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Economic Impacts of the Company Income Tax on the Development of Agriculture in Mozambique¹

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Introduction

In 2002 the Government of Mozambique introduced a modern company income tax (*Imposto sobre Rendimentos de Pessoas Colectivas*, or IRPC) with a standard tax rate of 32% and a special reduced rate of 10% for agriculture and livestock activities.² Initially, the IRPC code established the special rate for agriculture as a temporary provision effective through 2010. That sunset date was later extended through 2015—at which time the government allowed the provision to lapse. Since 2016, company incomes from agriculture and livestock activities have been subject to the standard rate of 32% instead of the preferential rate that had been in effect from 2002 through 2015. (We refer to “agriculture” below as shorthand for “agriculture and livestock.”)

This large increase in IRPC rate for agriculture provoked a strong reaction from business leaders, who have urged the government to restore the 10% rate. In addition to direct advocacy on behalf of this policy change, the Confederation of Economic Associations of Mozambique (CTA) asked the SPEED+ project for technical assistance in the form of a study on the economic impact of ending the 10% tax rate on the business climate for agriculture. The present policy paper is a response to this request.³

The paper is organized as follows. Section II summarizes CTA’s position on the importance of restoring the 10% tax rate for agriculture under the IRPC. Section III provides a broader overview of the income tax system as applied to agriculture, including not only the IRPC but also provisions of the Code of Fiscal Benefits (*Código de Benefícios Fiscais*, or CBF); the Simplified Tax for Small Taxpayers (*Imposto Simplificado para Pequenos Contribuintes*, or ISPC); and the individual income tax (*Imposto sobre Rendimentos de Pessoas Singulares*, or IRPS).

Section IV examines empirical evidence on the impact of the increased tax rate, focusing on trends before and after 2015 in three data series: (1) foreign direct investment flows as registered in the balance of payments accounts; (2) approved investments in agriculture under the CBF; and (3) bank investment loans to agriculture. Although the statistical record reveals some interesting patterns, the data record is ultimately inconclusive for reasons discussed in section IV. Consequently, it is important to review in more depth the economic pros and cons for this type of preferential tax rate, along with pertinent lessons from international experience. Those aspects of the policy analysis are presented in Sections V and VI. Finally, Section VII offers conclusions from the analysis, and recommendations for consideration by the government and the business community.

The CTA’s Rationale for Restoring the 10% IRPC Rate for Agriculture

This section summarizes the case made by CTA for restoring the 10% tax rate for agriculture, as presented in a short paper (dated February 2018) entitled “Arguments for the Rationale for Reinstatement of the 10% IRPC Rate for Agriculture and Livestock” (*Argumentos para a Fundamentação da Reposição da Taxa de IRPC a 10 % para a Agricultura e Pecuária*).

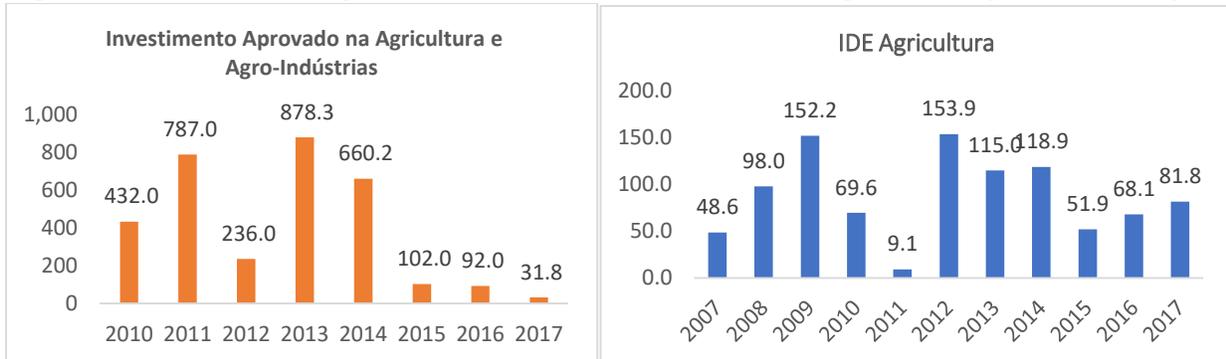
The CTA paper opens by stating that non-extension of the 10% rate has “pernicious” economic and social impacts. Most directly, absence of the tax incentive discourages both foreign and domestic investment in agriculture. To substantiate that point, the paper presents two charts, reproduced here as **Figure 1**,

² The basic tax law (Law n° 15/2002 of 26 June) authorized the Council of Ministers to establish the IRPC tax rate up to a maximum rate of 35%, while allowing for *temporarily differentiated* tax rates by activity. The tax rates were then stipulated in the IRPC Code under Decree n° 21/2002 of 30 June.

³ The analysis, conclusions and recommendations presented in this paper are the sole responsibility of the author, based on his experience with tax policy in Africa and a review of relevant professional literature; the contents should not be interpreted as reflecting the views of USAID or the SPEED+ project.

showing a sharp drop since 2015 in approved investments in agriculture and agroindustry under the CFB, and foreign direct investment in agriculture, as recorded in the balance of payments accounts.

Figure I. Presentation by CTA on Trends in Investment in Agriculture (USD millions)



Source: CTA

During the period when the tax incentive was in effect, approved investments in just four crops -- cotton, sugar, bananas, and tobacco -- involved nearly 600,000 farmers and workers in productive processes, benefiting approximately 3 million people. But now, absence of the tax incentive is discouraging future investment not only in those sectors, but also activities such as poultry, beef, animal feed, macadamia nuts, and even co-generation of electric power as a byproduct from manufacturing sugar. CTA further contends that the special 10% tax rate should be applied to all components of the agribusiness value chain, and extended for a minimum of ten years.

CTA argues that this special tax treatment for agriculture is essential to maintain strategic balance in light of the boom in extractive industries, given the critical role of agriculture in job creation, rural development, and food security. The nation will also benefit from promoting labor-intensive investments in agriculture in order to reduce the exodus from rural areas into overcrowded urban centers. In short, restoring the reduced 10% IRPC rate for agriculture should be a pillar in a package of fiscal and other incentives for national development.

The CTA presented additional arguments in their letter to SPEED+ (dated 19 November, 2018) requesting technical assistance on this issue. The letter cites recent meetings organized by CTA, in which agricultural operators have identified the lapse of the 10% rate as the principal hindrance (*o principal entrave*) to attracting investment in agriculture. Furthermore, the lower tax rate would improve the capital position of agricultural enterprises and allow them to increase investment with financing from their own equity – at a time when access to bank credit is costly and difficult. In addition, restoration of the lower tax rate would be an important step towards improving the business environment for this vital sector of the economy.

Overall, CTA has offered strong arguments in favor of the 10% tax rate for agriculture. But one must bear in mind that CTA's purpose is to advocate a particular policy decision. As such, they focus (understandably) on one side of what is actually a more complex issue. To provide a balanced appraisal, the next four sections discuss other aspects of the policy analysis: the effect of other provisions in the tax system affecting agriculture; a deeper look at the data trends; the economics of tax incentives; and lessons from international experience.

Taxation of Agriculture in Mozambique: An Overview

The central concern here is the jump since 2015 in the IRPC tax rate applicable to agriculture. It is essential, however, to view this provision of the tax code in the context of other features of the tax system that affect incentives for investment in agriculture and the viability of agricultural enterprises.

The key consideration is that **agricultural enterprises still have many opportunities to qualify for a tax rate well below the IRPC standard of 32%**. The most important avenue for obtaining a lower tax rate is through the Tax Incentives Code (*Código de Benefícios Fiscais*, or CBF), which is administered by the Agency for Investment and Export Promotion (APIEX). The CBF offers a variety of incentives for investment depending on location, sector and other designated attributes. The main criterion for eligibility is an equity contribution of no less than MT 2,500,000 for foreign investment, or **MT 250,000 [Confirm?]** for investment by a domestic enterprise.

Under the CBF, a registered investment is entitled to general incentives that include exemption from import duty and Value Added Tax (VAT) on equipment and spare parts, and income tax benefits in the form of an initial investment allowance and accelerated depreciation. In addition, the CBF offers the following “special benefits”:

- Under Section IV, registered investments in Agriculture and Fisheries obtain a 50% reduction in the IRPC rate from 2016 through 2025, yielding a tax rate of 16%; this provision applies to both new investment and re-investment by existing enterprises.
- Under Section VIII, registered investments in Rapid Development Zones⁴ – including agriculture, tree plantations, aquaculture, livestock, and forestry – qualify for an investment tax credit equal to 20% of the total realized investment for each of the first five years of operation; the tax credit is capped at the total tax due each year, implying that the tax bill can be as low as zero.
- Under Section IX, investments in an Industrial Free Zone benefit from a full exemption from the IRPC for 10 years, a 50% reduction in years 11 through 15, and a 25% reduction thereafter.
- Also under Section IX, an investment designated as an Isolated Free Zone benefits from a full exemption from the IRPC for 5 years, a 50% reduction in years 6 through 10, and a 25% reduction thereafter; according to a senior official at APIEX, one sugar producer has qualified under this provision, to date.
- Under Section X, investments in a Special Economic Zone benefit from a full exemption from the IRPC for 5 years, a 50% reduction in years 6 through 10, and a 25% reduction thereafter.

These provisions of the CBF allow a company investing in agriculture to obtain a tax rate ranging from 0% to 16% for specified periods of time. Moreover, most corporate entities can readily handle the CBF registration and approval procedures and afford the application fee, set at 0.1% of the investment amount. Those requirements, however, could be onerous enough to deter small businesses from obtaining the available incentives.⁵

One unusual but pertinent feature of Mozambique’s tax system is that the reduced tax rate for agriculture under the company tax code – while it was in effect – applied equally to incomes from agriculture subject

⁴ Article 40 of the CBF defines the Rapid Development Zones to include (among others) the Zambezi River Valley zone, Niassa Province, and Nacala district, with provision for designation of other zones by the Council of Ministers.

⁵ In addition to these provisions of the CBF, the Article 12 of the IRPC code provides a 50% reduction in the company income tax for agricultural *co-operatives*, subject to no time limit.

to the *personal* income tax (IRPS).⁶ Hence, non-renewal of the special IRPC rate for agriculture affected not just companies, but also some non-corporate farmers. This effect is quite limited, though, for several reasons. First, under the IRPS (as amended in 2013) the first MT 225,000 of income is excluded automatically from taxable income; and beyond that threshold, individual taxpayers face a marginal tax rate above 10% only on incomes above MT 42,000. Thus, any farmer with an income below MT 267,000 (approximately \$4000 at current exchange rates) would have seen no increase in tax due to the lapse of the 10% rate for agriculture under the IRPC.

In addition, non-corporate farmers can qualify for more favorable tax treatment under Law 5/2009 -- the Simplified Tax for Small Taxpayers (ISPC). Through this provision of the tax code, any business with turnover below 36 times the highest minimum wage from the previous year is exempt from tax. Above that threshold any business with revenue below MT 2,500,000 (approximately \$40,000) is subject to a tax of MT 75,000 or 3% of turnover, whichever is lower. Notably, the ISPC substitutes for both the income tax (IRPC or IRPS) and the VAT.

Finally, several technical provisions of the IRPC bear mention with regard to income from agriculture:

- There is no special treatment for agriculture on depreciation rates; it will be seen in Section VII that several other countries in the region offer attractive tax benefits of this type for investments in agriculture.
- There is no special treatment for agriculture on the 5-year limit on carry-forward of losses; consideration might be given to extending this limit for agriculture.
- There is no special treatment for agriculture on the 0.5% “advance tax” on turnover that applies to companies reporting a loss for tax purposes – effectively a minimum alternative tax; here, too, special consideration might be given to agriculture.
- Tax losses benefiting from a reduced rate cannot be set against profit from other activities; nonetheless, there may still be huge opportunities for income shifting within corporate groups to take advantage of differential tax rates.
- None of the thresholds defined in nominal terms have been adjusted recently for inflation.

In summary, this section has covered three major aspects of the tax law that are relevant to the present policy analysis. First, although companies with income from agriculture now face a 32% tax rate under the IRPC, there are still ample opportunities for these companies to benefit from a much lower tax rate under the CFB. Second, the increase in the IRPC rate also applies to farm incomes for individuals under the IRPS – but the scope of this effect is limited due to the structure of the IRPS and availability of the ISPC. Third, consideration might be given to amending several technical provisions of the IRPC to provide special treatment for agriculture, in order to encourage investment in that strategic sector.

Did Non-Renewal of the 10% Tax Rate Cause a Sharp Drop in Investment in Agriculture?

The CTA’s argument for restoring the 10% IRPC rate for agriculture drew heavily on data trends. In particular, the trends shown in Figure I above, show a sharp drop around 2015 in foreign direct investment

⁶ Specifically, Paragraph 3 of Article 54 in the IRPS Code states that the IRPC tax rate that applies to agriculture and livestock enterprises applies to any individual taxpayer whose income derives solely from activities in those sectors. In full: *“Quando se tratar de sujeitos passivos que no englobamento apenas incluem rendimentos da Segunda Categoria, provenientes de actividades agrícola ou pecuária, a colecta que resultar da aplicação das taxas constantes do número 1 não pode ser superior a que resultaria da aplicação da taxa reduzida de 10% a que se referiu o número 2 do artigo 61 do Código do IRPC, ao rendimento colectável, durante a vigência da mesma taxa reduzida.”*

(FDI) flows into agriculture, and in approvals for new investment in agriculture and agribusiness under the CFB. This section discusses the data trends in more detail. The main finding is that the statistical record does *not* support a strong conclusion about the impact of the higher tax rate on investment in agriculture. (See **Annex I** for the supporting data.)

A fundamental problem in trying to determine causation is that “*before-and-after*” comparisons from time trends cannot provide a clear measure of the impact of a policy change. That is because the observed trends are also affected by other concurrent economic and political factors, such as deterioration of the investment climate in 2016 due to the “hidden debt” crisis in Mozambique. The impact of the tax change can only be distinguished by applying sophisticated econometric analysis, taking into account other determinants of investment. Even if the necessary data were available, that exercise would be well beyond the scope of the present policy brief. Still, it is worth examining the data carefully to see whether the pertinent time trends are *consistent with* the view that investment in agriculture fell sharply due to the change in the tax rate.

Start with data on **FDI flows to agriculture**, as shown in the left-hand chart in Figure I above.⁷ The CTA accurately states that FDI to this sector was steadily above USD100 million in the three years before 2015, and well below that level from 2015 through 2017. This observation is reinforced by the FDI figure of USD69.1 million for 2018 (not shown in Figure I). It is interesting also to note that FDI flows to agriculture fell sharply in 2010 and 2011. Under the original IRPC Code (Decree n° 21/2002) the 10% tax rate for agriculture was to terminate at the end of 2010, and the extension to 2015 was not formalized until September 2012. So the 10% rate lapsed on two occasions, and FDI flows fell both times.

Those trends in FDI seem to tell a straightforward story. But the data interpretation is actually more complicated. One key issue involves investor expectations. On one hand, suppose that the business community widely expected the 10% rate to be extended at the end of 2010 and again at the end of 2015; in that case, there would be no reason for the steep declines in FDI that were seen in 2010 and 2015 due to the tax rate. On the other hand, suppose that investors expected the 10% rate to lapse at the end of 2010 and 2015; in that case it is very puzzling to see that FDI remained at a high level a year ahead of the “sunset” dates; since capital investments are necessarily based on longer-term business prospects, an imminent jump in the tax rate would surely have affected investment decisions in 2009 and 2014, respectively. One possible explanation for the observed data is that the large changes in FDI are due simply to the timing of a few large “lumpy” investments. Alternatively, the observed volatility in FDI may reflect political conditions related to the election cycle or other macroeconomic factors affecting business prospects.

Next consider the trends in **approved investments in agriculture and agribusiness** under the CFB, as shown in the right-hand chart in Figure I (above).⁸ **[This paragraph will be revised if we get the data update requested from APIEX].** Here, too, investment shows a large drop beginning in 2015 and continuing through 2016 and 2017. But in this case the figure is fairly high for 2010 and even higher for 2011 – when the 10% IRPC rate had formally lapsed and not yet been extended. More important, however, is the fact that the tax rate on *approved investment in agriculture* has been determined by the Tax Incentives Code (CBF), not the IRPC. Under the CBF, the company tax rate remained at 10% from 2011 through 2015, and currently stands at 16%, not 32%. Even investments in agribusiness can benefit from lower tax rates

⁷ The data on FDI by sector come from the External Accounts compiled by the central bank. See: http://www.bancomoc.mz/fm_pgLink.aspx?id=222.

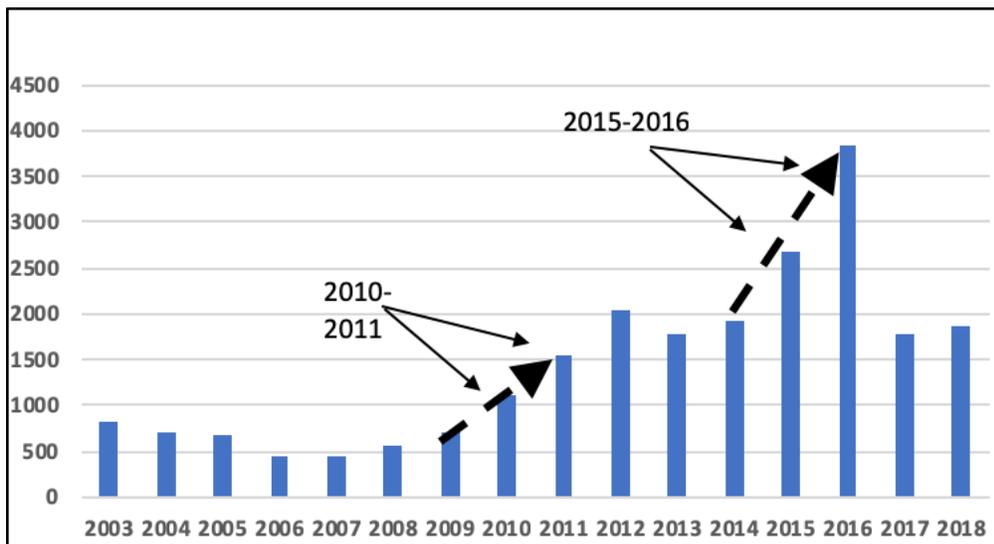
⁸ The data on approved investments come from APIEX and its predecessors, as reported in Statistical Yearbooks from the Instituto Nacional de Estatística: <http://www.ine.gov.mz/estatisticas/publicacoes/anuario/nacionais>.

under the CBF if they locate in a Rapid Development Zone, an Industrial Free Zone, or a Special Economic Zone.

By any standard, the CBF tax rates are highly attractive, suggesting that the decline since 2015 may have been caused by other factors, including the recent economic turmoil in Mozambique. This interpretation is bolstered by the fact that approved investments under the CBF also dropped sharply at that time in sectors other than agriculture. Comparing investment approvals for the two years after 2015 against the two years before 2015, one finds a precipitous drop of 90% in agriculture and agro-industry, but also a drop of 95% in transport and communication, 46% in industry and 43% in tourism and hotels.⁹

The data story is further complicated by the trends in **commercial bank investment lending to agriculture**. As shown **Figure 2**, this lending increased by 40% in 2015, even though the “sunset” date for the 10% rate was imminent, and then by 43% in 2016 when the 10% rate was not available. The picture was similar at the end of 2010, when the 10% rate lapsed temporarily: investment credits jumped by 58% in 2010 when the lapse was imminent, and by 43% in 2011 when the 10% rate was no longer legally in force.

Figure 2. Commercial Bank Investment Credit to Agriculture (MZN billions)



Source: Banco de Moçambique

These trends in bank lending seem to contradict the notion that the IRPC increase from 10% to 32% had a large adverse effect on investment in agriculture. Here, again, the data interpretation is not straightforward, considering other economic and political conditions. Most notably, the increase in bank credit in 2015 and 2016 could be explained at least in part by the collapse of the metical in foreign exchange markets, which meant that any expenditure on imported capital goods required more financing in terms of local currency.¹⁰

⁹ Source: INE *Statistical Yearbooks*, various years.

¹⁰ The period-average exchange rate (in MZN per USD) rose from 31.4 in 2014 to 40.0 in 2015 and 63.0 in 2016, giving an increase of 29% in 2015 and 58% in 2016. The exchange rate movements in the earlier period were much more moderate, with a 24% increase in 2010 followed by a decline of 14% in 2011, mirroring uncertainty due to the election cycle.

In summary, the data trends do not support a strong conclusion one way or another on the impact of the IRPC increase for agriculture at the end of 2015. Some of the statistics suggest that the increased IRPC rate had a large negative impact, while other indicators seem to show the opposite. In any case, one cannot escape the underlying methodological problem: that “before-and-after” data comparisons do not provide a clear gauge of the policy impact. It is essential, therefore, to look beyond data trends and consider conceptual arguments for and against a preferential tax rate to promote investment in agriculture, and related lessons from international experience.

The Economics of Tax Incentives¹¹

Tax incentives are commonplace around the world. Some are designed to promote investment across the board; others are targeted to particular industries, sectors, or regions; still others are linked to functional outcomes such as exports, employment, training, or research and development expenditures. Tax incentives also take a variety of forms, including preferential tax rates, temporary tax holidays (full or partial), special deductions or allowances in calculating taxable income, tax credits that directly reduce the tax due, or exemptions from indirect taxes such as import duties and VAT.

The widespread use of tax incentives could be viewed as a sign of proven efficacy as a policy instrument; but it can also be a sign of political expediency in response to special-interest pressures, or the regrettable effects of harmful tax competition across jurisdictions. Indeed, fiscal experts often view the misuse of tax incentives as a major fiscal policy problem.

To clarify the policy debate, this section summarizes some commonly encountered *economic* arguments for and against investment tax incentives, before addressing more specifically the preferential 10% IRPC rate for agriculture in Mozambique.

The case for investment tax incentives ...

Aside from any political motives, the following economic arguments are commonly advanced in support of investment tax incentives:

Enhance the return on investment. With tax incentives boosting the *after-tax* rate of return on investment, more potential ventures pass the “hurdle-rate” test for viability. By the same token, the standard tax treatment limits the scope for viable investments.

Increase earnings to finance new investment. By boosting the *after-tax earnings* for ongoing businesses, investment incentives provide an important source of internal financing for new investment. This is especially important in a country like Mozambique where access to bank credit is limited, interest rates are high, and capital markets are underdeveloped.

Provide a signal to investors. Tax incentives serve a valuable “marketing” function, signaling potential investors about development priorities and the country’s commitment to promoting private investment.

Correct for “externalities.” A major tenet of economics is that the market system does not deal effectively with “externalities” -- i.e., positive or negative effects *on third-parties* from production or consumption decisions. Responding to market forces, the private sector will *underinvest* in activities that create positive externalities, and *overinvest* in activities with creating negative externalities. Hence, there is a sound economic justification for using tax incentives to encourage investments that

¹¹ This section draws on the United Nations (2018), IMF (2015), Klemm and van Parys (2009), Bolnick (2009), Bolnick (2008), and Bolnick (2004a).

generate important positive externalities – and for imposing special taxes on activities that create significant negative externalities.

Compensate for other constraints. Enterprise surveys in Mozambique show that investors face special constraints that increase the cost of doing business, making it difficult for local companies to compete with products from other countries. The constraints include problems with essential infrastructure, lack of access to affordable finance, shortages of skilled labor, burdensome regulations, a web of inefficient procedures, and political uncertainty. By offsetting to some extent the extra costs created by these business constraints, targeted tax breaks can help to attract investment into strategic sectors. Investments in agriculture face warrant special attention because ventures in that sector face added constraints such as complications with access to land, and poor rural infrastructure.

Respond to international tax competition. Mozambique may be competing with other countries for some major investments – especially those involving international corporations. In such cases, Mozambique’s relatively high company tax rate is a distinct disadvantage. This argument suggests that there is a need to reduce the standard IRPC tax rate. But since fiscal requirements limit the scope for cutting the standard rate, a case can be made for applying special tax breaks for investment in strategic sectors like agriculture, which create important socio-economic externalities.

Practicality. There are many ways to promote private investment, but in practice, tax benefits are much simpler and faster than building modern infrastructure or improving the regulatory environment. Of course these are not mutually exclusive policy options, and the government should strive to make progress on all fronts. But it makes sense to include tax incentives as one ingredient in the policy mix.

Potential revenue gains. Tax incentives can ultimately increase government revenue when they stimulate investments *that would not otherwise be forthcoming*. That is because the government gets zero revenue from investments that not happen in the absence of the incentives. In more technical terms, the revenue effect can be positive if the investment response to the tax incentive involves a high rate of “additionality.”

...and the case against

On the other side of the debated, there are serious arguments suggesting that tax incentives have limited effectiveness and substantial costs.

Redundancy. Incentives may be necessary to attract “footloose” manufacturing that could easily locate elsewhere. But for a much larger group of investors – those looking for opportunities in the domestic market, or natural resource advantages (including arable land) – the investment decision depends on hard-nosed consideration of profitability. For any such venture, *tax incentives are critical to a “go” decision only if* the expected profitability is too low for the investment to stand on its own merit. Any investment promising a high rate of return will pass the test of financial viability *with or without tax incentives*. In such cases the incentives are “redundant” in that they do not materially affect the investment decision, and the incentives yield very little “additionality.” For highly profitable business ventures, the main effect of a tax incentive is to pad the owner’s bottom line at the expense of public revenue. (Empirical evidence on this issue is discussed in Section VI). Equally important, imposing the 32% tax instead of a 10% tax cannot change a profitable position into a loss position; hence, the low IRPC rate should not be an important factor in contributing to business failures.

Poor targeting. One certain effect of a tax incentive is to boost profits, which can be used to finance new investment. But for most tax incentives, especially preferential tax rates and tax holidays, it is a leap of faith to presume that the extra earnings will be used to finance reinvestment in the target sector. The

beneficiaries are free to use the extra profits instead for personal consumption, or externalized savings, or investment in an alternative non-strategic activity.

Revenue loss. Perhaps the most frequent argument against tax incentives is the cost in government revenues. As noted above, the revenue cost is zero when incentives stimulate investments that would otherwise not happen. But the previous two paragraphs show that tax breaks often end up padding profits for the beneficiaries at a cost to the treasury -- without actually making a difference to the investment decision. Those costs are often called “tax expenditures” because the loss of revenue is equivalent in fiscal terms to a budget expenditure. In some countries, estimates of the revenue loss amount to several percentage points of GDP (see Section VI).

Moreover, the most important revenue loss could operate through indirect channels, especially with incentives in the form of a preferential tax rate or a tax holiday. To illustrate the point, consider a business group with one entity subject to a full tax holiday for ten years, while other entities face the standard tax rate. Any capable accountant or tax lawyer can and will find ways to shift group income into the entity with the tax holiday, thereby reducing the group’s overall tax bill, at the expense of the treasury.¹²

Equity effects. The government must offset any revenue loss from tax incentives by imposing higher taxes on other taxpayers, or by reducing expenditure on public goods and services. Partly for this reason, most fiscal experts favor scaling back on tax incentives to cover the cost of a lower overall company tax rate that would raise revenue more equitably, while also encouraging private investment more broadly, and simplifying tax administration. Alternatively, the revenue gain from scaling back tax incentives could be used to fund additional expenditure on public goods and services, potentially including social services to benefit poor families and women. Of course there is no guarantee that government will use additional revenues wisely or efficiently; nonetheless, one may reasonably ask whether there is a good justification for tax breaks that selectively pad the pockets of relatively wealthy business owners – who are mostly men.

Investment efficiency. The efficiency of investment is just as important as the amount of investment in determining economic growth. If tax incentives boost investment while reducing overall productive efficiency, the effect of the incentives on growth could be small or even negative. In fact, when widely differing tax rates are applied to different business activities, these differentials create a strong incentive for inefficient investment. As a specific example, when the IRPC rate was 10% for agriculture and 32% for other businesses, an investment yielding 20% in agriculture would have been more attractive than an alternative yielding 25% in another sector. The tax incentive would have to produce a very large “additionality” effect for the benefits to outweigh the adverse efficiency effects. In contrast, uniform company tax rates favor investments offering the highest rates of return, across the board.

Budget transparency. As noted above, the revenue loss from a tax incentive is equivalent in fiscal terms to a budget expenditure. Those budgetary effects typically lack fiscal accountability and transparency. In most countries, including Mozambique, tax expenditures build up year after year without going through a normal appropriation process, and without any measurement of the revenue foregone. To improve fiscal transparency, most tax experts recommend the adoption of systems for tracking and reporting tax expenditures. Accountability can be strengthened further through explicit budgetary votes to cap the amount of tax expenditures that can be approved each year.

¹² Another indirect revenue loss results from taking tax administration personnel away from activities with a higher tax yield to deal with returns from filers who benefit from incentives. Note, however, that any such revenue concerns may become less important for Mozambique once earnings begin to flow to the treasury from the exploitation of offshore natural gas reserves. That revenue bonus, though, is still five to ten years in the future.

Alternative policy instruments. Enterprise surveys in Mozambique and in other countries show that taxation is less important to investors than other constraints to the environment for doing business. Thus, policies such as streamlining regulations, building critical infrastructure, strengthening the legal framework, or developing financial markets can be far more important than selective tax incentives for stimulating efficient private investment. Those alternative policies can also yield much broader development benefits – and with fewer adverse effects on equity, efficiency and government revenue. Specific strategic priorities like the promotion of agriculture can also be pursued through targeted development programs, or improvements in supporting institutional structures.

Implications for the 10% IRPC rate for agriculture

As highlighted by the CTA, many investments in agriculture have benefited from the 10% IRPC rate while it was in effect, and delivered strong socio-economic benefits for large numbers of poor rural households. These positive externalities create a strong presumption in favor of special treatment for agriculture as a strategic priority, especially considering that **two-thirds** of the population lives in rural areas, and **three-fourths** of the labor force works in agriculture, including **82%** of women in the labor force. The CTA also emphasized the fact that the 10% tax rate served to enhance the capital position of agricultural enterprises, allowing them to finance new investments using their own equity. Other factors of particular relevance to agriculture include the additional constraints faced by rural enterprises, the inherent vagaries of farming due to volatile harvest and market conditions, and the importance of signaling to investors the government priority on this sector.

But there are also strong counterarguments. Although the CTA cites important socio-economic benefits from agricultural investments, there is no basis for concluding that the tax incentive was essential to attract those investments – in other words, what was the extent of *additionality* versus *redundancy*?¹³ If the original business plans showed a prospective rate of return well above the minimum threshold for viability, then investors would have had a clear incentive to proceed, with or without the preferential tax rate. In any case, any large investment in agriculture can qualify even now for a lower tax rate under the Code of Fiscal Benefits (see section III).

Furthermore, the argument on *targeting* weakens the contention that a 10% tax rate is needed to enhance earnings as a source of financing for investment in agriculture. There is no assurance that business owners who benefit from the tax incentive will use the enhanced earnings for reinvestment in agriculture. Some may do so, some may not. The key here is that *a preferential tax rate is not the most cost-effective type of incentive* for promoting investment in agriculture: for this purpose, incentives tied to actual capital investment in agriculture – such as special capital allowances or investment credits – are better targeted, and should have a greater impact.

Equity and efficiency questions are also pertinent. Did the socio-economic benefits from the 10% tax rate outweigh the equity problems created by the tax incentive? Do those positive externalities outweigh the inefficiencies created by the preferential tax rate? On both points, it must be kept in mind that the benefit side of the equation only applies to the extent that the tax incentive has fostered *additionality* in agricultural investment. So opinions can certainly differ on how to assess these trade-offs.

¹³ The direct approach would be to simply ask investors whether tax incentives are essential. But beneficiaries may say yes to this question as a tactical response to preserve lucrative tax breaks, even if their investments are profitable enough to proceed without the incentive. The next section reports on some carefully constructed surveys that have overcome this problem.

Finally, as a matter of strategic development priority, there is the fundamental issue of whether agriculture should be singled out for a preferential tax rate. Many of the arguments in favor of the 10% IPRC rate for agriculture could apply as well to other labor-intensive activities such as light industry, construction, or many services. Moreover, the literature on economic development points to structural transformation *away from* low-productivity jobs in agriculture as a key to rapid growth. As shown in the following section, most countries in the region do not offer special tax rates for agriculture; more often they target investment in manufacturing, or offer incentives linked to actual capital investments rather than to profits.

Evidence from International Experience

This section briefly reviews evidence from international experience with tax incentives, focusing on three issues: first, the effectiveness of tax incentives in stimulating investment (i.e., the issue of redundancy); second, the fiscal cost of tax incentives; and third, the types of tax incentives available in other countries of eastern and southern Africa.

Effectiveness

Over the past decade, tax experts at the IMF have produced two studies consolidating the available empirical evidence on the effectiveness of investment tax incentives in developing countries.¹⁴ The first study, in 2009, applied econometric methods to data from 40 countries in Africa, Latin America and the Caribbean over the period 1984 to 2004, and found that lower company tax rates and tax holidays do have a significant positive effect on foreign direct investment. But the study also finds no statistically significant effect of lower tax rates on total investment or the resulting growth rates. Overall, the results suggests that tax breaks can attract internationally mobile capital, but they may also crowd out other investments, or simply draw foreign capital into existing businesses without creating new enterprises.

The second study, in 2015, was a report to the G-20 that the IMF produced in collaboration with tax experts from the OECD, the United Nations and the World Bank. This study reviewed survey evidence from developing countries, with the following overall conclusion:

“Tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant—that is, investment would have been undertaken even without them. And their fiscal cost can be high, reducing opportunities for much-needed public spending on infrastructure, public services or social support, or requiring higher taxes on other activities.”

The evidence on redundancy, replicated here in Table I, comes from carefully constructed special surveys of investors in 14 developing countries. In ten of those surveys, including one for Mozambique,¹⁵ self-reported redundancy rates equaled or exceeded 70 percent; and in four of the countries, more than 90 percent of companies benefiting from tax incentives would have invested even without the incentives.

Table I. Redundancy rates on investment incentives, from investor surveys \ |

| | | | |
|--------------------|-----|-----------------|-----|
| Burundi (2011) | 77% | Rwanda (2011) | 98% |
| El Salvador (2013) | 37% | Serbia (2009) | 71% |
| Guinea (2012) | 92% | Tanzania (2011) | 91% |

¹⁴ See Klemm and van Parys (2009) and IMF (2015).

¹⁵ Nathan Associates (2009). This study was conducted for the USAID Trade and Investment project. The methodology developed for this study was then used for surveys in several other countries by tax specialists at the World Bank.

| | | | |
|---|---------|-----------------|-----|
| Jordan (2009) | 70% | Tunisia (2012) | 58% |
| Kenya (2012) | 61% | Uganda (2011) | 93% |
| Nicaragua (2009) \2 | 15%/51% | Vietnam (2004) | 85% |
| Mozambique (2008) | 78% | Thailand (1999) | 81% |
| \1 Negative response to questions on whether tax incentive was needed for the investment. | | | |
| \2 Higher figure is for non-exporting firms outside free zones | | | |

Source: IMF (2015)

Other evidence of interest comes from an new methodology developed in the Philippines. In the interest of fiscal transparency, the government enacted a law in 2016 requiring all businesses receiving investment tax incentives to file an annual report on their operations and financial condition. Government economists then compared these reports against other enterprise survey data to estimate the economic impact of the tax incentives.¹⁶ They found that tax breaks were unnecessary for 57% of the investments receiving benefits, and that the economic benefit-cost ratio for the incentives was less than one – meaning that the cost exceeded the benefits – even taking into account multiplier effects from the investments.

These studies consistently reveal a mixed picture: tax incentives do attract some investments, but the overall impact is often quite limited. The studies also show that the extent of additionality versus redundancy cannot be settled as a matter of opinion; instead, it requires careful empirical analysis, and the result will differ from one case to another.

Fiscal cost

The research for the present paper did not turn up any consolidated reviews of empirical evidence on the revenue loss from investment tax incentives in developing countries. But instructive estimates have been reported for particular countries. Examples include:

- A 2016 IMF study on fiscal policy and inclusive growth in Mozambique estimated that tax expenditures amounted to 3.3% of GDP in 2014, of which about two-thirds derived from indirect tax and import duty exemptions and just under one-third from selective income tax preferences.
- A 2013 study for the Ministry of Finance in Tanzania cites World Bank estimates of revenue loss from tax incentives in the East African Community amounting to 2.5% of GDP in Tanzania and Kenya, 1.2% in Uganda, 3.2% in Rwanda, and 7.1% in Burundi. For Tanzania, the incentives reduced government revenues by 16%.
- A 2012 IMF report for Zambia estimated that tax incentives cost the government 4% of GDP, representing more than one-fifth of the revenue collected in 2011.

Even the most careful analysis of the revenue loss from investment tax incentives provides an approximation rather than a measurement. The numerical results will differ depending on the methodology and the assumptions used to estimate the revenue potential *not realized* due to the incentives – otherwise known as the “counterfactual.” For example, some tax expenditure estimates assume 100% redundancy of the incentives, so that all of the tax foregone on realized investment is counted as a revenue loss; other estimates make allowance for a reasonable degree of additionality based on empirical studies like the ones summarized above. And yet, virtually all such estimates find that investment tax incentives produce a large revenue loss, especially in relation to the country’s fiscal capacity.

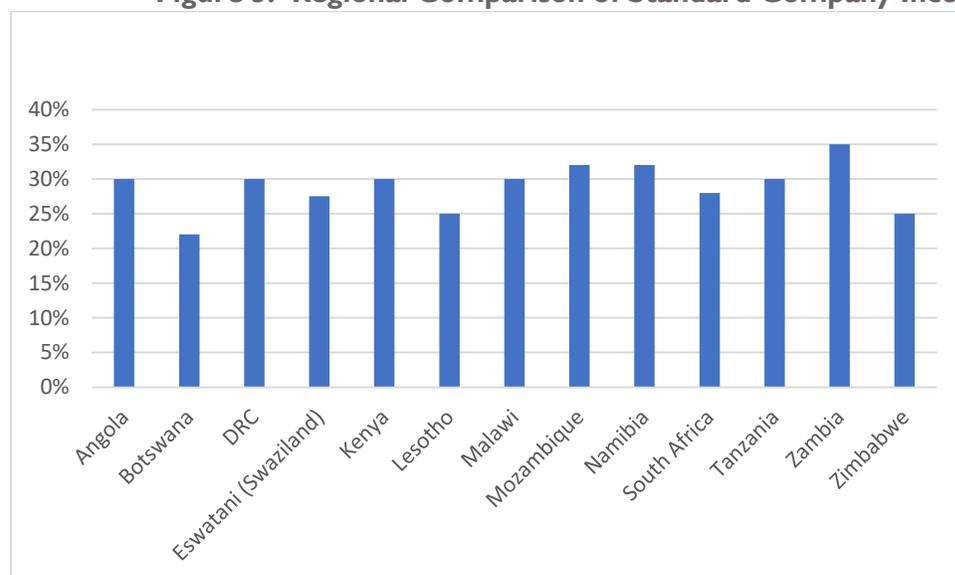
¹⁶ See Republic of the Philippines, Department of Finance (2018).

Investment tax incentives elsewhere in the region

This subsection examines the tax treatment of agriculture in 12 other countries in eastern and southern Africa. (For details, see [Annex II](#))¹⁷

One rationale for the 10% tax rate for agriculture in Mozambique is that the standard 32% company tax rate is higher than the norm for the region. Of course this essentially an argument for lowering the overall tax rate, not just the rate for agriculture. In any case, [Figure 3](#) on the next page shows that the contention is correct only to a minor extent. Of the 12 countries covered here, seven have company tax rates of 30% or more. The only examples with a substantially lower tax rate are Botswana (at 22%), Lesotho (25%), and Zimbabwe (25%) – none of which is currently competing with Mozambique for major investments in agriculture. Overall, differences in the company tax rate across the region are rather inconsequential compared to other conditions affecting an investment decision.

Figure 3. Regional Comparison of Standard Company Income Tax Rates (%)



Source: Author's tabulation from national sources

Another relevant question is whether other countries in the region offer special tax incentives for investment in agriculture? The answer is a bit complicated. Three of the 12 countries apply a preferential company tax rate for agriculture: Angola (at 15%); Lesotho (10%); and Zambia (10%). In the other nine countries, agricultural enterprises face the same company tax rate as other businesses. (Malawi provides a 10-year tax holiday for agro-processing, but not for agriculture as such.) In addition, half the countries offer preferential tax rates for investments under broader incentive programs, which could include agricultural activities.

Finally, most countries in the region offer tax incentives that are targeted to investment expenditure, rather than applying special tax rates to company profits. For example, Botswana, Eswatini, Kenya, Malawi, Namibia South Africa, Tanzania and Zambia allow full expensing of designated expenditure on farm works and/or farm equipment. In addition Angola, Malawi, Namibia, South Africa, Zambia and Zimbabwe all have provisions for accelerated depreciation or tax credits applying to investments in agriculture. Tax incentives

¹⁷ The incentive packages that are in place elsewhere in the region do not necessarily represent best practices that should be emulated in Mozambique.

of this sort can be much more cost-effective than low tax rates in stimulating investment (though they do have a drawback in favoring more capital-intensive investments). Aside from a 20% tax credit for investments in a Rapid Development Zone, this type of targeted incentive is largely absent in Mozambique's tax system.

Conclusions and Recommendations

The core purpose of taxation is to raise revenue for financing public goods and services. Hence, there should be a clear and compelling justification for any special tax breaks, taking into account the associated costs. In that context, the purpose of this policy note has been to provide a balanced analysis of the pros and cons of restoring the special 10% IRPC tax rate for agriculture, which had been in effect from 2002 through 2015.

From this analysis, readers may reach differing conclusions depending on their perceptions about the positive and negative effects. Suppose, first, that one views the 32% tax rate as a serious impediment to new investment in agriculture and expects the 10% tax rate to have a large impact in stimulating new investment (i.e., high *additionality*), with large positive externalities that outweigh any adverse effects of the special tax rate on efficiency, equity and government revenue. In this case, it is logical to conclude in favor of renewing the preferential tax rate for agriculture.

Now suppose, instead, that one expects that most investments in agriculture to be driven by fundamentals, and not by the differential tax rate (i.e., high *redundancy*); that the efficiency and equity concerns and revenue effects outweigh the positive externalities; and that most investors could qualify anyway for lower tax rates through the CBF. Then the logical conclusion is to support the current policy of applying the IRPC without a preferential tax rate for agriculture.

The CTA has advanced a strong case (as outlined in Section II) in favor of restoring the special tax rate, emphasizing the adverse impact of the tax increase on investment in agriculture, and the important socio-economic benefits from such investment. However, the data analysis in Section III found only ambiguous evidence of a large impact from the tax increase. Furthermore, the studies reviewed in Section IV on investment tax incentives in several countries (including Mozambique) have typically found redundancy rates of 70% or more -- meaning that most investments that benefit from tax incentives would have happened anyway without the incentives. That result accords with enterprise surveys in Mozambique, which have shown that taxation is generally less important than other constraints to the business environment. A high redundancy rate is also consistent with the basic economic logic indicating that tax breaks are essential to an investment decision only when the rates of return are marginal, and that this type of investment delivers limited benefits for economic growth.

In addition, the evidence shows that tax incentives tied to capital expenditure are more cost-effective than setting a preferential tax rate that benefits every company in agriculture. With the preferential tax rate, the treasury foregoes revenue even when the beneficiary chooses not to reinvest the earnings. For that reason, several countries in the region allow full expensing of the cost of farm works, special investment allowances, or investment tax credits, in preference to a preferential tax rate for agriculture.

Recommendations

The preceding analysis suggests the following recommendations for consideration and debate by the government and the private sector. (See [Annex III](#) for alternative views raised during consultations.) **[If necessary]**

- The 10% IRPC rate for agriculture should not be restored without much stronger evidence of its likely effectiveness (i.e., high additionality, low redundancy), such as a study on the profitability of beneficiary enterprises.
- Tax incentives for agriculture should instead be tied to capital expenditures, through provisions such as expensing of farm works, special investment allowances, or investment tax credits.
- The government can promote investment more efficiently and equitably by lowering the standard IRPC tax rate for all companies; many countries have offset the revenue cost of a lower tax rate by scaling back on special tax incentives.
- In view of the special vulnerability of agriculture to weather and market conditions, the 5-year limit on carry-forward of losses should be extended for this sector.
- For the same reason, agriculture should be given an exception from the 0.5% “advance tax” on turnover that applies to companies reporting a loss for tax purposes.
- Thresholds in the tax system that are set in nominal terms -- such as the ISOC ceiling, brackets for the IRPS, and minimum equity requirements for the CBF – should be adjusted for inflation at least every five years, or subject to automatic annual adjustments.
- The Ministry of Finance should develop procedures for reporting on “tax expenditures” to improve transparency, and consider adopting a budget appropriation to cap the tax expenditures that can be approved each fiscal year.

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Annex I: Data Tables (next three pages)

- > *Approved investments under the Code of Fiscal Benefits, by sector 2009-2017*
- > *Net Foreign Direct Investment, by Sector 2001-2018*
- > *Commercial Bank Investment Credit, by Sector 2003-2018*

Approved investments under the Code of Fiscal Benefits, by sector 2009-2017 (USD millions)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
|--------------------------------------|---------------|---------------|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Agriculture and agro-industry | 4915.6 | 388.1 | 787.3 | 236.5 | 878.3 | 338.2 | 102.0 | 92.0 | 31.8 | |
| Aquaculture and fisheries | 30.2 | 6.3 | 8.2 | 1.2 | 3.0 | 13.4 | n.a. | 12.1 | 0.8 | |
| Banks, insurance, leasing | 20.2 | 75.1 | 69.3 | 129.4 | 0 | 5.5 | 10.7 | 12.2 | 0.1 | |
| Construction and public works | 77.3 | 38.2 | 600.2 | 136.2 | 277.9 | 212.7 | 310.2 | 153.8 | 74.9 | |
| Energy | 0.0 | 1900.0 | 157.0 | 254.3 | 0 | 687.0 | n.a. | n.a. | n.a. | |
| Industry | 191.6 | 169.2 | 370.7 | 390.7 | 1613.0 | 160.7 | 714.1 | 337.1 | 622.2 | |
| Transport and communication | 78.1 | 48.2 | 515.1 | 1234.2 | 590.1 | 607.0 | 76.9 | 14.8 | 49.9 | |
| Tourism and hotels | 264.1 | 134.0 | 95.2 | 323.8 | 370.0 | 62.4 | 184.6 | 199.8 | 45.6 | |
| Services | 167.7 | 331.7 | 249.6 | 506.0 | 491.7 | 373.7 | 490.7 | 460.2 | 184.7 | |
| TOTAL APPROVED INVESTMENT | 5744.8 | 3090.2 | 2852.6 | 3212.1 | 4224.0 | 2460.5 | 1889.3 | 1281.9 | 1010.0 | |
| | | | | | | | | | | |
| | | | Percent change, year-on-year | | | | | | | |
| Agriculture and agro-industry | | -92.1% | 102.9% | -70.0% | 271.4% | -61.5% | -69.8% | -9.8% | -65.4% | |
| Aquaculture and fisheries | | -79.1% | 30.2% | -85.4% | 150.0% | 346.7% | n.a. | n.a. | -93.4% | |
| Banks, insurance, leasing | | 271.8% | -7.7% | 86.7% | -100.0% | n.a. | 94.5% | 14.0% | -99.2% | |
| Construction and public works | | -50.6% | 1471.2% | -77.3% | 104.0% | -23.5% | 45.8% | -50.4% | -51.3% | |
| Energy | | n.a. | -91.7% | 62.0% | -100.0% | n.a. | n.a. | n.a. | n.a. | |
| Industry | | -11.7% | 119.1% | 5.4% | 312.8% | -90.0% | 344.4% | -52.8% | 84.6% | |
| Transport and communication | | -38.3% | 968.7% | 139.6% | -52.2% | 2.9% | -87.3% | -80.8% | 237.2% | |
| Tourism and hotels | | -49.3% | -29.0% | 240.1% | 14.3% | -83.1% | 195.8% | 8.2% | -77.2% | |
| Services | | 97.8% | -24.8% | 102.7% | -2.8% | -24.0% | 31.3% | -6.2% | -59.9% | |
| TOTAL APPROVED INVESTMENT | | -46.2% | -7.7% | 12.6% | 31.5% | -41.7% | -23.2% | -32.1% | -21.2% | |

Source: INE *Statistical Yearbooks*, various years, showing data from APIEX and (previously) CPI.

Net Foreign Direct Investment, by Sector 2001-2018 (USD millions)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---------------|---------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|
| Agriculture, Animal Husbandry, Forestry | 4.3 | 27.3 | 14.8 | 1.7 | 7.2 | -6.8 | 48.6 | 98 | 152.2 |
| Fisheries | 1.7 | 1.9 | 9.9 | 6.9 | 19.5 | -2.5 | -3.3 | -0.6 | -4.3 |
| Extractive Industry (coal, petroleum, gas, minerals) | 0 | 42.3 | 173.5 | 173.2 | 26.4 | 104.8 | 202.2 | 225 | 500.7 |
| Manufacturing | 194.1 | 212.3 | 108.9 | 4.7 | -10.9 | 47.5 | 68.1 | 184 | 60.9 |
| Electricity, Gas, Water - Production and Distribution | 1.2 | 53 | 11.3 | 0 | 2.5 | 0.4 | 2 | 1.3 | 0 |
| Construction | 10.6 | 4.4 | 2.3 | 10.9 | 8.1 | -2.8 | 2.1 | 6.9 | -2 |
| Commerce | 0 | 0 | 0 | 5.9 | 10.4 | 9.5 | 18.7 | 33.8 | 26.4 |
| Hotels and Restaurants | 2.9 | 2.2 | 0.3 | 2.3 | 10.8 | 4.5 | 2.9 | 6.2 | 23.6 |
| Transport, Storage and Communications | 0 | 0 | 0.8 | 29.3 | -1.7 | 6.7 | 25.2 | 35.4 | 128.5 |
| Finance | 0 | 0 | 6.1 | 7.6 | 1.9 | -7.4 | 34.6 | 17 | 9.5 |
| Real Estate and Business Services | 21.1 | 2.7 | 1.1 | 1.4 | 7.3 | -0.4 | 0.5 | -17.2 | -1.9 |
| Public Administration, Defence and Social Insurance | 0 | 0 | 0 | 0 | 0.1 | 0 | 0 | -0.2 | 1 |
| Education | 0 | 0 | 0 | 0 | 1.3 | 0 | 0 | -0.1 | 0 |
| Health and Social Action | 0 | 0 | 0 | 0 | -0.2 | 0 | 0 | 0.3 | 1.9 |
| Other Services | 19.6 | 1.2 | 7.7 | 0.9 | 0 | 0 | 1 | 1.9 | 1.7 |
| TOTAL | 255.5 | 347.3 | 336.7 | 244.8 | 82.7 | 153.5 | 402.6 | 591.7 | 898.2 |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Agriculture, Animal Husbandry, Forestry | 69.6 | 9.1 | 153.9 | 115 | 118.9 | 51.9 | 68.1 | 81.8 | 69.1 |
| Fisheries | -3.2 | -3.1 | 15.9 | 1 | 16.8 | -1.3 | 3.1 | 0.7 | 2.2 |
| Extractive Industry (coal, petroleum, gas, minerals) | 862.9 | 2126.2 | 4374.2 | 5469.8 | 3060.8 | 2179.7 | 1748.5 | 1322.5 | 2080.4 |
| Manufacturing | -43.2 | 317.1 | 391.6 | -143.7 | 50.1 | 149.2 | 132.4 | 83.2 | 195 |
| Electricity, Gas, Water - Production and Distribution | 0.4 | 8.6 | -31.6 | 72 | 33.8 | 0.4 | 117.9 | 94.8 | 8.3 |
| Construction | 9 | 15 | 28.7 | 63.2 | 121.5 | 105.2 | 60.1 | 105.4 | 92.3 |
| Commerce | 11.2 | 5.5 | 71 | 48.1 | 132.4 | 53.6 | 143.9 | 151.1 | -35.4 |
| Hotels and Restaurants | 6.1 | 15.9 | 26.5 | 39.5 | 127.4 | 53 | 100.2 | 47.7 | 28.8 |
| Transport, Storage and Communications | 91.4 | 87.5 | 98.7 | 271.7 | 737 | 899.3 | 537.1 | 204.6 | 74.6 |
| Finance | 76 | 42.9 | 43.4 | 107.5 | 35.9 | 188.8 | 66.9 | 37.4 | 61.9 |
| Real Estate and Business Services | 1.3 | 14.3 | 40.6 | 137.4 | 457.5 | 373.5 | 97.1 | 148.5 | 97.3 |
| Public Administration, Defence and Social Insurance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.1 |
| Education | 0 | 0 | 0 | 0 | 1.7 | 0.6 | 0 | 2.2 | 12.9 |
| Health and Social Action | 2.4 | 16 | 3.9 | 1.5 | 3.4 | 3 | 0.5 | 7.4 | 0.5 |
| Other Services | 2.3 | 903.7 | 412.6 | -7.8 | 4.8 | -23.2 | 17.5 | 5.7 | 4.4 |
| TOTAL | 1086.2 | 3558.7 | 5629.4 | 6175.2 | 4902 | 4033.7 | 3093.3 | 2293 | 2692.4 |

Source: Banco de Moçambique, http://www.bancomoc.mz/fm_pgLink.aspx?id=222.

Note: Negative entries in some years indicate that outflows (investments plus remitted earnings) exceeded inflows of FDI

Annex 2: Regional Comparisons of Company Tax on Income from Agriculture

| Country | Standard CIT Rate | CIT Rate for Agriculture | Other Company Tax Rate Provisions Affecting Agriculture | Other Special CIT Incentives for Investment in Agriculture |
|-------------------|-------------------|--------------------------|---|--|
| Angola | 30% | 15% | Approved investments can qualify for reduction in CIT rate from 25% to 90%, for 2 to 8 years, depending on location. | Accelerated depreciation, at rates depending on location |
| Botswana | 22% | Same | Companies obtaining Development Approval Order can get 0% CIT rate for 5 to 10 years. | 100% deduction for farm buildings and other capital improvements related to farming. |
| DRC | 30% (as of 2019) | Same | CIT exemption for designated sectors up to 5 years, depending on location. | No information found on other CIT incentives for agriculture |
| Kenya | 30% | Same | None | 100% allowance on farm works (structures necessary for farming operations) |
| Lesotho | 25% | 10% | None | No information found on other CIT incentives for agriculture |
| Malawi | 30% | Same | 10 year tax holiday for agro-processing but not for agriculture, as such | <ul style="list-style-type: none"> - Full expensing of dams, dykes and land preparation for farms - Initial allowance: 33.3% on farm fencing, 10% on farm improvements and staff housing |
| Mozambique | 32% | Same (after 2015) | <ul style="list-style-type: none"> - 50% reduction in CIT rate (to 16%) for approved investments in agriculture, through 2025 (Code of Fiscal Benefits). - Tax holidays and reduced tax rates for investments in Industrial Free Zones, Isolated Free Zones, and Special Economic Zones | - Investment tax credit = 20% of total investment for 5 years in In Rapid Development Zones |
| Namibia | 32% | Same | None | <ul style="list-style-type: none"> - Full expensing of capital development expenditures - Accelerated depreciation over 3 years for farm vehicles and movable assets |
| South Africa | 28% | Same | None | - 100% deduction for designated capital |

| | | | | |
|----------------------|-------|------|---|---|
| | | | | expenditures on designated farm works - Accelerated depreciation (50/30/20) for farm machinery, implements, utensils |
| Eswatini (Swaziland) | 27.5% | Same | 10% tax rate for 10 years for investments obtaining Development Approval Order. Criteria unclear | Certain capital expenditures for farming are tax deductible, up to 30% of gross income from farming operations |
| Tanzania | 30% | Same | - 10-year exemption from CIT and W/H tax for investment within EPZ (and some Special Economic Zones) | - With TIC certificate: 100% capital allowance for plant & machinery in agriculture. - Note: Alternative Minimum tax of 0.5% on turnover does not apply to agriculture |
| Zambia | 35% | 10% | None | - 100% deduction for farm works and farm Improvements - 10% allowance for expenditure on growing of plants or trees |
| Zimbabwe | 25% | Same | For investments in Special Economic Zones: Tax holiday at 0% for first 5 years, 15% for next 5 years. | - Special Initial Allowance of 25% per year for years 1-4 for farm improvements - Farmers allowed special deductions [details lacking] for expenditure on fencing, land care, well digging and geographical surveys. |

Source: Multiple on-line documents for each country, including from tax authorities, finance ministries, and investment promotion agencies, as well as tax guides from local and international consulting companies. Efforts were made to obtain up-to-date information as of May, 2019, though recent changes may have been missed. Details are available from the author on request.

Annex 3: Alternative Views, from Consultation with Stakeholders

[To be written after consultations, if needed]