

The Government Budget for 2021 downplays the Impact of the Conflicts in the Central and Northern Areas and of COVID - 19

*Not even in a period of crisis are sacrifices seen by top leaders!
There are excess expectations about the gas projects
The omission of information on Public Private Partnerships stands out
Combating corruption does not go beyond the theoretical*

SUMMARY

The Government Budget 2021 is presented in a context of uncertainty due to the effects caused by the COVID-19 pandemic, at the global level, and by the scenario of conflict in the central and northern areas of the country. It is a budget based on a moderate, but unrealistic, scenario of a GDP growth estimate of 2.1% and inflation of 5%, minimizing the context of a deep crisis in which the country finds itself that may prevail in the next economic year, giving an indication of lack of clear political guidance for responses to the crisis.

In this context of crisis, greater sacrifices were expected from top leaders as a viable alternative for mobilizing domestic resources without additional costs for the public purse. Fiscal consolidation in this budget has been camouflaged by an unrealistic increase in GDP, to convey a misperception that sacrifices are being made while in reality they are not.

For the current year of 2020, the Medium Term Fiscal Framework (CFMP) 2021 - 2023 forecasts a drop in GDP of up to -1.2% under a pessimistic scenario, but that CIP argues is realistic. As the bulk of the economic impact of the pandemic will only be felt in 2021, it is unrealistic to base the budget on a 2.1% growth in GDP.

Efforts worldwide are aimed at strengthening priority sectors such as health, education and social protection with a view to providing them with sufficient resources to face the impacts of COVID-19. In Mozambique, this is still far from happening. These sectors have been neglected over the years, and all the efforts made at this level - even if reinforced - will initially serve to only close the gaps of the past.

Mozambique, in addition to COVID-19, has the challenge of containing the conflicts in the central and northern areas, which have caused more deaths than the pandemic has caused in the country, and most certainly, contribute negatively so that the whole effort of prevention and spread of this disease is being nullified.

Public-Private Partnerships (PPP), specifically the large economic undertakings of the Government outsourced for private management, are a potential source of Government revenue. However, as in previous years, there is no forecast of revenues, expenses or budgetary risks associated with PPPs, which constitutes a systematic violation of the law. In fact, this situation is a way of concealing the revenues obtained from PPPs from Parliament and Mozambicans. Without information about PPPs in the Government Budget justification document, it is impossible to carry out an effective inspection by Parliament, by the Administrative Court as well as by the citizens, which increases the risk of corruption in this area.

In a context in which the Attorney General's Office (PGR) announced that corruption tends to increase, the budget proposal justification document does not introduce any measures to combat it. It is essential to move from theory to practice. In other words, there is a very incisive political discourse to fight corruption, but in terms of creating concrete measures for this purpose, nothing is apparent. There is also an effort in society to strengthen the anti-corruption legal and institutional framework. However, the effectiveness of this effort must be assessed in terms of proactive actions by the bodies charged with applying the law, which has been lacking.

The fight against corruption is still selective, since corruption is not combated holistically, meaning that cases of big and small corruption should be covered to the same extent and with the same intensity. When top officials of the public administration are involved, actions against them have proven to be ineffective, and it is only in cases of pressure from society that the institutions charged with the control, inspection and repression of corruption show a reaction.

Similarly, it is necessary to create specific measures to fight corruption at the level of political office holders. There is little control over their performance, which means that, especially at the end of the government cycles, the respective holders are more focused on guaranteeing their future beyond the exercise of their functions, squandering public funds placed at their disposal that were to be managed during their time in office.

INTRODUCTION

This note analyzes the Government Budget Proposal (POE) 2021 from a macroeconomic and sectoral perspective, covering general aspects related to the management of public finances, extractive industry, Public Private Partnerships and the government's efforts to fight corruption.

In this analysis, CIP intends to alert the Government and the public about the permanent need to adapt to the “new normal” in the context of a crisis of varying magnitude in which the country finds itself.

The budget document itself provides for the reduction of travel expenses, capitalizing on the use of information and communication technologies and the automation of certain internal processes. The POE's 2021 main lines of intervention are, on the one hand, the continuation of actions in the tax area with a view to increasing and diversifying levels of revenue collection, and, on the other hand, the rationalization of public spending, given limited resources. In this sense, for the optimization of revenues, it is foreseen to:

- (1) broaden the tax base to improve efficiency and effectiveness of revenue collection;
- (2) improve the collection of domestic revenues, through: (i) improvement of customs transit control¹, (ii) consolidation of the modernization of revenue collection systems and maintenance of the data center, (iii) improvement of the Single Electronic Window (JUE) e-taxation, and (iv) legislative reform to accommodate the challenges of the digital age;
- (3) strengthen fiscal administration and control over the fight against tax evasion.

For the optimization of expenses, it is foreseen to:

- (1) rationalize the Civil Service salary pyramid;
- (2) update and implement the new SISTAFE Law;
- (3) proceed with the modernization and reforms of public administration; and
- (4) redirect resources towards the Education, Health and Social Action, Agriculture, Infrastructure and to the Defense and Security Forces sectors.

Nonetheless, it is clear that some actions are still presented in a vague manner and without the necessary details to allow society in general to understand their impact on the budget. There is an intention to rationalize the public service wage pyramid, but the budget accounts show a different scenario.

¹ As Tax Policy Measures, the CFMP also mentions focusing on the sealing of beverages (page 29, paragraph 79).

1. PUBLIC FINANCES

Public Resources

The budget proposal assumes a moderate economic growth scenario foreseen in the medium-term fiscal framework (CFMP 2021 - 2023) of 2.1% and 5% inflation (the moderate scenario predicts 4.8%). The three documents (CFMP, POER 2020 and POE 2021) assume a moderate economic growth scenario for 2020 of around 0.8%, which CIP argues is too optimistic. Furthermore, the POE 2021 errs by being still quite optimistic, minimizing the exogenous and endogenous shocks that the country is facing.

The fact that POER 2020 (draft supplementary budget) was submitted late to Parliament, and therefore in a context in which its usefulness is diminished for the purposes of timely analysis, compromises the comparison with the figures in the POE 2021. All comparisons in that document were with respect to the OE 2020 Budget Law, ignoring the revisions made in the POER 2020.

A first observation is that the POE 2021 shows some important differences with the CFMP 2021-2023, published in August 2020². In the CFMP, total domestic resources are budgeted at 25.6% of GDP (equivalent to 290.8 thousand million meticais, MMT), while in the POE 2021 they are projected at 27.3%, equivalent to 309.1 MMT. It is difficult to understand why, in the space of a few days, such an important projection varies by such a significant amount (6.3%). CIP recognizes that in the current context of crisis it is important to constantly review scenarios to adapt them more and more to reality, but in this case it is speculated that there is a lack of agreement within the Ministry of Economy and Finance.

The mathematical explanation of the discrepancy is that the POE 2021 includes 2.5 MMT of the balance carried over from capital gains (the CFMP does not include anything) and that domestic internal credit is budgeted at 41.0 MMT (the CFMP projects 28.5 MMT, equal to the Budget Law 2020). But the budget justification document makes no reference to the reason why the figures deviate from the CFMP, which is supposed to be the guiding document for the Government's fiscal policy.

With respect to domestic resources, the Government intends to maintain pressure on the private sector in the collection of the corporate income tax, VAT, and foreign trade tax, without referring to any action to reinforce the mobilization of resources in the extractive sector.

The POE 2021 also intends to mobilize financial resources from abroad, betting on the implementation of new investment projects by development partners. Again, there is a discrepancy of more than 10% between the figure projected in the CFMP and POE 2021. Total external resources are 59.5 MMT in the POE 2021 against 54.9 MMT in the CFMP.

The item of project grants increases by 63.4% compared to the 2020 Law, which adds 0.7 percentage points (pp) to the equivalent amount in terms of GDP. If the comparison had been made in relation to the POER 2020, it would have been an increase of about 27.6%. The OE Law 2020 is an outdated document for comparison with the POE 2021.

CIP proposes that the MEF incorporate updated 2020 budget figures into the 2021 Budget before it is approved. To this end, Parliament should first discuss the POER 2020 and then the POE 2021 to allow some consistency to be given to the approved documents.

² 2 Government of Mozambique, CFMP 2021 – 2023, Maputo, August 2020.

Quadro 10. Recursos Externos (Milhões de MT e % do PIB)

	2019	2020	2021	2019	2020	2021
	CGE	LEI	PROP.	CGE	LEI	PROP.
	<i>Em Milhões de MT</i>			<i>Em % do PIB</i>		
Recursos Externos	47,997.3	67,007.1	59,541.5	5.0%	6.6%	5.3%
Contravalores não Consignados*	-	21,038.3	3,433.8	-	2.1%	0.3%
Donativos	-	11,048.3	3,433.8	-	1.1%	0.3%
Créditos	-	9,990.0	0.0	-	1.0%	0.0%
Donativos	11,105.9	19,985.4	30,572.1	1.2%	2.0%	2.7%
Para Projectos	4,989.2	14,478.9	23,662.9	0.5%	1.4%	2.1%
Fundo Comum	6,116.7	5,506.5	6,909.3	0.6%	0.5%	0.6%
Créditos	36,891.4	25,983.4	25,535.5	3.9%	2.6%	2.3%

* Apoio Geral ao Orçamento

Public Expenditures

It was expected that the burden of the crisis would be shared with top leaders...

The current context of global uncertainty requires governments to take unprecedented policy measures. In the case of Mozambique, the budgetary effort required in the social sectors can also be a window of opportunity to improve the quality of infrastructure and the provision of social services to citizens.

Total expenditure for 2021 (GDP growth forecast: 2.1%) is expected to be around 32.5% of GDP, in a context in which the POER 2020 (GDP growth forecast: 0.8%) predicts that total expenditure will reach 41.9% of GDP. It is notable that this level of expenditure in 2020 will only be possible if the Government doubles the amount of domestic credit (from 2.8% of GDP to 5.9%). Another aspect is that external resources are increased from 6.6% of GDP to 10.1% - without giving any explanation as to how these new resources could be obtained.

The fact that the difference in budgeted public expenditure as a percentage of GDP from one year to the next is almost 10 percentage points shows clearly that the resources and GDP growth estimates may have been intentionally overestimated to convey an erroneous perception that this budget is restrictive.

In this sense, it is important to take fiscal consolidation measures that can effectively generate a cushion for the budget and to guarantee availability of resources for the sectors most affected. The POE 2021 emphasizes that, in this budget, measures were taken to rationalize the budget salary pyramid but nothing concrete is mentioned. Personnel expenditure in the POER 2020 is 13.9% of GDP (an increase of 1.7 pp compared to the OE 2020 Law), and in the POE 2021 it is 11.8%.

CIP estimates that the actual personnel expenditure in 2021 may reach 15% of GDP, due to the fact that GDP growth is overestimated and actions of sharing the burden of the crisis by the top leaders are not envisaged.

It is in this context that it is proposed that the crisis scenario in which the country finds itself be considered from a perspective of sharing the burden and not as a mechanism of illicit enrichment. In a context in which almost all sectors of the economy were affected by COVID-19, a large part of the private sector's workforce, in addition to wage cuts, became unemployed, a different reality from the public sector, where wages were not cut and there were no layoffs. Proactive actions are expected from top managers in order to create fiscal space for the implementation of COVID-19 response policies for the private sector, in particular for the informal sector and the SMEs, where a majority of women work, a fact that was not foreseen in this budget proposal.

Tunisia³, for example, recently created a solidarity fund as a mechanism to collect support at the national level (including public sector workers) and as a way of sharing the negative effects of the crisis. Paraguay announced a salary cut of between 10% and 20% for civil servants whose salaries exceed more than 5 times the minimum wage in the public sector. Uruguay has announced that top managers will cut wages by 20%, and savings will go to a fund called “coronavirus”.

The budget needs to become more credible...

Therefore, as the result of an overly optimistic projection of resources, at 2 pp of GDP above what is reasonable, expenditures are budgeted with an equal excess, comparing the POE 2021 and CFMP. This affects both operating expenses (plus 0.8 pp) and investment expenses (plus 1.5 pp).

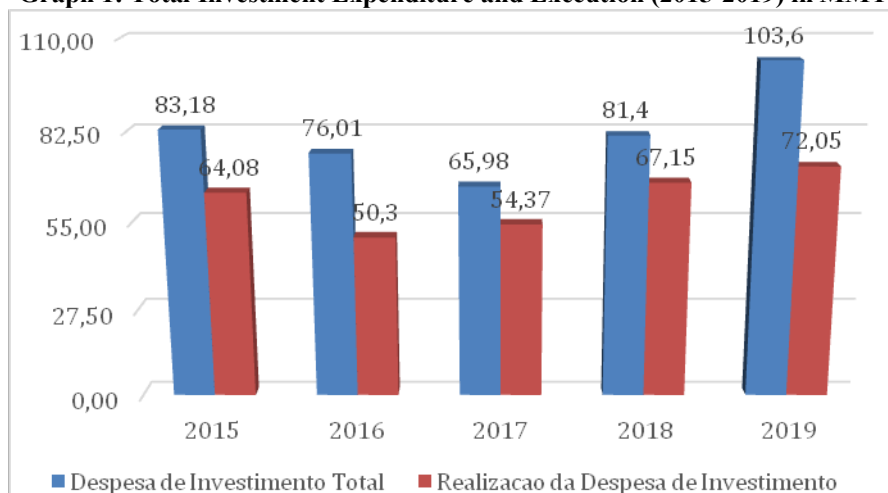
CIP proposes that the Government reduce the identified expenses and instead create a “contingent expenses” item to be spent only when resources become available, thus not burdening the deficit.

Operating expenses show the greatest divergence with the CFMP, notably goods and services (Table 13 of the POE and Table 6 of the CFMP): 37.3 MMT in the POE and 25.7 MMT in the CFMP - an increase of 45.1%, allocating about 10.5 MMT for the acquisition of medicine for the National Health System.

The big problem with this disparity is that the CFMP figure is much lower, but supposedly it still includes the effects of Covid-19 for this item. What is surprising is the fact that the figures are so different between these two documents. Also, the amount of domestic investment expenses shows 16.5 MMT (1.5% of GDP) in the CFMP, but 30.7 MMT (2.7% of GDP) in the POE 2021, a difference of 86%. This disparity could have a positive effect if this effort were effectively translated into infrastructure improvements with a long-term perspective. A greater focus on investment is desirable as an engine to boost the economy, taking into account that the figure of 30.7 MMT of domestic investment manages to be lower than the trend of the last 3 years (the POER 2020 allocated around 45 MMT).

The history of the execution of investment expenditures (domestic and foreign) by budgets has shown a trend of an average of only 75.5% in the last five years. Furthermore, experience shows that not everything that is classified as investment deserves this classification. This is one of the reasons why the country still lacks many facilities.

Graph 1: Total Investment Expenditure and Execution (2015-2019) in MMT



Source: CGE 2015-2019

Nonetheless, the investments to be made are expected to have an impact on the lives of Mozambicans. Particularly in response to the demands created by the Covid-19 pandemic and the military conflicts in the central and northern areas,

³ <https://www.imf.org/~media/Files/Publications/covid19-special-notes/enspecial-series-on-covid19issues-when-cutting-government-pay-to-helpreshuffle-spending-in-a-crisis.ashx>

it is important that the investments projected for 2021 are strategic, so that they can build a solid basis for the country's economic recovery.

Education Sector

The POE 2021 emphasizes that the allocation of resources to the sector shall be a priority. The increase in the number of employees in the education sector by 9.769, which is the largest increase in the last 5 years, is in line with the recommendations of an analysis by CIP, which drew the attention of the Government to the need to reduce the student-teacher ratio to minimize the impact of COVID-19 on schools.

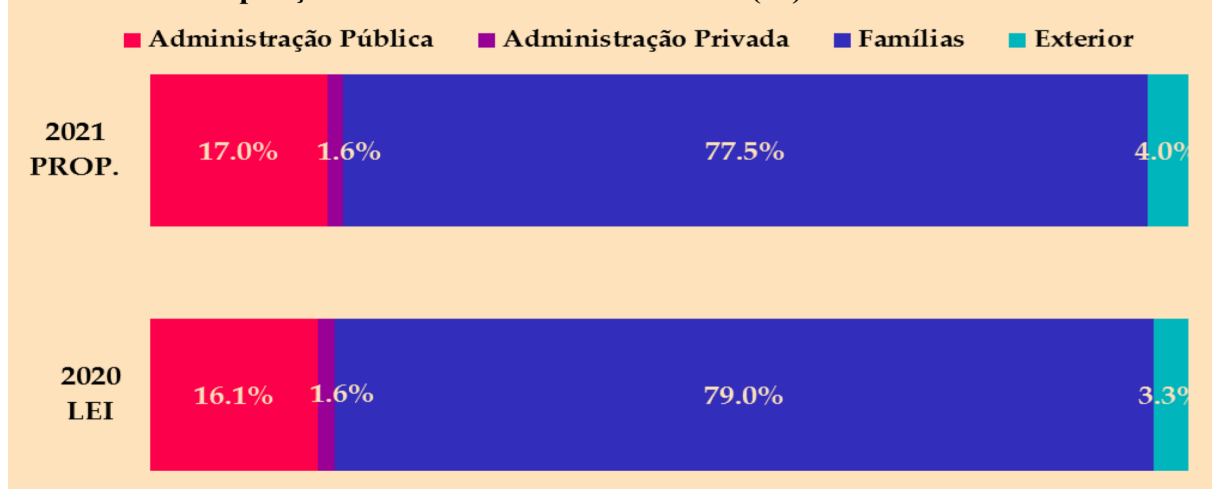
However, although the sector represents the greatest proportion of total expenditure (23.9%), in value terms around 64 MMT, the resources directed to the following year registered a reduction of 3.5% in relation to the Budget Law 2020.

CIP questions why it was not possible to increase the staff in 2020 in the proportion budgeted for 2021, when even more resources were available at that time. What is the rationale for the 2021 budget expenditure for education to be lower in the current context?

Social Protection Sector

In the current context of the crisis created by the Covid-19 pandemic, in which households that were already in a situation of vulnerability have become even more vulnerable, the tendency for declining transfers to families is surprising, according to Graph 18 of POE 2021. A 1.5 pp decrease in total current transfers does not seem to accept the seriousness of Covid-19 impact on the most vulnerable.

Gráfico 18. Composição das Transferências Correntes (%)



This aspect contradicts paragraph 105, which states that there will be a progressive increase in social protection expenditure. In addition, the POE 2021 reports that social protection programs will benefit 1,772,708 people, without specifying how many elderly people, how many female heads of households, and how many children.

Fiscal decentralization

So far, there is no formula for assigning a limit to each provincial decentralized government body, which is very serious in the context of fighting corruption. An analysis by CIP had found that the lack of a formula for intergovernmental transfers could exacerbate social inequalities in the country, benefiting some provinces more than others.

And that is in fact what is happening. CIP calculations show that all limits that were defined had deviations, with some provinces benefiting from more resources than they really should have. This is the case of the Sofala province, with an

excess of around 822 million meticaís, and the province of Nampula, with a deficit of around 366 million meticaís (see the table below).

CIP questions the rationale for the deviations in the amounts of transfers to local decentralized government bodies.

	Total CA	Total POE 2021	Difference
Niassa	556.3	594.5	38.2
Cabo Delgado	545.1	401.5	- 143.6
Nampula	1,011.5	645.4	- 366.1
Zambezia	966.5	653.6	- 312.9
Tete	612.5	413.4	- 199.1
Manica	438.3	426.1	- 12.2
Sofala	517.0	1,339.5	822.5
Inhambane	376.5	443.9	67.4
Gaza	303.4	285.7	- 17.7
Maputo	292.2	415.9	123.7
Total	5,619.4	5,619.4	

Source: POE 2021, CA (represents the calculations of the authors);

The POE 2021 stated that even though the formula did not exist, it considered the number of inhabitants per province with a weight of 60%; the territorial area with 15%, and the poverty rate with 25%.

Public debt

The public debt service remains at unsustainable levels. The CFMP shows a reduction of the public debt by only 0.6% of GDP, from 113.7% to 113.1%. However, if the level of domestic indebtedness, which is higher in the POE 2021 than in the CFMP, is updated, the level of total public debt increases to 114.2% of GDP - an increase of 0.5% of GDP compared to the level projected in 2020. Such an increase is further exacerbated by additional fiscal risks for the Government, further reducing the viability of the budget in case of external shocks - which are very likely in this situation of uncertainties created by the pandemic at the national and global levels.

2. EXTRACTIVE INDUSTRY

Excessive optimism with respect to the growth forecast envisaged for the extractive industry sector

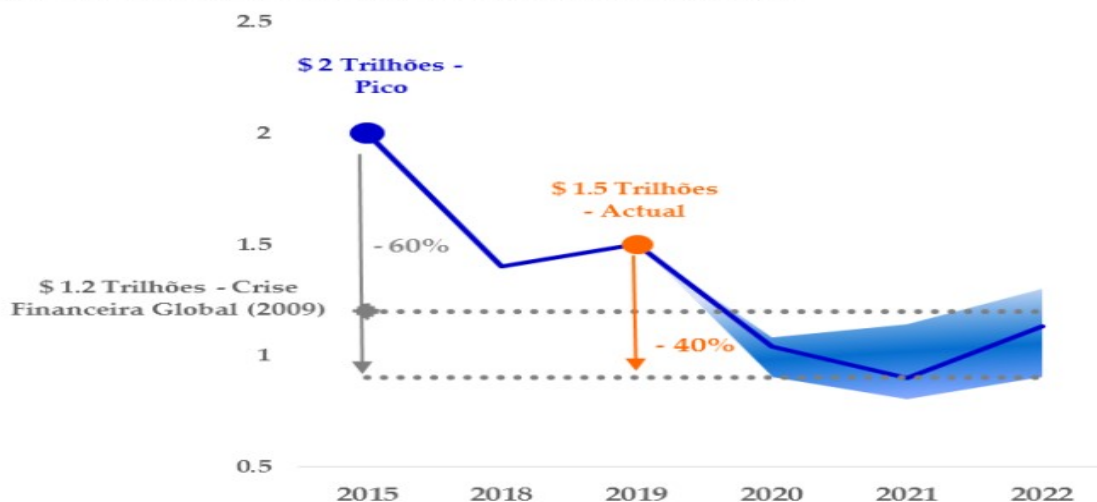
The forecast of 2.1% economic growth for 2021, based on the scenario of a slow recovery of the economy due to the uncertainties regarding the spread of the pandemic and the insecurity that is occurring in some areas of the province of Cabo Delgado and in the center of the country, is still very optimistic and ignores the restrictive measures taken by some companies in the extractive sector to face the pandemic and the attacks.

Considering that the expected investments in 2021 in the extractive sector were the basis for forecasting its growth, CIP believes that it is very optimistic for the Government to consider achieving this growth since, for example, ExxonMobil and Eni announced the postponement of their final investment decision for the Rovuma LNG project that was scheduled for the first half of 2020, with no new deadline set. With this postponement of the approximately 25 billion dollars of

investment foreseen in that project, which would have been the third natural gas production project in the Rovuma Basin located in area 4, the revenue forecasts made for 2021 are put in doubt because there is now no estimated date. The global forecasts of the flow of foreign direct investment (FDI) for 2021 show a reduction of 5% to 10%, which shows that the growth forecasts must be taken with great caution.

The graph below shows the global flows of FDI, taken from the POE-2021:

Gráfico 6. Fluxos Globais de IDE, 2015–2019 e Projecções 2020–2022



Fonte : UNCTAD – Junho, 2020

The insurgency in Cabo Delgado has been ignored in the forecasts of economic growth

The takeover of the port of Mocímboa da Praia, a strategic development zone in the province of Cabo Delgado in the context of the logistics of the gas megaprojects in the Palma region, is a fundamental element that must be taken into account for the projection of economic growth, as it points to the reduction in the operations of the various projects located in that part of the country.

With the new normal that has to be adopted for the POE 2021, and the resolution of the insurgency in Cabo Delgado, there will be a window to readjust projections. The new decisions will be taken within this new normal that is uncertain, which gives rise to the idea of the Government's excess optimism regarding economic growth.

Transfers to communities (2.75%)

Once again the Government defined 2.75% as the percentage with respect to transfers to local communities, as provided for under Article 20 of Law no. 20/2014, the Mining Law, and Article 48 of Law no. 21/2014, the Petroleum Law, both of 18 August. However, the percentage set still is not explained in terms of the criteria for defining it, as has been the case since the approval of these laws.

The POE-2021 budgets a transfer of about 57.7 million meticaís to communities, 33% less than what was forecast in the 2020 Budget (86.6 million meticaís). In addition to the classic challenge of not transferring the total amount to beneficiary communities, this budget proposal includes new communities and excludes others without any explanation of this selection. For the sake of transparency, it is necessary to clarify in the budget document first, the part that corresponds to the application of the 2.75% percentage on the revenue collected referring to the production tax; second, the part that corresponds to the balances carried over from previous years (if any); and finally, the inclusion and exclusion criteria with respect to the communities.

Below is the table of transfers presented in the POE-2021:

Quadro 16. Transferências às Comunidades (Milhões de MT)

Província	Distrito	Localidade	Actividade Mineira	2019 CGE	2020 LEI	2021 PROP.
<i>Em Milhões de MT</i>						
Cabo Delgado	Montepuez	Namanhumbir	Rubis	22.9	20.9	10.5
		Balama	Grafite, Vanadio	-	-	2.3
Nampula	Larde	Topuito	Areias Pesadas	4.8	4.9	5.4
	Angoche	Angoche		-	-	0.3
Tete	Moatize	Cateme	Carvão Mineral	13.7	14.6	29.8
		25 de Setembro	Carvão Mineral	13.7	14.6	-
		Chipanga II	Carvão Mineral	13.7	14.6	-
		Benga	Carvão Mineral	3.1	7.1	6.8
		Marara	Kachembe	Carvão Mineral	3.5	3.5
Zambezia	Pebane	Pebane	Areias Pesadas	-	-	0.2
	Chinde	Micaúne	Ilmenite, Titânio, Zircão	-	-	0.5
Manica	Manica	Penhalonga	Ouro	0.6	0.6	1.2
		Manica		0.6	0.6	-
Inhambane	Govuro	Pande	Gás Natural	2.7	1.1	-
	Inhassoro	Maimelane		2.7	4.3	-
Maputo	Boane	Boane	Riolito	-	-	0.2
	Namaacha	Namaacha	Água Mineral	-	-	0.4
Total				83.4	86.6	57.7

Source: POE 2021.

Resources from capital gains

The POE-2021 foresees an amount of capital gains carried over from 2020 of 2.5 MMT, but, like the 2020 Budget, it does not clarify what the balance of capital gains carried forward is to be used for in 2021. It is not explained whether the transfer is from revenues collected in connection with the sale of the 35.71% shares of ENI to Exxon Mobil, in the amount of approximately 20.911 MMT, or whether the balance is carried over from the capital gains of 2019 relating to the sale of Anadarko assets to Total, in the amount of 54.1 MMT. It is important to clarify this point to boost the transparency and realism of the budget.

In 2019, the Government stated that it would revise the Specific Taxation Regimes and Tax Benefits of Petroleum Operations and Mining Activity. However, there has been no progress on this issue and the POE-2021, as was the case in the 2020 Budget Law, does not mention what will be the procedure to be taken.

Financing to the Corporate Branch of the Government

There is a lack of transparency on the cost of financing. ENH assumes that its activity is exposed to several financial risks, one of which is the interest rate risk that has a direct impact on the cost of financing. This interest rate risk arises from loans obtained at variable rates and, in order to face this risk, ENH obtains financing at fixed and variable interest rates. In the case of financing that occurs before the approval of the development plan for the project, the rate is mentioned in the contract signed between the concessionaire and the Government (interest calculated quarterly at the LIBOR rate +1 percentage point). Regarding the financing of participation in the Golfinho-Atum project, ENH's financial statements (there is no other publicly available document) do not mention the interest rate that will be considered in the reimbursement of the 136.13 MMT (in government guarantees) by ENH. Information on the cost of financing would make it possible to analyze the costs and financing conditions to which the Government is subject to guarantee participation in this project, in particular, and in gas projects in general.

Therefore, greater transparency and availability of information on the financing (with emphasis on the interest rate) of the State's participation in gas projects is recommended, in order to allow inclusion in the State's participation decisions in this sector;

3. PUBLIC-PRIVATE PARTNERSHIPS (PPP)

Failure to include the receipts and expenditures of PPPs

Mozambique has dozens of public undertakings of great economic value that are being managed by private entities under Public-Private Partnerships (PPP) contracts. In practical terms, PPP contracts are a form of leasing economic enterprises from the Government for private management, with the concessionary entities having to pay the Government specified amounts of fixed and of variable income, according to the revenues obtained and the contracts signed.

Most of the PPP enterprises are under the management of international companies with the participation of national companies, whose shares are held by personalities with political connections. As an example, the main national ports -- Maputo, Beira and Nacala -- until January this year have been managed under PPP contracts.

The following infrastructures of great social and economic value are also managed as PPPs:

- The Northern Corridor, which integrates the port of Nacala with the Nacala-Cuamba Entre-Lagos Railway Line, tending to foreign trade with Malawi and Zambia.
- The Beira Corridor, which integrates the port of Beira with the Machipanda Line, including National Road Number 6 (EN6), which essentially serves foreign trade with Zimbabwe, Zambia and the Democratic Republic of Congo.
- The Maputo Corridor, which integrates the port of Maputo with the Ressano Garcia Line, complemented by National Road Number 4 (EN4), serving foreign trade with South Africa.
- The road network of the province of Tete, including National Road Number 7, the two bridges over the Zambezi (Samora Machel and Kassuende), which serve foreign trade with Malawi from the port of Beira;
- The Maputo-Ponta de Ouro road, including the Maputo-KaTembe bridge;

There are also PPPs for the provision of services, such as Kudumba, which provides non-intrusive scanner services at national ports and airports; MCNet, which provides customs clearance services better known as Electronic Single Window; and WhasIntelec, which has a monopoly on the production and printing of car number plates in Mozambique.

These are state-owned enterprises that have been leased to be operated / managed by private entities, under long-term contracts ranging from 10 to 30 years.

This contract model is popular all over the world and known as user-pays PPP, i.e., User-Paying Public Private Partnerships.

In the case of ports and railways, users pay the private concessionaire fees for the use of the infrastructures, such as the docking and handling of ships, the storage of cargo, or the use of railway lines for cargo transportation into and out of the country. In the case of roads, the payment method is more visible. It is through the tolls that motorists pay each time they pass.

The ventures are sources of Government revenue but also represent an economic risk to the State. Depending on the specific contract, there are cases in which the Government must bear the economic risks of a failed PPP, to allow the private partner the recovery of investment that has built, rebuilt or equipped the enterprise. For example, in the case of a toll road where users refuse to pay, which happened in Tete⁴ province, the Government runs the risk not only of an expected revenue loss but also of having to compensate losses to private concessionaires, since they maintain the public service at a low cost.

⁴ TETE – According to Paulo Auade: Bad communication results in a suspension of tolls, in Jornal Notícias of 24 June 2015, available at <https://jornalnoticias.co.mz/index.php/sociedade/18-provincia-em-foco/38636-tete-segundo-paulo-auade-ma-comunicacao-leva-a-suspensao-de-portagens> [consulted 14 October 2020]

Systematic violation of the Law

Law number 15/2011, of August 10, the PPP Law, establishes that Public-Private Partnerships, Large Projects (PGD) and Business Concessions (CE) must have an appropriate budgetary framework, given their repercussion from multi-annual commitments with long-term financial exposure of the public purse. Decree number 16/2012, of 4 July, which approves the Regulation of Law number 15/2011, of 10 August, establishes that the “listing” of PPP, PGD and CE “must be carried out in the proper annex, for the proposal of the Government Budget and for its reporting in the General Government Account”.

Law 15 / 2011 of 10 August came into force in 2011 and Decree number 16/2012 of 4 July came into force in 2012. Almost a decade has passed and the successive government budgets that have been approved and executed over this time have never included a budgetary framework for PPP, PGD and EC.

Without forecasting PPP revenues in the Government Budget, there is also no entry in the General Government Account of their performance. Law 15/2011, of 10 August, establishes that the General Government Account must report the execution of Public-Private Partnerships at the end of each financial year. This has never happened and without the budgetary framework of the PPPs in the 2021 Government budget, it will not be possible to report the execution of the PPPs in the corresponding general account of the Government.

Strangely, the deputies of Parliament who approved the PPP Law ignore the government's failure of budgeting PPPs.

4. COMBATING CORRUPTION

The fact that the PGR has publicly called attention to the increasing number of corruption cases⁵ in the country highlights the importance of the anti-corruption institutions formally created by law to start functioning. From the outset, it is necessary to operationalize the Central Office for the Protection of Victims provided for in the Law for the Protection of Victims, Whistleblowers, Witnesses, Experts and Other Procedural Subjects.

Furthermore, it is necessary to operationalize the new offices that will be created in the context of the approval of the future Law on the Extended Loss of Assets and Recovery of Assets, namely the Office of Asset Recovery and the Office of Asset Management. For this to happen, it is necessary from a budgetary viewpoint that the amount necessary for this purpose is foreseen.

Therefore, it is necessary that concrete measures are drawn up and implemented, above all that there is greater control over the assets of the holders of political offices, from the inauguration to the termination of their functions or the end of their mandate, in terms of its legitimate evolution. Asset declaration mechanisms have been shown to be ineffective in this regard. In addition, the mechanism for controlling the declaration of income (and not just wealth) of political office holders should be introduced.

5. CONCLUSIONS AND RECOMMENDATIONS

- It is recommended to the Government that the Budget approved for 2021 be redesigned with the incorporation of the POER 2020 information to be approved, to ensure rationality in the budget documents;
- CIP reiterates the need for top government officials to sympathize with the current crisis situation of Mozambicans and to accept cuts in their salaries as a strategy for mobilizing domestic resources, as has been done in many other countries;
- CIP also reiterates that in the redesign of the Budget for 2021 the projections should be based on the current situation and reality in the country, taking into account the real context and the country's response capacity. CIP also emphasizes that a more realistic and non-optimistic position should be taken than the one being used, which minimizes the effect of the shocks that the country faces;

⁵ [HTTPS://WWW.VOAPORTUGUES.COM/A/CORRUPTO-TENDE-A-AUMENTAR-EM-MOAMBIQUE/5593804.HTML](https://www.voaportugues.com/a/corrupto-tende-a-aumentar-em-moambique/5593804.html)

- The Government continues to violate the PPP Law by failing to incorporate PPPs into the budgetary framework. It is recommended that Parliament require the Government to formalize the budgetary framework for PPPs so that it is possible to report, through the General Government Account, on the performance of the PPPs;
- CIP draws the attention of the MEF to the need to present the formula that defines the limits to be assigned to local provincial decentralized government bodies, as its lack carries a high risk of corruption and contributes to social inequalities, which is indeed happening;
- The Government has defined 2.75% as the percentage for transfers to local communities, as provided for under Article 20 of Law no. 20/2014, the Mining Law, and Article 48 of Law no. 21/2014, the Petroleum Law, both of 18 August. However, it still does not provide an explanation with respect to the criteria for defining this percentage, which has been the case since the approval of these laws. CIP suggests an upward revision of the percentage of transfers to local communities.
- CIP believes that it is too optimistic on the part of the Government to consider achieving a GDP growth of 2.1%, since, for example, ExxonMobil and Eni announced the postponement of their final investment decisions for the Rovuma LNG project that was planned for the first half of 2020, with no deadline for a new date.
- The fact that the PGR has publicly called attention to the increasing number of corruption cases in the country highlights the need for the institutions formally created by law to combat corruption to start functioning. In the POE 2021 justification document there is no reference to combating corruption. CIP draws attention to the fact that the Central Office for the Protection of Victims provided for in the Law for the Protection of Victims, Whistleblowers, Witnesses, Experts and Other Procedural Subjects, should be operationalized.

Documents Consulted:

Cenário Fiscal de Médio Prazo 2021 – 2023

Documento de Fundamentação da Proposta de Orçamento Revisto para 2020

Documento de Fundamentação da Proposta de Orçamento 2021

Lei número 15/2011, de 10 de Agosto, which establishes the guidelines for the process of contracting, implementing and monitoring public-private partnership projects, large-scale projects and business concessions, and repealing some provisions of the Electricity Law (Law number 21/97, of 1 October

Decreto número 16/2012, de 4 de Junho, approving the regulation of Law number 15/2011, of 10 August, which establishes the procedures applicable to the process of contracting, implementing and monitoring public-private partnership ventures, large-scale projects and business concessions.



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