficiary communities. This section also presents ideas on potential ways to determine a sharing model consistent with the development challenges of communities affected by extractive ventures, and promote social and political stability in resource-producing districts. The last section presents the conclusions and recommendations.

2. Political Economy of the Redistribution of Income From Natural Resources

2.1. Sharing Natural Resource Revenues: An International Perspective

The sharing of revenues generated by the extractive industry is a common practice in natural resource governance in several countries (Bauer et. al, 2016a; Bauer et. al, 2016b; Brosio and Singh, 2014; Agustina et. al, 2012). Over the past two decades the discourse and studies on revenue sharing in the extractive sector have gained particular attention (Bauer et. al, 2016a). The revenue-sharing mechanism is commonly referred to as a “revenue-sharing system or regime”. In this study the focus is on the revenue sharing system from extractive activities, specifically from mining and oil activities, the latter including oil and natural gas.

Conceptually, the revenue sharing system or regime of natural resources is an arrangement that governments adopt to determine the portion of revenue from taxes and fees to be shared either with authorities at sub-national levels or with central governments (Bauer et. al, 2016b; Brosio and Singh, 2014). It seems strange to refer to revenue sharing with central governments. However, there are jurisdictions where this practice occurs, one example being the United Arab Emirates (UAE). The dominant practice is based on the transfer of part of the revenue to sub-national governments of natural resource producing areas (Bauer et. al, 2016b; Agustina et. al, 2012, Morgandi, 2008), although there are countries that have extended the sharing mechanism to non-producing locations and on the basis of known criteria, an example of this is Indonesia (Agustina et. al, 2012).

The assumption of revenue sharing is fundamentally a matter of political economy. According to Agustina et. al (2012), the revenue sharing arrangement of the extractive sector highlights relevant aspects of conflict risks arising from social inequalities as well as the problem of the heterogeneous representation of society in contexts of exploitation and production of valuable natural resources. Bauer et. al (2016b, p. 12) suggest that revenue sharing from natural resources is justified by the need to improve the quality of life in the regions covered by extractive operations; provide additional resource allocation to governments in poor and less supported regions; compensate regions affected by the social and environmental impacts of natural resource extraction; and contribute to the control of violence associated with natural resources.

The populations of regions affected by extractive operations are directly exposed to the environmental, economic and social consequences that emerge from exploration and production activities. Although it is not always possible to experience such consequences, it is common to observe the emergence of such problems in most regions with active mining and oil extraction activities. In more serious circumstances, failures in the governance of natural resources give rise to complex situations of violence and war (see Soares de Oliveira, 2007 for an analysis and understanding of the case of Angola). In this sense, extractive activities often prevent local populations from continuing their subsistence activities.

The literature consistently addresses the fact that extractive operations generate disruptions in the cultural relations and practices of traditional life that are themselves the source of what gives meaning to people's lives and their social relations (Salimo, 2018). This requires governments and extractive companies to be responsible for repairing the damage and losses inflicted on local populations. The adoption of instruments to appease relations between extractive companies and communities, such as the "social license to operate" (SLO) (Buur et. al, 2020; Pedersen and Kweka, 2017), is linked to the idea of free passage for companies to carry out extractive activities in an environment of approval by those who suffer externality from operations and pledge part of their rights and belongings to make way for extractive activities, in the expectation of obtaining reciprocal gains and better compensation for their lives.

Natural resources such as oil, natural gas, gold, rubies, coal and others, represent important sources of wealth generation in the countries' economies. This is valid for both producing and investing countries. While in most developing countries these resources have not been structurally determinant for development, in contrast, developed nations have been able to use them and make their economies strong and sustainable, and keep their societies stable.

The disparate results in different country contexts are a consequence not of the existence of resources themselves, but of the policy options and dynamics of natural resource governance and wealth sharing, a perspective that pontificates the deconstruction of the resource course theory or "resource curse" (Frynas and Buur, 2020; Hickey and Izama, 2017; Macuane et. al, 2017 and others). The "resource curse" theory suggests that significant gains in extractive industry revenues have adverse effects on the economy and politics (Frynas and Buur, 2020). Natural resources are assumed to cause problems of economic malfunctioning and conflict reproduction. However, the literature on the political economy of natural resources looks at the dynamics of interests and politics as determinants of the adverse results of natural resource exploitation.

The exploitation of natural resources inevitably generates high expectations (see Frynas and Buur, 2020). This stems from the imaginary that society builds around the potential of natural resources to generate a lot of income and thus be a factor in changing the structural conditions of the economy. Governments and local populations, although each with their own expectations, all hope that the extraction of natural resources can contribute to the improvement of living standards and well-being. Some authors, such as Bauer et. al (2026b, p. 24) suggest that the sharing of revenues from natural resources is justified by the need to, (i) improve the quality of life of the regions covered by extractive operations, (ii) provide additional resources to governments in poor regions with less support; (iii) compensate regions affected by the social and environmental impacts of natural resource extraction; and (iv) contribute to the control of violence associated with natural resources (Bauer et. al, 2016, p. 24).

The transfer of part of the revenues from the extractive industry directly to sub-national governments is also a practice linked to a principle of decentralization, which assumes that sub-national authorities have a better understanding of the heterogeneous preferences of citizens (Viñuela et. al, 2014; Agustina et. al 2012). The social, economic and environmental costs that affect the quality of life of the populations living in resource exploitation regions require them to be compensated. The feeling of revolt that comes from the deterioration of living standards in production regions determines the need to transfer a portion of production revenues to meet government redistributive demands on the one hand, and to anticipate the control of potential conflicts on the other (Agustina et al. 2012, p. 29).

Recipe-sharing mechanisms can fail in their objective of improving the well-being of beneficiary populations. A systematic and lasting failure in results can endanger stability and the revenue-sharing model. Bauer et. al (2016a; 2016b), recognize the important role of revenue-sharing systems for natural resources (see also Viñuela, 2014), but point out that these systems can also foster the emergence of conflicts when poorly thought out.

In Peru, for example, the sharing system has given rise to violent conflict arising from an attempt by local leaders to control the jurisdiction of mining operations as a way of securing additional revenue gains (Bauer et. al, 2016b, p. 15). In Nigeria, it was determined in 1992 that 13% of oil and gas revenues would be allocated to producing states, a measure believed to have contributed to relative peace and security in the Niger Delta (Bauer et. al, 2016b), however, this percentage had to be renegotiated years later following expressions of dissatisfaction by local populations over the quality of the benefits they were receiving.

Revenue sharing based on direct cash transfers to citizens affected by extractive operations has broad support from beneficiary populations (Agustina et. Al, 2012). This sharing model is based on the principle of control of the potential for capturing resources by bureaucrats and powerful groups that control bureaucracy and power, whose practical consequences make it impossible to fulfil the interests and expectations of beneficiary citizens. Therefore, it is essentially a consequence of mistrust of the effectiveness of government institutions. However, despite popular support, the literature suggests that this model is not very practical in developing countries because of the problems of poverty and poor quality or lack of infrastructure (Agustina et al. 2012). The following is an analysis of income sharing models for natural resources.

2.2. Arrangements and Models for Sharing Natural Resource Revenues

The collection of revenues from natural resources such as oil, natural gas and minerals is generally made, managed, and controlled by central governments, which also take care of their redistribution to sub-national governments. This model is dominant in all states with unitary systems. Interestingly, China which has the same characteristics as a unitary and highly centralized system the collection of tax on production (royalties) is generally done by the provinces.

There are few states where sub-national governments have full jurisdictional power to collect revenues from extractive industry projects. The best known and purely decentralized example may be the United Arab Emirates (UAE). Here, each emirate has the authority to collect revenues from oil companies, and a portion is shared with the central government (Bauer et. al, 2016b et. al, p. 32; Viñuela et. al, 2014, p. 11).

Most federal states use relatively more flexible models, with shared responsibility for revenue collection between central and sub-national governments. This is the case in the United States, Australia, Canada, India, and Argentina. In this type of more or less decentralized systems, the type of taxes that each level is responsible for administering are defined, and in general a certain portion of revenue is shared among regions (Bauer et. al, 2016b; Viñuela, 2014; Augustina et. al 2012). Brazil, which is a federal state, has centralized the revenues of the mining sector, unlike the others. Russia and Colombia have (re)centralized the administration and management of natural resource revenues (Bauer et. al, 2016b, p. 14).

The system of transfers of revenues from natural resources to sub-national governments is a model that can fit into the general system of inter-governmental transfers, but with a focus on revenues from natural resources. The literature suggests different sharing arrangements that vary according to the type of natural resources (whether it is oil, natural gas, or different types of minerals), and levels of government (central, provincial and district - the latter takes into account whether or not the district is a producer) (Brosio and Singh, 2014; Agustina et. al, 2012).

In this revenue sharing system two trends emerge. The first, based on revenue sharing with sub-national jurisdictions (provinces and districts); the second, based on direct transfers to citizens of resource-producing regions, generally based on dividends, as occurs for example in the State of Alaska in the United States (Bauer et. al 2016b; Agustina et. al 2012), and Alberta in Canada (Agustina et. al, 2012).

Some governments treat revenues from natural resources in the same way as those that do not come from the extraction of natural resources. However, countries that follow a model of differentiation of natural resource revenues from non-natural resource revenues, the main difference between them is in the distributive determinant of revenues. In this context, the literature essentially points to two determinants, (i) by derivation; and (ii) by means of indicators. The study by Bauer et. al (2016b) argues that the distribution based on derivation is based on the assumption of origin or place where the resources are produced. Countries that have adopted this model include the US, UAE, Argentina, Canada, and India. Some African states, such as Angola, Cameroon, Chad, Democratic Republic of Congo (DRC), Ethiopia, Ghana, Madagascar, Nigeria, South Sudan, and Uganda have adopted the same model of revenue transfers (Idem).

The second model of transfers is the one based on indicators. This model uses a set of criteria to determine the volume of revenues to be transferred to sub-national levels, regardless of whether or not it is a natural resource producing region. The most common criteria (Bauer et. al, 2016a; 2016b; Brosio and Singh, 2014) are based on population, income generation capacity, poverty level and/or geographical characteristics (e.g., remote location in relation to urban centres). This model is considered more balanced from the point of view of potential for reducing inequalities, because in theory it seeks to direct resource allocation efforts to the poorest, least infra-structured and most needy regions. Countries like Ecuador, Mexico, Bolivia, Mongolia, etc. are some of the few that have adopted the model.

There is a third component based on a hybrid modality that combines the first with the second. Nigeria, Uganda and Mongolia are some of the states that, in addition to the more expressive system that each of these countries has adopted, they incorporate other forms of sharing into their system. For example, Nigeria, which has a stronger system for redistribution based on drift, where 13% of oil revenues are channelled to the producing regions, the remainder, which is equivalent to 87%, is added to taxes and fees from other activities, of which 47% is redistributed according to a predefined formula and indicators. The table below presents the percentages of the revenue volume for the sub-national authorities.

Table 1 % revenue sharing from extractive sector, different countries

COUNTRIES	TYPE OF GOVERNMENT- Federal &Unit		Incidence of Revenue Flow	Oil			Gas			Mines		
	Fed.	Uni.		CG	RP	NP	NP	RP	NP	CG	RP	NP
Nigeria	F		All	45.8%	13%							
Ghana[1]		U	Royalties							91%	4.95%	
Cameroon		U								75%	25%	
Uganda			Royalties	93%	6%							
RDC		U		60%	15%							
Bolivia		U	Royalties	33%	61%	6%						
Brazil	F		Royalties and spec. Cont.	39.4%	26%							
Italy		UR	I. revenue, Royalties	30%	15%							
Indonesia		UR	Royalties	84%	6.2%		70%	12.2%		20%	32%	

Source: Bauer et. al (2016a; 2016b); Brosio and Singh (2014); Augustina et. al (2012); Morgandi (2008) and others.

Abbreviations:
- CG: Central Government
- RP: Producing Region
- NP: Non-Producing Region
- U: Unit
- UR: Unit-Regional
- F: Federal

These different natural resource revenue sharing systems and their particularities represent informed choices of governments and in other cases less clear. Most countries have defined their systems in specific legislation and not always with the detail necessary to determine the calculations and redistributive formulas of revenue. This means that in certain jurisdictions these practices are being done on an ad-hoc basis. There are very few states where the systems are defined by the Constitution. In Africa, the literature points to two countries, namely Nigeria and South Sudan (Augustina et. al, 2012; Bauer et. al, 2016b).

In some countries, revenue-sharing models tend to reproduce marked inequalities in access to resources that foster resource-based development. This generates conflict in some cases, especially when there is a clear perception of the benefits of natural wealth flowing to specific groups or communities at the expense of others.

In Indonesia, the central government has adopted the model of redistributing income from natural resources with the provinces and local governments, in a sharing arrangement that varies according to the type of resource and subordinate territorial levels (central, provincial, producing districts and non-producing districts). The central government retains 84.5% of oil revenues, and 15.5 are allocated to sub-national governments. For natural gas, the government retains 69.5%

1 In Ghana, the system recognizes traditional authorities with government authority and receives 4.05% of revenues, and in Uganda the fee transferred to traditional institutions is 1%.

and 30.5% is transferred to sub-national governments. Of the revenues for sub-national governments 20% is allocated to provinces and 40% to producing districts, and the remaining 40% is shared equally among other districts (Agustina et al. 2012, p. 14). There is a perception that revenue transfers generate important disparities between provinces and districts in Indonesia because of the disproportionate but advantageous benefits to producing districts.

Because of the effects of the disproportion generated by the redistributive mechanisms of oil and mining revenues in Indonesia, the central government has adopted a methodology based on indirect transfers aimed at establishing some kind of balance, which is not necessarily a balancing procedure, but a mechanism to help harmonize factors of regional inequalities (Agustina et al, 2012, p. 15). Although similar measures may be being practiced in other countries, the difference lies in the lack of knowledge of the adopted redistribution models directly indexed to extractive sector revenues.

The following section is dedicated to an analysis of mining and oil revenue transfers to communities affected by extractive developments in Mozambique and options for a more productive transfer system.

3. Political Economy of Revenue Sharing from Mining and Oil Activity in Mozambique

3.1. Institutional Framework and Revenue Sharing Model

In 2013 the government of Armando Guebuza took the decision to materialize what was already foreseen in Laws No. 11/2007 and 12/2007, both of 27 June, on the transfer of part of the revenues from mining and oil for the development of the communities of the host areas of the projects. These laws did not establish any percentage of the total to be transferred. They referred to the State Budget Law (SBL) for this purpose. However, this formal will remained in a "vegetative state" for six years. And in 2013 the government introduced in the 2013 SBL, Law 01/2013, of January 7, and defined for the first time the percentage of 2.75% as the portion of mining and oil revenues to be allocated to community development programs at the enterprise sites.

Following the approval of Law 1/2013, it was subsequently approved by joint decision of the extinct ministries of Planning and Development (MPD) and Finance (MF), the Circular 01/MPD-MF/2013, which essentially established three things. First, the criteria for the allocation of resources; second, the nature of eligible projects; and finally, the institutional framework for governance and decision-making on priority projects and the allocation of revenues transferred to communities.

Circular 1/MPD-MF/2013 established the eligible initiatives within the scope of development projects associated with the application of the 2.75% revenue, which includes the construction of infrastructure such as:

a) Classrooms and equipment;

b) health centres and their equipment;;

c) community irrigation or dams;

d) markets;

e) roads and bridges;

f) water supply and sanitation systems; and

g) activities related to forestry.

Following the review of the Mining and Petroleum Laws that followed the discoveries of large volumes of mineral coal in Tete and natural gas in the Rovuma Basin in Cabo Delgado, Laws 20/2014 and 21/2014 were approved, both of 18

August, Mining Law and Petroleum Law respectively. These laws recovered the expression of will foreseen in Laws 11 and 12 of 2007, and in the MPD and MF Circular on the sharing of revenues from mining and oil operations with the local communities of the production areas.

Laws 11 and 12 of 2007, as well as laws passed in 2014, are silent on the type of taxes and fees to be shared with local communities. However, the Budget Law of 2013 had already advanced it, and subsequently all other budget laws passed annually since then have reproduced it. This is the legal instrument that defines the tax on production or royalty as the only source of revenue for the mining and oil sector from which shared revenue is discounted to promote community development projects.

The arrangement of the revenue sharing system in Mozambique has its roots in the distribution model by derivation. As noted above, this model concentrates the allocation of revenues to the places where resources are extracted (Bauer et. al, 2016a; and 2016b; Viñuela, 2014; Morgandi, 2008 and others). What is known about the revenue transfer model for the extractive sector in Mozambique is only limited to transfers of 2.75% of the production tax that the central government through the Ministry of Economy and Finance (MEF) allocates to production districts. The revenues shared with the districts are particularly intended for projects in local communities directly affected by mining and oil operations.

The natural resource producing districts, within the framework of the existing sharing model structure, are not primary beneficiaries in the sense that they should not decide as a territorial authority on the application of revenues to government projects. The Circular that determines the purpose for which the resources should be invested suggests that the decision on the application of the revenues falls to the local communities through their representatives on the locality advisory councils (LAC). The government's role is essentially to assist communities and manage revenue. The revenue is not supposed to be applied in any community within the district that is different from that in which the extractive projects are located. But this practice has not always been avoided in most of the districts covered by the project. In Montepuez district, for example, the district government even allocated the funds to implement projects in communities other than Namanhumbir, which is the site of ruby extraction, by the Montepuez Rubi Mining Limitada (MRM) company, with the allegation that many projects had been carried out in that location.[2]

The objective expressed in the instruments that create the basis for revenue sharing is summarized in the idea of local community development in the project areas. There is nothing more at policy and legal framework level available that refers to a model other than sharing the 2.75% for affected communities. And because of its characteristics, this model reproduces a pattern of exclusion and severe disproportion in the redistribution of gains generated by the extractive sector.

Some jurisdictions, such as Indonesia and Bolivia, in addition to sharing with producing districts, non-producers also receive a portion of the revenue, although in a smaller proportion than that of producing districts. The arrangements are clear in the revenue sharing model for the extractive sector. However, in the case of Mozambique there is no formula, nor is there a model that foresees the integration of districts or regions that do not produce natural resources as beneficiaries of revenues generated in the extractive industry. The revenues from the extractive sector are integrated with the revenues from other sectors, from which the central government guarantees the allocation of the budget to central and local governments.

The lack of a comprehensive and more balanced framework for the revenue sharing system for mining and oil activities may be associated with the country's premature level of development of the extractive industry and management of revenues from it, on the one hand; and on the other, it may be a consequence of the country's poor capacity to generate income for the economy. In addition, the country faces deep problems of poverty and lack of infrastructure to support the development process which end up putting pressure on the State to manage revenues according to emerging demands and demands to satisfy urgent primary needs.

Civil society groups as well as important sectors of society have raised questions about the "paralysis" of the 2.75% share revenue percentage since 2013, and its limitation to production tax only. While these issues are relevant, they do not represent an abnormality compared to most countries. There is no clarity about the existence of an evaluation study on the volume of resources associated with the percentage of production tax revenue and its potential to generate social and economic changes in affected communities. Perhaps this is the first way to consider relevant the criticism about the maintenance of the tax on transfers to communities. In this sense, the lack of a study on management processes and the implications of transfers of the 2.75% to the beneficiary communities draw some merit on the problem of maintaining the same rate from the beginning of transfer operations to the communities, as can be seen later in this study.

2 Interview with a representative of a civil society organization in Pemba. (June 2020).

Another aspect that arises as a problem has to do with the incidence of the sharing revenue only on the tax on production. The literature has shown that this is common practice in most countries with experiences of sharing revenues from the extractive sector with sub-national levels of government (Bauer et. al, 2016a,b; Viñuela et. al, 2014; Augustina et. al, 2012; Morgandi, 2008). The argument is that the complexity of taxation mechanisms in the extractive sector as well as the high degree of volatility and uncertainties in relation to commodity prices are factors that cause instability in revenue generation and impose reserves on the adoption of complex revenue sharing models.

One aspect that is not clear about the incidence of the 2.75% on the production tax has to do with the cases in which the tax is paid in kind. In other jurisdictions, the tax in kind, the part that falls to the beneficiaries at the sub-regional level, is converted into infrastructure investments (see Viñuela et. al, 2014). This matter has not been the subject of reflection either by the government or by society in general and civil society organizations in particular. For example, in the hydrocarbons sector it is very common for the government to receive the tax on natural gas production in cash or in kind. In 2017 the government received about 4,620 million Gigajoules (GJ) of natural gas produced by Sasol in Pande and Temane, and the following year it received about 6,170 million GJ of production tax (EITI, 2020). This gas is generally sold to households and to manufacturing industries, mainly linked to energy production (Salimo et. al, 2020). It is not clear how and under what circumstances the production tax paid in kind is integrated in the calculation of the 2.75% transferred to local communities.

The 2.75% portion of the tax on production shared with communities in mining and oil production sites is also pointed out by several sectors as being too low. However, compared with most African countries, it is almost certain that this figure is the lowest percentage of the portion of revenue shared with natural resource production sites. In Africa, countries such as the DRC, Nigeria, and Uganda have established a share of 15%, 13%, and 6% respectively, shared with resource-producing regions (Bauer et. al, 2016b; Morgandi, 2008). With the exception of Nigeria and the other two, the sharing percentage is on production tax, as in Mozambique. Ghana is among the African countries with the lowest percentage, after Mozambique, established at 4.95% of the revenue from the tax on mining production (Bauer et. al, 2016b).

The fact that the current system of transfers of revenues from mining and oil activities is particularly dedicated to local communities affected by extractive operations raises some questions about the reliability of the comparison with other jurisdictions from the proportion of shared revenues with sub-national levels. In Mozambique, shared revenue is limited only to the benefit of communities affected by extractive operations. This differs from the model that covers the producing district as a whole, which is a practice in most countries. Although revenue transfers occur within the State Budget (SB) flow system to the resource producing district, in the case of Mozambique, the beneficiary is not the district in its entire territorial dimension. In practical terms, it is a system characterized by exclusion that in theory can reproduce severe inequalities due to unequal and disproportionate access to resources between different areas and regions within the same district, but also between districts.

The available data point to the lack of a formula that guarantees a redistributive balance of income from natural resources to the various communities or sub-regions that make up the district, as well as between districts. In other words, the sharing model, in addition to promoting exclusion, is purely vertical and has strong potential to generate conflict or promote the exodus of populations from adjacent regions that may seek to settle in regions where there are benefits from resource exploitation, as we have heard of similar cases in Namanhumbir in the district of Montepuez.[3]

3.2. Local dynamics in managing transfers to communities

The sharing of production tax revenues generated by the mining and oil projects stem from transfers made by the central government through the MEF. The revenues are previously projected during budget planning. From 2017 on, the incidence of the discount percentage on the production tax has taken into account the revenues of year n-2, that is, two years ago in relation to the year that concerns the transfer of revenue. This change was introduced with a view to greater predictability in a highly volatile sector in relation to commodity prices on the international market. The districts that produce natural resources receive annual transfers corresponding to 2.75% of the production tax that the state receives from mining and oil companies.

The provincial government through the provincial economic and financial services has the responsibility to coordinate

3 Interview with the head of an elementary school and member of a civil society organization in Montepuez (June 2020).

with the district secretariats the application of the funds. Decisions on the choice of projects implemented with funds from the 2.75% income are formally made by the representatives of local communities on the local advisory councils. These consultative bodies are not always present in the districts, and where they exist there is the problem of representation, as well as the quality of their functioning. Interviews in Larde, Inhassoro and Moatize point to the existence of problems of representation of these bodies. Experiences of Inhassoro and Moatize indicate that it is essentially the community leaders who are part of the consultation in the local advisory councils.[4]

On the basis of local community representation mechanisms, community leaders should have legitimacy to exercise their role of representing communities. However, there are long-standing problems that have been raised in various forums and several research papers that point to serious problems of agency and breaks in fiduciary responsibility (see Forquilha and Orre, 2012; Macuane et. al, 2012; and others). Most community leaders are accused of being allies of the government and the ruling party, and are challenged by community members they represent for not serving their interests. District governments, through the local community assistance team, play a greater role in the decision-making process. The challenge to projects financed with the 2.75% funds is sometimes manifested by the non-use of infrastructure already built, and the growing demand of civil society to be represented in the spaces of dialogue about the allocation of funds.

In Moatize District, the local council has undergone changes in recent years as a result of pressure from the district government. Civil society has demanded its integration in the sphere of dialogue, and two members of two organizations have been selected to be represented on the body as a way to make the process of approving and allocating transfer funds to communities minimally transparent. Because of the level of scrutiny and confrontation with the district government, their participation was suspended by the district government, and other members chosen by the district government itself were appointed.[5]

3.3. Trends in the Allocation of Transfers to Communities

Revenue sharing from the mining and oil sector started in 2013, with a very limited number of beneficiary communities in the producing districts. Only 4 districts and 7 localities/communities were covered in 3 provinces, namely Inhambane, Tete, and Nampula.[6] The central government determines when beneficiary communities in the districts covered by mining and oil industry operations begin to receive transfer revenues. The circumstances and conditions that determine the start of transfers to the communities are not known.

There is evidence of a lack of objective criteria and of dependence on the will of the MEF bureaucrats, who may be dependent on political decisions. The Morrua community in Angoche district is an example of one such community being held hostage to a decision so that it can be considered eligible for transfer revenues to the communities. Hayum Mozambique Mining (HMM), a Chinese investment company, has been operating in Angoche in the extraction of heavy sands since 2011 (Salimo, 2020). And according to information from its Director, the company pays taxes regularly.[7]

The table below illustrates the amounts of transfers to communities since 2013 for producing districts.

4 Interview with members of the Larde District platform and civil society organizations in the City of Nampula; and member of a civil society organization in Inhassoro and members of a community in Maimelane, Inhassoro (June 2020).

5 Interviews in Tete and Moatize with members of civil society organizations (June 2020).

6 Republic of Mozambique (2013: 32). The districts covered were Govuro and Inhassoro in Inhambane; Moatize, in Tete; and Moma, in Nampula. Localities and/or communities covered include, Pande, Maimelane, Cateme, 25 de Setembro, Chipanga II, Benga, and Topuito.

7 This was the reaction of the Director of HMM during the Nampula Province Development Observatory meeting held in December 2019, when one of the participants questioned why communities affected by the company's operations in Angoche do not benefit from transfers to the communities related to the company's mining operations (Salimo, 2020b).

Table 2. Volume of transfers to districts, 2013 -2020 (10^6 of Meticais)

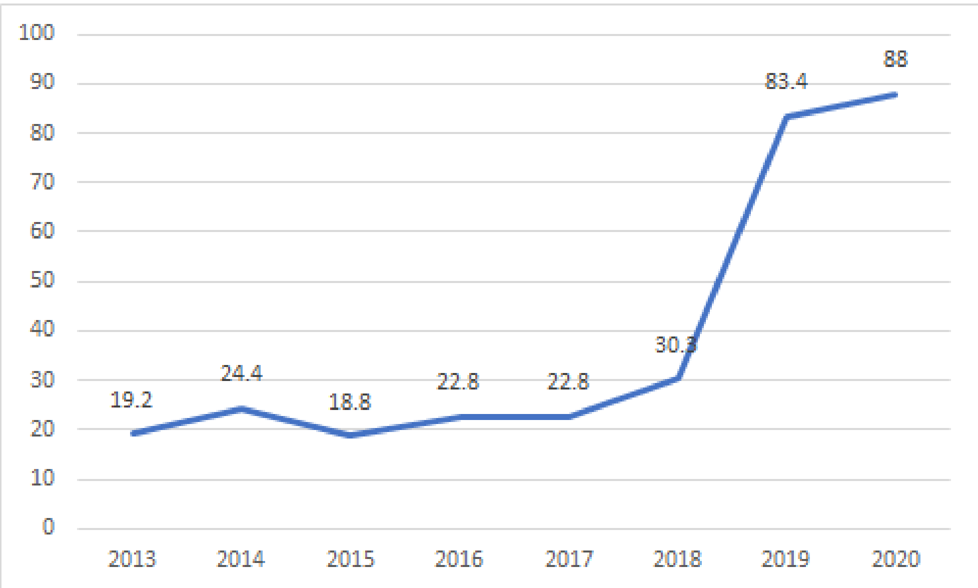
Places covered	2013[8]	2014	2015	2016	2017	2018	2019	2020	Total
Larde	-	-	-	-	2.2	4.1	4.8	4.9	16.0
Moma	3.5	4.4	3.9	2.2	-	-	-	-	14.0
Montepuez	-	-	-	6.1	6.1	12.5	22.9	20.9	68.5
Govuro	3.6	1.3	0.8	1.5	1.5	1.0	2.7	1.1	13.5
Inhassoro	3.6	5.7	3.3	6.6	6.6	3.9	2.7	4.3[9]	36.7
Moatize	8.6	13.0	11.0	6.4	6.4	7.3	44.2	50.9	147.8
Marara	-	-	-	-	-	-	3.5	3.5	7.0
Chinde	-	-	-	-	0.0	0.8	1.4	1.4	3.6
Manica	-	-	-	-	0.0	0.8	1.2	1.2	3.2
TOTAL	19.2	24.4	18.8	22.8	22.8	30.3	83.4	88.0	309.7

Source: MEF. Citizen's Budget (2013, 2014; 2015; 2016; 2017; 2018; 2019; 2020).

Republic of Mozambique (2013; 2014; 2015; 2016; 2017; 2018; 2019).

The data in Table 2 was structured based on information from different government sources, including State Budget Execution Reports, Citizen Budget documents, and information provided by district government officials and civil society. The data in the State Budget Execution Reports in some cases present figures that do not match the volume of revenue transferred, and in other cases there are districts that could not receive their share of the revenue for the benefit of the other district because of an error in the "cost center" entry in the State's financial administration system (SISTAFE) by the officials responsible for these operations at MEF. Example of Inhassoro in 2015 and 2020 whose value will have been transferred to Govuro District.

Chart 1. Annual growth of transfers to communities, 2013 – 2020 (millions of meticais)



Source: State Budget Execution Reports, and Citizen Budget (2013-2020).

Table 2 presents aggregate data on community transfers by producing district, and chart 1 illustrates the annual growth of transfers in aggregate terms. The data show an evolutionary trend, although in 2015 there was a 22.9% reduction in total transfers compared to the previous year. The districts of Montepuez and Moatize have been the only ones with a more remarkable upward trend. However the growth of transfers to Moatize for the years 2019 and 2020 has been extraordinarily striking. The volume of transfers to this district rose astronomically by 7.3 million Meticais in 2018 to 44.2 million in 2019 and 50.9 million in 2020. Vale's Brazilian subsidiary in Mozambique, responsible for producing

8 More complete information available in the 2013 Budget Implementation Report. Republic of Mozambique (2013). State Budget Execution Report. January to December 2013. http://www.dno.gov.mz/docs/orc_estado/execucao/REO_Jan_Dez_2013.pdf.

9 According to information from a member of the government in Inhassoro District, the district has not received notification of the transfer of gas revenues, allegedly because of a registration error in the state financial management system, because it was posted as revenue for the community of the locality of Pande in Govuro District. (Interview in Inhassoro, 17 June 2020).

the largest volumes of coal in Moatize, had its first record production in 2017, when it reached 11.2 million tons of coal, against 5.6 million in 2016. In 2018, production remained high, with a production volume of 11.5 million tons almost the same as the previous year. The expansion of the company's operations contributed to this increase.

The 8 years of experience in transferring production tax revenues to the communities, the total volume for the entire period reached 309.7 million Meticais. The largest volumes were recorded in 2019 and 2020, with an aggregate total of these two years together of 171.4 million, which corresponds to 55.3% of the total volume of 8 years of transfers to the communities affected by mining and natural gas projects. The largest contribution was recorded with coal mining operations in Moatize, whose transfers covered 53% and 57.8% of total transfers in 2019 and 2020 respectively.

Until the economic year 2016, the calculation of transfers was based on the collection of the mining and petroleum production tax of the previous year (n-1). This criterion was changed in the 2017 economic year, as mentioned before in this study, and the revenue from two years ago, i.e. year (n-2), was now considered (see Republic of Mozambique, 2017: 43). This means that in 2017 the revenues transferred to the communities corresponded to the revenues of 2015, the same year on which the share for local communities was based in 2016.[10]

Information on transfers to communities is not always consistent in different government reports. The data in the Citizen's Budget (CB), a document produced by the MEF, the description of the amounts in some cases does not coincide with that in the State Budget Execution Reports (SBER). In addition, the territorial reorganization that has given rise to the creation of new districts in recent years fails to be updated in the data on districts receiving transfers of shared revenues. The creation of the district of Larde, for example, has changed the territorial configuration of the district of Moma in Nampula. And following this change the locality of Topuito, where Kenmare extracts heavy sands, moved from Moma to Larde. However, systematic government reports continue to link Topuito to Moma, while other government documents also indicate the district of Larde.[11]

3.4. Determination and transfer flow of 2.75% and its implications

The transfers related to the 2.75% of production tax revenues from the mining and oil industry directed to the communities of the producing regions involve public funds. The flow of transactions to the governments of the producing districts is made through the same channel as the State Budget for the district, and its execution is subject to the same rules and procedures as the State Budget.

Most countries with experiences of revenue sharing with sub-national governments, transaction flow operations occur within government budget systems through intergovernmental financial transfer systems. However, funds are then distributed to dedicated accounts allowing for more transparent resource management. On the other hand, there are also examples of transactions that occur off-budget (Bauer et. al, 2016a). Additionally, there are transfers to sub-national governments where one percentage is distributed directly among the beneficiary populations and another is applied to development projects defined in public consultation (Idem.).

A recent study on governance in the extractive sector in northern Mozambique argues that in most cases decisions on the allocation of funds are previously made by the government, despite the formal role of local advisory councils, mechanisms for the time being described by actors in the communities as irrelevant from the point of view of representation (Salimo, 2020). The weakening of the decision-making role of communities increases the discretionary authority of the district government.

A report on the working visit of Members of Parliament of the 5th Commission, the Commission of Agriculture, Economy and Environment, prepared as part of the monitoring of the implementation of the 2.75%, points out that the purchase of a tractor by the district government in an inflated amount of just over 4 million Meticais that the government had difficulties to provide evidence of the purchase to the Parliamentary mission. The findings presented in the report also

10 MEF. The Citizen's Budget 2016.
11 See for example the documents of the "Citizen Budget 2017 to 2020" produced by MEF, in comparison with the Government Reports on the Execution of the State Budget for the period 2017 to 2019.

include information on the poor relationship between the district government and the advisory council.[12]

Minutes of an ordinary session of the advisory board as well as a monitoring report on projects funded with 2.75% revenue for the communities in Moatize, recounts cases of payments on 100% of construction contracts that were not completed, of which the beneficiary communities were not aware of having been made, using 2.75% funds. Despite the contractor's abandonment of the works, the government did little to hold those involved accountable.[13], [14]

The absence of a clear line of distinction between funds from transfer income to communities affected by extractive projects, vis-à-vis district State Budget funds, has provided for the use of those funds to meet specific project funding needs that should be supported by the district government State Budget. Episodes of projects that had been planned under the Economic, Social Plan and District Budget (ESPDB) were narrated and ended up being presented as having been carried out with revenues from transfers to the communities.[15]

These practices often hide situations of embezzlement of funds from the State Budget and/or revenues from sharing with communities. The biggest problem stems from the conception of the fund as public money, on the one hand, and on the other hand, because of the transaction flow platform that resided in the same system of transfers of the State Budget and therefore imposing the same rules and procedures for the use of funds transferred to the communities. Experience points to systematic delays in the disbursement of the fund to the governments of the producing districts.[16]

Until June, when the field research was in progress, the district of Larde had not yet received the fund foreseen for the current year. In Inhassoro, a senior officer of the district government confirmed that there were delays in transfers whose implications are reflected in poor project execution. Data on the execution of transfer revenues indicates for some years a low performance. This is a consequence of the delay in transfers from the central government to the district governments, which makes the execution process pressured by the rules of closing the financial execution until December 31, when the resources not used by that date end up returning to the national treasury account. In this sense, transfers to communities are plunged into a framework not only of a lack of transparency, but also in a context of procedures that almost deny the right to use resources that belong to communities, since transfers to communities fundamentally represent a form of compensation and reparation to communities for losses inflicted by extractive operations.

The determination of the corresponding revenue transfers to the communities is made from the production tax. In this case, it should be understood that such revenues are deducted according to the volume of production tax paid to the government. However, here lies one of the main problems with the 2.75% revenue, which is the lack of reliable information on the amounts of taxes paid to the State by mining and oil companies. The government has privileged to present aggregate information on revenues from the extractive sector, which makes it difficult to track the processes of determining how much is effectively shared with the communities.

The Extractive Industry Transparency Initiative (EITI) report for the years 2015 and 2016 suggests that Nampula Province received 100% of Kenmare's planned 2.75% transfers to the Topuito community, but the authorities were unable to provide information on the investments made, and accountability to the communities was not guaranteed (EITI 2018). The data in table 3 shows Kenmare's payments for different taxes, including the production tax for the period 2013-2018. The taxes on production in this period amounted to US$ 18,386 million.

CIP points out that from 2011 to 2018, the total amount of production tax paid to the Mozambican Government was US$21.3 million, corresponding to almost 950.4 million Meticais. On this basis, the total revenue corresponding to the 2.75% production tax for the communities during the period from 2013 to 2018 may have reached US$ 505.62 thousand.

12 Parliament (2019). Report of the 5th Parliamentary Commission on the working visit to the province of Nampula, district of Larde, from 20 to 24 February 2019.
13 Minutes of the First Regular Session of the Local Advisory Council, Kambulatsitsi Locality, Cateme Village. 10 March 2020.
14 Moatize District Government, Summary of visits to the works built under the 2.75%.
15 Interview in Nampula with members of a civil society organization and confirmed in a joint interview with members of the Lage district platform. The same information was confirmed in an interview with a senior official of Inhassoro district government (June 2020)
16 AENA (2018). Dynamics in the channeling and management of state revenues from the extractive sector for the development of local communities. Mozambique Policy Brief . August 2018.

Table 2. Volume of taxes paid by Kenmare 2013-2018

	2013	2014	2015	2016	2017	2018	Total $'000
Mining royalty	3.860	3.563	2.826	2.371	2.833	2.933	18.386
Industrial free zone royalty	-	1.868	1.486	1.538	1.517	2.553	8.962
Payroll taxes	9.499	10.564	8.551	7.405	6.998	8.378	51.395
Withholding taxes	459	422	462	695	978	1.077	4.093
Licenses	77	215	123	24	12	3	454
Total (US$' 000)	13.895	16.632	13.448	12.033	12.338	14.944	83.290

Source: Kenmare Resources plc, Annual Report and Accounts 2018. https://www.kenmareresources.com/application/files/8215/5420/0299/Kenmare_Resources_plc_Annual_Report__Accounts_2018.pdf#page=53 (access, 02 January 2020 – extracted in Salimo, 2020).

A representative of a civil society organization that is also a member of a privileged working group on the extractive industry in Nampula, a group involving government, provincial assembly, extractive companies and civil society, estimated that the revenues transferred to the communities for Kenmare's operations from 2013 to 2019 were 18 million Meticais. Therefore, this volume of resources compared to the amount that could be expected from the discount of 2.75% of the tax on production now paid, in the database of the annual report and accounts of Kenmare, shows significant differences. What was done with the amount not transferred to the communities is not clear, and the district government has done nothing to demand explanations from the central government about the volume of revenue that should go into the district government's account as part of the community transfers. In most cases the district government does not even know the amount to be transferred.

The Administrative Court (AC 2019) found in its Report and Opinion of the General State Account (ORGSA) of 2018 that Sasol paid the State 523,012,866.14 meticais of Production Tax. From this amount, deducting 2.75% of the revenue for the communities would be to transfer 14,382,853.82 meticais. However, the amount channelled to the beneficiary communities, namely the communities of Maimelane in Inhassoro; and Pande in Govuro was 4,838,200 meticais, or only 36.6% of the total that should have been transferred.[17] In the communities of Cateme, 25 de Setembro, Chipanga and Benga all in the district of Moatize in Tete Province, more than half of the amount that should have been transferred did not reach the beneficiaries.

Although HMM pays taxes to the government, Angoche District has never received any transfers to the communities that should benefit from the sharing of revenues from heavy sands mining. In 2015 and 2016 HMM paid 3,065,526 and 4,017,299 Meticais of production tax respectively (see EITI 2018 Report). At a meeting of the Provincial Observatory that took place at Plaza Hotel in Nampula City in December 2019, the issue of the lack of revenue sharing of heavy sands extraction with communities affected by the operations was raised by a member of the Angoche civil society district platform. Both the provincial and district governments were unable to respond to the circumstances that determine that community transfers to Angoche district are not occurring. However, the director of HMM who also attended the observatory meeting confirmed that the company was paying its taxes regularly and that the transfers that did not occur were the responsibility of other entities.[18]

It is expected that funds that do not reach district governments may have been redirected to cover deficits in spending on goods and services that the central government may have considered a priority (Salimo, 2020). It is also likely that part of these funds is being diverted into corruption schemes.[19] The volume of revenue from which the fraction of the revenue shared with the communities is calculated is not always clear so much to district governments as to beneficiary communities and civil society organizations working with communities affected by extractive sector projects. Ideally, information on resource production and payments to the State by extractive companies should be made public. Additionally, the terms of

17 AC, Report on the 2018 State General Account.

18 According to the member of the district platform of Angoche, during the discussion at the session of the Development Observatory, the representative of Hayu Mozambique Mining raised the possibility of deducting from the tax on production the percentage to be transferred to the communities and allow the company to make the direct allocation and thus reduce the confrontations with local communities.

19 Interview in Nampula City with representatives of social society organizations (June 2020).

the commercial agreements between the government and the extractive companies should also be public.

Access to this information essentially depends on the government's commitment to transparency and the potential for civil society engagement in promoting transparency and accountability that is framed in the Access to Information Act (Salimo, 2020). These elements could lead to greater demand from different stakeholders, and especially from communities affected by extractive ventures and civil society organizations for a more consistent demand for greater clarity and consistency on the volume of community transfers. With the future process of decentralization of district governance reforms, which could begin in 2025, it can be anticipated that in the future district governments will also be able to intervene in this same direction of demand for greater clarity about community transfers, a situation that is unlikely to occur in the current model of centralized governance and control of the agendas and dynamics of budget allocations by the elites of the central government and the ruling party.

3.5. The 2.75% and its Implications for the Development of Beneficiary Communities

The communities of the localities that have benefited from the development projects financed with the revenue sharing funds from mining and oil extraction have witnessed the construction of infrastructures that could contribute to the improvement of local living conditions. But there is a big gap between what is built, its quality and the potential to generate transformations that can positively affect people's lives. Populations in different communities covered by the revenue transfers claim the invisibility of the investments made so far.[20] There is a lack of evidence of any correlation between the amounts transferred to the beneficiary communities and development and poverty reduction. The 2.75% beneficiary communities in the districts of Larde, Inhassoro, and Moatize continue to live in poverty.

District governments build infrastructures that apparently result from their own decisions. Failures to ensure genuine community consultation have been pointed out systematically. District authorities close themselves off from their own visions and interpretations of the problems that need to be addressed. As a consequence, communities no longer review themselves in the implemented projects. There are market infrastructures and schools that have been built for years and yet have become useless. In Namanhumbir as well as in Inhassoro and Larde there are examples. In Larde, the situation described by the communities is even more complex. For almost two years the district government has awarded a contract to build a market that despite injecting funds in two consecutive years was never completed.

The central issue of mismatch between investments made and local development is the approach that has been followed by district governments. And in some cases with the tacit support of members of local advisory councils and civil society organizations who have the privilege of taking part in decision-making spaces for defining project choices and bidding for services. The fragmented approach to interventions and the lack of consistency between community development projects and the real poverty challenges in the communities concerned, among other factors, represent important challenges to achieving greater effectiveness in the allocation of transfer revenues to communities. There is no holistic thinking about community problems. The current interventions are a kind of retail products and services that essentially serve to add statistics to district government information on infrastructure construction and procurement. However, the consequences of these projects have proven to be a source of replication of the problems of poverty and the basic inadequacies that communities face, either because of the poor quality of the infrastructure requiring recurrent interventions, or because of its uselessness, since the communities do not use them because they do not recognize themselves in them.

The idea of community participation in the decision-making process about the nature of projects to be implemented is only important from the point of view of ownership of the results of the interventions, but it does not solve the problem of lack of consistency between what is done and the objective of development. In this sense, it is important that beneficiary communities and district governments are assisted by external entities to develop ideas on the development perspectives of the communities covered in line with the poverty challenges they face and live through. This can be done with the support of organizations in society with the necessary technical skills and know-how.

An important issue that deserves some attention is related to the idea of the involvement, inclusion or participation of local communities in the definition of development priorities and the allocation of resources from transfers to communities. It is

20 Meeting with community members from Maimelane, Inhassoro (June 2020)

healthy to recognize that this perspective minimizes the power and responsibility that communities have over the 2.75% of revenues from transfers to communities, taking into account the principle of belonging of revenues to communities. Despite the postulate that the share of revenue shared with the communities is public funds, one cannot ignore the fact that they are not public funds that fall to the government like any other fund in the State Budget, and in this sense the owner of the resources decides for himself on investment options.

The idea that sharing should be done with those communities affected by the ventures is explicit recognition that there is a right of some kind over the resources that link them to extractive operations. It is from this that the need to repair losses and share gains emerges as a fundamental issue. On that basis, it must change the assumption of involvement, and conceive the decision-making process as a premise of the primary responsibility of communities in the sense that they themselves become the subjects of the choices of local development initiatives, as well as of the execution of funds through assistance from the government and other responsible and suitable actors in the field of civil society, including banks.

The importance of banks in this regard stems from the need for the fund not to be tied to normal execution operations within the framework of the procedures applied to the State Budget. This can ensure that communities decide to move forward with savings mechanisms to induce more voluminous investments in the long term and articulated to an integrated development perspective.

3.6. Elements for a Revenue Sharing Model

The revenue sharing model for the mining and oil sector in Mozambique is essentially an initiative to return to the communities hosting the projects a percentage of the revenue generated by the extractive companies and, in the particular case only that related to the production tax. 2.75% has been defined as the percentage of revenue transferred to the communities hosting the mining and oil projects. It is not clear what was the basis for determining this percentage. No formula has been established for the transfers. And the percentage of revenue sharing is so far uniform for all types of natural resources associated with mines and oil. In other words, the differentiation between types of mines (ruby, gold, zinc, aluminium, graphite, etc.) and oils (oil, natural gas, condensate, etc.) as happens in other jurisdictions has not been considered for the establishment of a differentiated percentage. Therefore, regardless of the nature and type of resources and their location, whether on land or in deep waters, the percentage of revenue from the transfer to the communities is the same.

Additionally, the transfers are specifically dedicated to investments for community development, and exceptionally the communities in the areas of extractive enterprises. Therefore, despite the advantages of having a sharing income that returns to the communities affected by the extractive projects as part of the process of compensation and repair of losses of rights, property and tangible and intangible assets, the communities are still subject to a framework that imposes on them the nature of the projects to be implemented.

District governments are not currently the beneficiaries of transfers to communities. And in this context, although there are intergovernmental transfers that allow allocations to district governments and other sub-national governments, there is no approach to a model that refers to explicit recognition of sharing revenues from mining and oil tax payments with districts, whether or not they produce the resources. While this may be considered an irrelevant issue in the sense that the revenues generated by the extractive industry can be said to be included in the total revenues that finance the state budget, and that in this way their redistribution to all territorial levels of government is guaranteed, it is a fact that society has very high expectations around the gains from the exploitation of resources and that they can act as a driver for mobilization or political contestation. Probably the current volume of revenue does not justify an approach that makes the process of redistributing revenues from the extractive sector more understandable, visible, and comprehensive.

However, a key question is what revenue sharing model is appropriate for the context and conditions of the extractive sector in Mozambique? Three objectives are advanced on which the revenue-sharing model proposed in this study is based: First, the revenue shared with the sub-national level represents a compensatory mechanism for areas affected by livelihood losses, environmental damage, and socio-cultural divisions; Second, transfers as a mechanism to promote local development tailored to the conditions and characteristics of the territories; Third, transfers as an incentive to promote conditions to ensure peacekeeping and consolidation in the producing districts.

The assumptions of the revenue sharing model proposed in this study are associated with the technical aspects and political governance dynamics related to current practices of transfers to communities and their outcomes. As discussed further back, the 2.75% did not produce relevant results in terms of beneficiary communities' development. The problem, according to the results of this study and others, stems from the political economy nature of state budget allocation and execution. The procedures for managing transfers to the communities do not favour transparency. The ways in which the projects on which the revenue allocations are to be made are defined do not favour appropriation by the beneficiary communities. The institutional management framework favours revenue misappropriation and corruption practices, as well as the use of community resources to cover deficits in the State Budget for financing government projects. Therefore, the 2.75% threshold is not in itself the problem behind the lack of visible results of investments in the community, but rather how the resources arrive in the district, and how they are managed and applied.

The current model of transfers to communities is exceptionally geared to the benefit of communities affected by extractive ventures. As a consequence, a space has been created that is potentially reproductive of more inequalities between communities in the same district and beyond. And the perception of opportunities to improve conditions of access to goods and services is beginning to be perceived among the communities adjacent to those receiving transfers to the communities. In Namanhumbir, cases were reported of people from other locations seeking to settle in the communities of that locality in search of opportunities to benefit from the advantages that the community has as recipients of transfers of 2.75%. This poses important challenges also in terms of social and political stability that need to be considered in the context of transfers of sharing revenues associated with the exploitation and production of natural resources.

Based on these arguments, the revenue sharing model for mining and oil proposed in this study follows the following three assumptions.

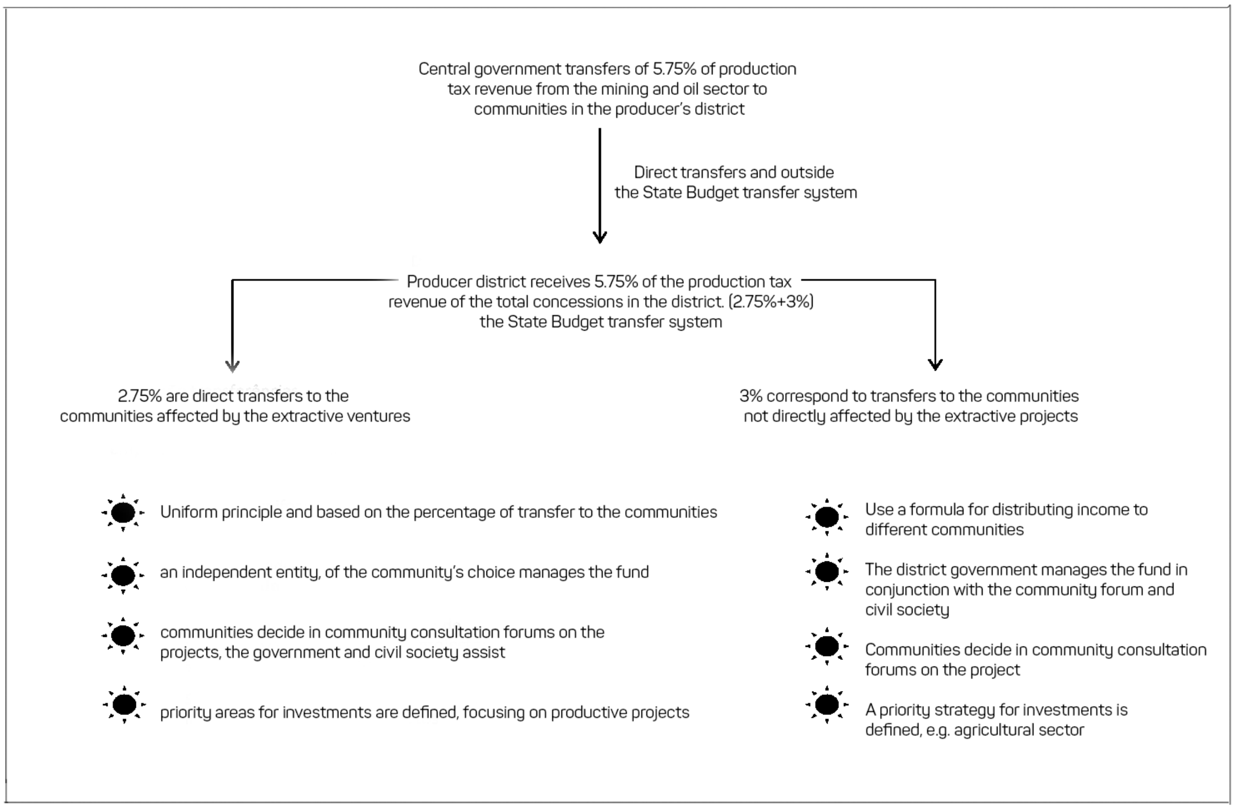
First: A transfer model based on derivation, which favours transfers to production regions as is currently the case, with the difference that the sharing extends to the scope of the government of the producing district to allow revenues from resources extracted in the district to be shared not only with the affected communities directly with the extractive operations, but also with other communities in the producing district, but with a clear advantage of the affected communities from the point of view of the proportion of revenue to be transferred. This is a clearly distinct approach from that which favours only communities affected by mining and oil developments. This assumption suggests a horizontal redistribution approach in the producing district.

Second: The districts receive a total percentage of 5.75% of the revenue from the tax on mining and oil production. It is proposed here an increase in the current reference rate for transfers to communities, which is 2.75% of the tax on production plus 3%. The percentage set refers to revenues from each concession. In this scenario, the transfers to the communities affected by the ventures remain unchanged, i.e., they remain fixed at 2.75%, but change the mechanisms for transfers, allocation, management and determination of community development projects. The fund management model places the beneficiaries of community transfers at the centre of the decision-making and revenue management process. The resources should allow for some flexibility in deciding which initiatives to finance, but must be more focused on promoting integrated development and holistic community intervention. The flow of transfers should occur outside the State Budget, to ensure better management and possibilities to promote savings for future investments and independent management mechanisms should be established.

Third: The 3% percentage referred to in the previous number, is also extracted from the production tax of all the concessions of the producing district. This tax is allocated to the district government for investments in infrastructure indispensable for the promotion of community development that privileges agricultural projects in other communities not directly affected by extractive undertakings. Agricultural development is considered a priority in this exercise due to the complexity of the nature of development challenges in communities that require communities to have at least the possibilities of guaranteeing food production. The volume of revenues corresponding to the 3% is divided among the total number of localities and/or communities that are not directly affected by the ventures, and the redistribution among localities or communities must follow a formula that takes into account (i) the number of locality and/or community populations; (ii) the incidence of poverty; and (iii) the quality of infrastructure to support agricultural production. The weight of each of these indicators will be as follows: (i) population (50%); (ii) poverty (25%); and (iii) infrastructure (25%). This rate emerges as an important mechanism for reducing inequalities and preventing conflicts associated with the exploitation of natural resources.

Therefore, on the basis of the three assumptions presented above, the revenue-sharing model for mining and oil production is essentially a shifting model, which sets a rate of 2.75% of the tax on production for the communities directly affected by extractive project operations, and additionally a rate of 3% channelled to the district government, which is then redistributed to the communities not covered by the 2.75%, as a measure to reduce socio-economic inequalities and sharp disproportion in access to resources needed for poverty reduction, and to create an environment for mitigating the risks of conflict. The figure below represents the proposed model.

Figure 1. Model for transfers to communities



Source: The author.

4. Conclusions and recommendations

Conclusion

The revenue-sharing models of the extractive sector are influenced by the dynamics and levels of sensitivity of governments on key development issues. Some governments define models based on sound information and knowledge about the nature of resources and their production capacity, and others adopt models on an ad-hoc basis. Some are clear about the assumptions and determinants of redistribution, and others do so mechanically. Nevertheless, there is a broad consensus in resource-producing countries on the need to adopt transfer mechanisms for sharing natural resource revenues. The determinants of decisions on sharing vary from one country to another. Nevertheless, there is also a widely shared foundation in the different jurisdictions, which is the idea of compensation and reparation for communities in regions negatively affected by extractive operations. It is because of this that, like many other countries, revenue sharing with resource producing regions is the most widespread practice in resource-rich countries.

Practice in Mozambique has shown that the process of revenue sharing has not been transparent. This is true both in determining the volume of revenue to be shared as well as in managing the funds in the district. The difficulties in making public the information on the taxes paid by the companies only serves the interests of the government. Linking the shared funds with the communities to the management and execution procedures of the State Budget is detrimental to the objectives of the fund. The model confuses transfers to the communities with the State Budget of the district governments, allowing overlapping projects and corruption in management, thus preventing investments from generating development in the beneficiary communities. The current "model" of transfers to communities has the potential to generate very deep inequalities that are critical to social and political stability, due to the concentration of resources in exclusive communities in the district, placing the other adjacent communities in the same district without any benefits from resource exploitation, and it is therefore important to rethink the adoption of additional horizontal transfer mechanisms, exclusive to the districts of production inspired by distribution by indicators.

Recommendations

- To change the current flow of transfers from the revenue shared with communities that is made through the state budget to a flow outside the state budget.
- Create an independent body for the management and execution of the revenue from transfers to the communities.
- To change the mechanisms for allocation, management, and determination of community development projects to promote greater transparency and effectiveness in project implementation results.
- Increase the percentage of the revenue sharing rate to include communities in the producing district not directly affected by extractive projects and currently excluded from the benefits of community transfers.
- Consolidate transfer mechanisms for communities to reduce inequalities and risks of conflict in natural resource producing districts.

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