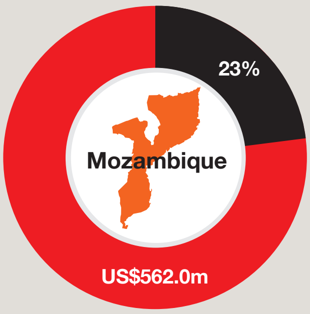
Make it Count for Girls: Why Mozambique should re-invest amounts lost to tax incentives in girls' education

Policy Brief



Mozambique loses an estimated **US$562.0 million** each year to tax incentives. Just **23%** of this could educate all 426,250 girls currently out of primary school.

Governments must prioritise funding for girls' education.

PHOTO: FABIO ERDOS/ACTIONAID

Background

Mozambique ranks as one of the poorest countries in the world in terms of per capita GDP.[1] Government revenue is approximately 24-25% of total GDP,[2] which is above the average for sub-Saharan countries,[3] but significantly lower than most advanced economies that raise the equivalent of 35-36% of GDP in revenues.[4]

Meanwhile, an estimated 426,250 girls of primary school age are not in school, and 64% of adult women are illiterate.[5] Mozambique spends around 22%[6] of government revenue on education, and according to the World Bank, a healthy 6.5% of total GDP[7] which is slightly above the 4-6% range recommended by UNESCO.[8] However, this is still not enough to ensure all children are in school and learning across the country.

In order to ensure that there is sufficient funding for quality education for all, including girls, in Mozambique the government must not only prioritise education in its budgeting but also increase the overall amount of revenue it collects. One key way of doing this will be to collect more tax, in particular by reviewing the various tax incentives it hands out and the tax treaties it signs with other states.

This briefing will examine the tax incentives and tax treaties in Mozambique and what the potential revenue lost to these could have achieved if invested in girls' education. This will include looking at what the increased GDP growth resulting from more girls entering education is likely to be.

1. See CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#tz
2. See IMF data, http://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=63&pr1.y=0&c=688&s=GGR_NGDP&grp=0&a=
3. See IMF data http://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=72&pr1.y=5&c=603&s=GGR_NGDP&grp=1&a=1
4. See IMF data, http://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=51&pr1.y=17&c=505&s=GGR_NGDP&grp=1&a=1
5. See UNESCO data, http://www.unicef.org.mz/en/our-work/what-we-do/education/
6. See Mozambique budget, http://www.dno.gov.mz/
7. See World Bank data, http://datatopics.worldbank.org/education/country/mozambique
8. See UNESCO, https://en.unesco.org/news/key-milestones-reached-new-education-goals-0

Key figures

Number of girls not in primary education	426,250
Percentage of GDP spent on education	6.5%
Total revenue lost to tax incentives and tax treaties	US$562.0m
Annual cost per pupil to government	US$91
Annual cost per pupil to family	US$215
Total annual cost per pupil – government and family contributions combined	US$306
Percentage of total cost per pupil paid by parents	70.26%
Cost per year of educating all girls currently not in primary education	US$130.43m
Additional GDP per year, per girl who has completed (as opposed to not completed) primary education	US$56.133
Total additional GDP per year if all girls currently not in primary education had completed primary education	US$23.93m
Total additional GDP over a 45 year working life (at current prices, not adjusted for inflation) if all girls currently in primary education had completed primary education	US$1.07bn

Tax incentives

A tax incentive (also known as a tax break) is, in essence, a special tax deal given to a company to encourage it to invest. There are many kinds of tax incentives, but they can broadly be placed into two categories: ***statutory***[9] tax incentives that are open to all companies that meet certain criteria; and ***discretionary***[10] tax incentives that are bespoke deals for an individual company.

Tax exemptions in Mozambique: STATUTORY

Mozambique provides a number of tax incentives for investors. Below is a list of some of the most significant incentives.

- Investments in new fixed tangible assets in Mozambique get an investment tax credit equal to 5% (if the investment is in Maputo) to 10% (if the investment is not in Maputo) of the total investment, for a period of five years. This investment tax credit is offset against corporate tax liabilities.[11]
- Investments in 'specialised equipment utilizing new technology' can be used to offset a maximum of 10% of taxable income during the first 5 years of operation.[12]
- 110% of expenditure in the construction and rehabilitation of e.g. roads, railways, airports, mail delivery, telecommunications, water supply, electrical energy, schools, hospitals can be deductible from taxable income for investments in Maputo.[13]
- Outside of Maputo, 120% of expenditure in the construction and rehabilitation of e.g. roads, railways, airports, mail delivery, telecommunications, water supply, electrical energy, schools, hospitals can be deductible from taxable income.[14]
- Investment in qualifying infrastructure projects is exempt from VAT and excise duties.[15]
- Investments in qualifying infrastructure projects also enjoy corporate income tax rebates of 80% reduction in the first five tax years; a 60% reduction in the following 5 years; and a 25% reduction in the rate from the 11th to the 15th year.[16]

In Mozambique 426,250 girls are out of primary school.
PHOTO: FABIO ERDOS/ACTIONAID

9. **Statutory tax incentives -** These apply to companies that meet certain criteria, generally because they are operating in a sector that the government wants to encourage, are producing for export, or are located in a particular area, particularly special economic zones. In addition to reductions or exemptions from corporation tax, companies are sometimes exempt from withholding taxes on payments abroad; trade taxes on imports and exports; VAT on imports etc.
10. **Discretionary tax incentives -** These are specific to a particular investor, and are negotiated between the company and the government, and generally only available to large multinational investors, putting domestic businesses at a distinct disadvantage. Many of the most unfair examples are found in the contracts negotiated between governments and investors in the extractive industries (oil, gas and mining).
11. See PWC, http://taxsummaries.pwc.com/ID/Mozambique-Corporate-Tax-credits-and-incentives
12. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
13. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
14. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
15. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
16. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110

Sector specific tax incentives

- Investments in the **manufacturing industry sector** are exempt from excise duties on imported raw materials.[17]
- Investments in **agriculture** are exempt from excise duties and pay a heavily reduced rate of corporate income tax (CIT).[18]
- Investments in **scientific investigation; information and communication technology development; and research and development** carried out in science and technology parks are exempt from CIT for the first 5 years of operation, then pay halved rates of CIT for years 6-10 of operation, and finally get a 25% discount of the CIT rate in years 11-15 of operation.[19]

Rapid Development Zones (RDZs)

Rapid Development Zones are areas in Mozambique that are deemed by the government to have great natural resource potential but that are lacking in adequate infrastructure and are economically under-utilised. Qualifying activities in the RDZs include agriculture, electricity generation, telecommunications, industry, construction etc. Investments are exempt from excise duties and VAT on imports; and 20% of investments made in the first five years of operations are deductible from the investor's CIT liabilities.[20]

Industrial Free Zones (IFZs)

Industrial Free Zones have been set up since 1999 and are targeted at companies focusing on exports. They provide bespoke labour and immigration regulations for investors, as well a several tax exemptions. Concessions for investors are handed out for **50-year periods.**[21]

Investors in IFZs get a 10 year CIT exemption, followed by 5 years in which they pay half of the going CIT rate, and then 5 years when they get a 25% rebate on the going CIT rate.[22] Investors in IFZs are also exempt from excise duties and VAT on imports of e.g. construction materials and equipment.[23]

Special Economic Zones (SEZs)

SEZs can be established on a case-by-case basis with the objective of developing specific geographical areas that then benefit from bespoke currency exchange, labour and fiscal regimes.[24]

Investors in SEZs are exempt from CIT for the first 5 years of operation, then pay half CIT from years 6 to 10, and then get a 25% rebate on the going CIT rate between years 11 and 15 of operation.[25] Investors in SEZs are also exempt from e.g. excise duties and VAT on imports.

Overall, it is clear that Mozambique hands out a number of different and potentially overlapping tax incentives to investors. Indeed, the OECD has commented on the fact that Mozambique's tax incentives seem uncoordinated and that no proper evaluation of their effectiveness seems to have been carried out.[26]

Tax incentives Mozambique: DISCRETIONARY

Mozambique has provided a number of companies – particularly in the mining sector – with a number of tax incentives over the years. These are detailed in individual concession agreements, many of which (but not all) are published on the Mozambique government website.[27] Below is a list of some of the incentives handed out to some of the companies whose concession agreements have been made public. This is not an exhaustive list but simply a few examples of the types of discretionary tax incentives Mozambique has handed out.[28]

17. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
18. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
19. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
20. See UNCTAD Investment Policy Hub, http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
21. See US government background information on Mozambique, https://www.export.gov/apex/article2?id=Mozambique-Industrial-Policies
22. See http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110
23. See 'Mozambique's Economic Outlook' by Deloitte (2016) https://www2.deloitte.com/content/dam/Deloitte/za/Documents/africa/za_Mozambique_country_report.pdf
24. See US government background information on Mozambique, https://www.export.gov/apex/article2?id=Mozambique-Industrial-Policies
25. See 'Mozambique's Economic Outlook' by Deloitte (2016) https://www2.deloitte.com/content/dam/Deloitte/za/Documents/africa/za_Mozambique_country_report.pdf
26. See OECD Policy Investment Review: Mozambique (2013), p95-102 https://books.google.co.uk/books?id=pdYSAgAAQBAJ&pg=PA97&lpg=PA97&dq=mozambique+tax+break&source=bl&ots=T-o2XtJxv8&sig=BQF01fgy-SlWnol2JgxF88VwVY0&hl=en&sa=X&ved=0ahUKEwjR0-K-clcPXAhViLcAKHboDBQs4ChDoAQg1MAM#v=onepage&q=mozambique%20tax%20break&f=false
27. See the Ministry of Mineral and Energy's website - http://www.mireme.gov.mz/index.php?option=com_phocadownload&view=category&id=2&Itemid=118
28. See CIP (2016) Desafios de um país potencialmente rico em recursos minerais, Maio de 2016

Table 1: Examples of Discretionary Tax Incentives

Company	Incentives
Sasol Petroleum Temane This contract runs until 2034.	Import duties and VAT exempt for 5 years. Income taxes halved for the first 6 years of production.
ENI EAST AFRICA S.p.A	Import duties are exempt. Income tax reduced by 25% for the first 8 years of production.
Anadarko Moçambique (extracting liquefied natural gas)	Import duties are exempt from tax. Income tax is reduced by 25% during the first 8 years of production.
Vale Moçambique	Dividend tax for the first 5 years that dividends are paid is reduced by 25%. Income tax reduced by 25% for the first 10 years that the company reports profits.
Kenmare	VAT and excise duties exempt for the first 5 years of operation. Income tax reduced by 15% for the first 10 years of operations.

While this data is public, there is other data relating to the companies' tax dealings that are not available, which makes it impossible to estimate with precision the exact amount of potential revenue foregone through these exemptions. However, given the size of the extractives industry in Mozambique, it is reasonable to assume that the tax losses may be significant.

Total estimated loss from tax incentives: **US$556.71m**

Tax incentives Mozambique - total estimated losses

Estimating exact losses to tax incentives is often complicated due to adequate data availability, especially regarding losses to discretionary tax incentives. The situation is further complicated by Mozambique seemingly not carrying out regular assessments of the tax revenue lost to individual investments that are benefitting from tax incentives.

However, according to data presented by the IMF, Mozambique lost the equivalent of 3.3% of GDP in potential tax revenue to tax incentives in 2014.[29] The same year, World Bank data records Mozambique's annual GDP as being US$16.87bn,[30] meaning losses to tax incentives for that year would have been US$556.71m.

Following a visit in mid-2017, the IMF recommended that Mozambique addressed its tax incentives regimes, particularly with regards to VAT exemptions.[31]

In Mozambique, US$562.02m lost to tax incentives could be used to fund girls' education.
PHOTO: ACTIONAID

29. See IMF Country Report 16/10 on Mozambique (January 2016) http://www.imf.org/external/pubs/ft/scr/2016/cr1610.pdf
30. See World Bank data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2014&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=42&pr1.y=2&c=688&s=NGDPD&grp=0&a=
31. See IMF statement: https://www.imf.org/en/News/Articles/2017/07/19/pr17290-imf-staff-concludes-visit-to-mozambique

Tax treaties

Tax treaties determine how much, and even if, countries can tax multinational companies. They provide certainty to international businesses by indicating which taxes will be limited when making money overseas. This certainty is often provided through restrictions on the rights of the treaty signatories to tax different types of income. In the overwhelming majority of cases, these tax treaties override any national law. If a tax treaty rate is lower than the rate set in national law, companies that are able to use the tax treaty route will very often pay less tax than similar local companies. Tax treaties can also prevent double taxation.

Tax treaties can restrict the ability of a country like Mozambique to tax multinationals in a number of ways, including the way that capital gains are taxed and when Mozambique can tax the profits of a company (so-called permanent establishments). The tax loss attributable to these provisions in tax treaties can be difficult to quantify. The fact that this briefing will not attempt to quantify such tax losses does not mean that they may not be significant.

Tax treaties can also restrict a country's ability to charge withholding taxes when money is being transferred out of a country, e.g. as dividends, interest payments or royalty payments. It does so by applying lower tax rates on the transactions between treaty partners than it would if there were no tax treaty in place.

Table 2: ?

Country	Dividends	Interest	Royalties
Statutory rates	20%	20%	20%
Botswana	0%	10%	10%
India	7.5%	10%	10%
Italy	15%	10%	10%
Macau	10%	10%	10%
Mauritius	8%	8%	5%
Portugal	10%	10%	10%
South Africa	8%	8%	5%
United Arab Emirates	0%	0%	5%
Vietnam (not in force)	10%	10%	10%

Source: http://taxsummaries.pwc.com/ID/Mozambique-Corporate-Withholding-taxes

By looking at the levels of foreign direct investment stock in Mozambique and its Balance Of Payment Statistics (both obtainable from the IMF[32]), we can estimate how much potential tax revenue Mozambique forfeits through its lowered withholding tax rates. Looking only at the lowered dividend rates (see table above), we estimate that in 2016, this provision alone in Mozambique's tax treaty network cost the country **US$5.306m** in lost tax revenues.[33]

Meanwhile, the low levels of reported interest payments abroad mean that the losses due to the lowered withholding tax rates on interest payments in Mozambique's tax treaties is likely to be negligible.

Total estimated loss from tax treaties: **US$5.306m**

Adequate and appropriate sanitation facilities can help improve girls' attendance.
PHOTO: ERNANIO MANDLATE/KISAI/ACTIONAID

32. For FDI stock data, see http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=1482331048410 For BOPS data, see http://www.imf.org/external/datamapper/datasets/BOP
33. For detailed methodology and calculations, please contact ActionAid directly.

Education

Everyone has a right to education. This right is enshrined in international human rights treaties from the Universal Declaration of Human Rights (article 26)[34] through to the International Covenant on Economic Social and Cultural Rights,[35] the Convention on the Rights of the Child[36] and many others. To be clear – countries should invest in girls' education because girls have a right to education.

However, in addition to the rights perspective, there is also an economic argument for investing in girls' education. A more highly educated population is likely to be more productive and to generate higher economic growth.[37]

Below are some calculations of what the growth dividend of investing some of the money lost to tax incentives and tax treaties in girls' education would be.

According to World Bank data, there are more than **426,250 girls of primary school age in Mozambique who are not in education.[38]** There are many reasons why girls might not attend school. For the purposes of this calculation, we will assume as a starting point that with the right financial support, all of these girls would complete their primary education. This will provide us with illustrative headline figures that we can work backwards from.

According to UNICEF data, the government spends approximately US$91[39] per primary school student per year.[40] Meanwhile, ActionAid commissioned research shows that parents spend US$215 per child per year on various items required for them to complete their education. That means the total cost per child is US$306 per child and the total cost of educating all girls of primary school age currently not in school would be **US$130.43m.**

We will now calculate the growth dividend in investing in girls' education and compare this to the estimated cost of educating every girl of primary school age not currently in education. A working paper for the World Bank developed methods for estimating the growth dividend of investing in girls' education.[41] The paper looks, amongst other things, at the productivity of those girls *with* primary school education as opposed to those without. In doing so, the paper factored in a number of variables such as the effect of productivity if there was an increase in labour supply; and also that for girls currently *not* completing primary education there may be factors other than lack of education preventing them from reaching the same level of productivity as girls who *do* complete primary school.

The study uses data from the IMF, the ILO, the World Bank and others to calculate the increased productivity per girl completing primary education in seven sub-Saharan countries. The average of these seven countries is a **productivity gain of 14.85% when girls complete primary school** as opposed to when they do not. As the study does not look specifically at Mozambique, for the purposes of this briefing we will use the developing country average as a proxy for the productivity gain in Mozambique. With current GDP per capita in Mozambique estimated at **US$378** by the IMF,[42] a productivity gain of 14.85% increase in productivity would mean that each girl not currently in education who completed primary education would add an additional **US$56.133** to Mozambique's economy annually. Collectively the **426,250 girls** currently not in primary education would add **US$23.93m** to Mozambique's economy. Current annual GDP is estimated by the IMF to be **US$11.17bn,[43]** meaning getting all age-relevant girls currently not in education through primary

34. See http://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf
35. See http://www.ohchr.org/Documents/ProfessionalInterest/cescr.pdf
36. See http://www.ohchr.org/Documents/ProfessionalInterest/crc.pdf
37. Note however that increasing women's labour force participation must be accompanied by policy change to address the structural causes of women's economic inequality. As a result of the disproportionate amount of unpaid care and domestic work that women do globally, they already work longer days than men in most countries. Fiscal policy needs contribute to redressing this injustice. For more information, see e.g. "Women as 'underutilized assets'" [ActionAid, 2017)
38. See UNICEF data, http://www.unicef.org.mz/en/our-work/what-we-do/education/
39. With the national currency Metical fluctuating quite heavily against the US dollar, the exact figure in dollar terms will fluctuate as well. For its calculation in 2015, UNICEF used 35 metical = US$1. At the time of writing, US$1 was worth around 60 meticals.
40. See p. 25 UNICEF Education budget brief (2015) http://budget.unicef.org.mz/briefs/2015UNICEF_BB2015_Education.pdf
41. See 'Measuring the Economic Gain of Investing in Girls: The Girl Effect Dividend' by Jad Chaaban Wendy Cunningham, 2011. Policy Research Working Paper 5753.
42. See IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=47&pr1.y=11&c=688&s=NGDPDPC&grp=0&a=
43. See IMF data: https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=37&pr1.y=8&c=688&s=NGDPD&grp=0&a=

school would add **0.21%** each year to the economy of Mozambique. Provided a working life of 45 years, in current prices (without taking inflation into account), the added value to the economy of educating these girls would be **US$1.07bn.** Meanwhile, the compound effect of the annual increase in GDP from investing in getting out of schoolgirls into the education system would be **9.90%** over a working life.[44]

Investing in girls' education can boost the economy.
PHOTO: ERNAMIO MANDALATE/ KISAI/ACTIONAID

44. In the desirable but unlikely event that all of the girls currently out of school completed not just their primary education but also their secondary education – and using the World Bank paper's (Chaaban and Cunningham, see above) calculation that completing secondary education (as opposed to completing neither primary nor secondary education) leads to a productivity gain of **32.7%** per girl, which in turn – using the methodology described above – would lead to an estimated **US$123.61** increase in productivity per year per girl. This would result in a collective **US$52.72m** or **0.47%** increase in GDP per year, or a compound **23.49%** over a 45-year working life.

Conclusions and recommendations

This paper has shown that Mozambique loses an estimated US$556.71m per year to tax incentives, the equivalent to 3.3% of the overall budget. It also loses smaller (but not insignificant) amounts of potential tax revenue due to the provisions in its tax treaties.

Meanwhile, an estimated 426,250 girls of primary school age are not in school across the country. Paying for those girls' education would, according to ActionAid's calculations, cost an estimated US$130.43m, meaning that the money lost to tax incentives and tax treaties could have covered the costs of putting those girls through school many times over.

While the primary reason ActionAid advocates for greater investment in girls' education is because it is a fundamental human right, this paper demonstrates that doing so is also beneficial to the economy as there is a long-term growth dividend to be had from investing in girls' education that far out-strips any costs involved. In fact educating the girls' currently not in education would add US$23.93m annually to the economy, or US$1.07bn over a 45-year working life.

Mozambique must act now to phase out harmful tax incentives and to make sure its tax treaty network is fit for purpose, and that more money is invested in ensuring all girls finish primary school.

With this in mind, ActionAid urges the government of Mozambique to:

1. **Act** swiftly to reduce the amount of tax revenue forfeited to tax incentives.
2. **Stop** offering harmful tax incentives and only other incentives selectively to facilitate development. All current tax incentives – including discretionary tax incentives and those applicable to special economic zones – should be reviewed to assess whether they are fit for purpose, including undertaking a cost-benefit analysis.
3. **Review** tax treaty networks to ensure that they do not result in tax losses and renegotiate those that do. Cancel or renegotiate disadvantageous tax treaties.
4. **Subject** all tax incentives – both statutory and discretionary – to public scrutiny, including by parliament, media, civil society and citizens. This should include publishing an annual overview of the costs of tax incentives as part of the annual budget, so the public can see the impact of corporate tax incentives.
5. **Invest** 20% of the tax revenue raised by reducing tax incentives and tax treaty regimes in education, especially girls' education.
6. **Ensure** that public education is free, compulsory and of good quality and that there are no economic barriers that might prevent families sending their girls to school.
7. **Ensure** that education budgets are gender-sensitive to ensure adequate financing for measures proven to tackle persistent barriers to girls' education.

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EDUCATION
A RIGHT IN EVERY LANGUAGE

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ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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