



REPUBLIC OF MOZAMBIQUE
MINISTRY OF ECONOMY & FINANCE



PACOTE DE MEDIDAS DE ACELERAÇÃO ECONÓMICA

THE ECONOMIC ACCELERATION STIMULUS PACKAGE - PAE



In recent years, the performance of the Mozambican economy has been affected by successive, unprecedented internal and external obstacles, which have been conditioning its growth rate. Among these drawbacks was the suspension of foreign support to the State Budget, motivated by undeclared debts. This financial cut took more than eight hundred million dollars a year away in resources, which were instrumental for the country's ability to make investments.

Mozambique has many competitive advantages to reverse this scenario, and the Government is responsible for making adjustments to its strategy in order to facilitate the revamp of its economy in the face of successive challenges, so that it can honour the commitments made to the people, within the framework of its governance program.

It is in this context that the Government intends to proceed with a structured package of reform measures that will place the private sector at the centre of the country's economic transformation and development, in order to promote the diversification of productive activities, enhance opportunities for their expansion, as well as to guarantee the use of the unexplored potential of the country.

The readjustments and incentives of the Economic Acceleration Stimulus Package will create the appropriate environment for key sectors of the economy to thrive, through the attraction of greater investment and the creation of new jobs, ensuring an improvement in macroeconomic stability and the sustainability of the fiscal system in the mid and long term.



AREAS OF INTERVENTION – PAE

The package of measures incorporates strong components to improve the business environment, transparency and governance, with specific actions to increase productivity and the dynamics of the public sector through approaches that allow the Mozambican state to have better regulation, greater efficiency, improved financial sustainability, assertive action by institutions in the fight against corruption and the provision of better services for its citizens.

The Economic Acceleration Stimulus Package - PAE is based on 20 reform measures to be implemented in the **next 24 months** focused on two areas of intervention that form the basis for the resumption of economic growth, namely fiscal and economic stimulus measures and others aimed at improving the business landscape, transparency, governance and the acceleration of strategic infrastructure projects.



PAE - THE 20 MEASURES

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7	THE PROMOTION OF HOUSING AND THE DYNAMIZATION OF THE NATIONAL CONSTRUCTION MATERIALS INDUSTRY	17	STRENGTHEN THE SUPERVISION OF SOCIAL SECURITY FUNDS AND COMPLEMENTARY FUNDS
8	ALLOCATE 10% OF TAX REVENUES FROM NATURAL RESOURCES TO THE DEVELOPMENT OF PROVINCES WHERE EXTRACTION TAKES PLACE	18	SIMPLIFICATION IN THE ARCHITECTURE OF PUBLIC ADMINISTRATION
9	CREATION A MUTUAL GUARANTEE FUND	19	CREATION AND IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF MOZAMBIQUE
10	MANDATORY BLENDING OF IMPORTED FUELS WITH BIOFUELS	20	REFORM OF THE STATE'S INTERNAL AUDIT SUBSYSTEM

A photograph of a woman in a white jacket and a yellow visor shopping for lemons in a grocery store. She is holding a black shopping basket. A large white number '1' is overlaid on the left side of the image.

1

VAT RATE REDUCTION FROM 17% TO 16%

The measure will aim to gradually reduce the tax burden, stimulating the economy and improving the purchasing power of families.



VAT EXEMPTION FOR IMPORTS ON THE PRODUCTIVE SECTORS OF AGRICULTURE AND ELECTRIFICATION

This measure aims at the decrease of the cost of agricultural inputs in order to increase production and competitiveness and to promote more investments in renewables to accelerate electricity access, particularly in rural areas.



3

LOWER THE CORPORATE INCOME TAX RATE FROM 32% TO 10%, IN THE AGRICULTURE, AQUACULTURE AND URBAN TRANSPORT SECTORS



This measure aims to improve the competitiveness of the indicated sectors, making them more attractive to private investment while reducing its deficit as well as the cost of public transport for the populations.

Also as part of the promotion of the competitiveness of the agricultural sector, the government is going to reduce the clearance rate charged to foreign entities that provide services to national agricultural companies from 20% to 10% and eliminate the withholding tax of 20% on interest of external financing for agricultural projects.

4

TAX INCENTIVES FOR NEW INVESTMENTS IN KEY SECTORS CARRIED OUT IN THE NEXT 3 YEARS

These tax incentives will cover both new private initiatives and the expansion of current investments, which expand installed production capacity in the sectors of agriculture, agro-processing, manufacturing, tourism and urban transport.

The tax incentives consist in the acceleration of the amortizations of paid-in capital to half the period established in the current tax code, for investments made in facilities and equipment related to the productive activity of companies, provided that they result in the creation of at least 20 new permanent jobs.

The fiscal reforms comprised on measures 1 to 4 are under public consultation and consequentially will be submitted to the council of ministers and then subjected to parliamentary approval. Its effectiveness is expected to be January 2023.

A collage of various Euro and US Dollar banknotes and coins, including a 500 Euro note, a 100 Euro note, and several US Dollar bills and coins.

5

SIMPLIFICATION OF CAPITAL REPATRIATION PROCEDURES

This measure aims to facilitate capital flow, to attract more foreign investment and to reduce the costs of capital repatriation, considered essential to complement the efforts of national companies as well as to increase and diversify national production.

A revision of the foreign exchange law has been approved by the council of ministers and is due to be submitted to parliament. Its effectiveness is expected to be 2022.



STRENGTHENING SUPERVISION OF NATURAL RESOURCE EXPORT OPERATIONS

This measure aims to ensure greater efficiency in the taxation of exports through better control of quantities, specifications and associated values, reducing underinvoicing of exports.

This measure will be accompanied by a more vigorous and effective action in the reduction of fiscal risks and in the fight against smuggling, with the introduction of independent controls and supervision of the respective processes.

A 3 stage plan has been drafted (external auditing, new mandatory reporting and new monitoring procedures) and is under implementation including a legal and regulatory framework revision. Partial effectiveness should start to take place on 2Q 2023.



THE PROMOTION OF HOUSING AND THE DYNAMIZATION OF THE NATIONAL CONSTRUCTION MATERIALS INDUSTRY

This measure will reorient the mission of the Housing Promotion Fund to focus on land infrastructure for citizens and private investors, as well as to promote investments in local production of construction materials.

This action also promotes a housing construction market, with the aim of reducing construction costs and ensuring greater access to decent housing for the population.

The Government is working on a two pronged approach: 1) Identify construction materials that national companies are able to either expand their portfolio or scale up their production capacity; attract foreign companies to relocate in Mozambique 2) Remove regulatory barriers and structure a commercial affordable housing project to scale up housing market in Mozambique .



8

ALLOCATE 10% OF TAX REVENUES FROM NATURAL RESOURCES TO THE DEVELOPMENT OF PROVINCES WHERE EXTRACTION TAKES PLACE



This measure aims to ensure that extracted resources have a direct connection with the improvement of the livelihood of the communities based in the extractive areas.

The allocated revenue should be used exclusively for the financing of infrastructure projects and development programs with a multiplier effect on the local economy.

The measure will be included in the 2023 State budget in line with the implementation of new regulation prioritizing infrastructure projects.

A close-up photograph of Mozambican banknotes, showing the word 'MOZAMBIQUE' and 'BANCO DE MOZAMBIQUE' printed on them. A large white number '9' is overlaid on the left side of the image.

9

CREATION A MUTUAL GUARANTEE FUND

This measure seeks to address one of the main obstacles to the development of small and medium-sized Mozambican companies: access and high cost of financing.

To respond to this challenge, for the first time, a Mutual Guarantee Fund will be created in the country, initially valued at US\$250 million.

This fund will allow national banks to provide financial resources to strengthen investment capacity at accessible interest rates for micro, small and medium-sized companies operating in the agriculture, fish farming, commercialization and agricultural processing, tourism and housing sectors.

The MEF and the World Bank are currently drafting a concept proposal based on international best practices/ benchmark study. A hearing took place with local banks to gauge feasibility/demand and a proposal is expected to be submitted to the World Bank by Q1 2023. Effectiveness expected Q2 2023.



MANDATORY BLENDING OF IMPORTED FUELS WITH BIOFUELS

In order to generate more jobs and stimulate more private investment in the agricultural production value chain, this measure will make mandatory for importers and distributors of liquid fuels to off-take the entire stock of bio-fuels produced in Mozambique for blending, in order to partially replace imports, promote employment and mitigate the effects on the environment.

The delivery unit is currently in a benchmarking exercise to evaluate “best in class” regulatory framework cases that led to the development of a competitive biofuels industry and its impacts on food security. A number of tier 1 international players have already demonstrated interest in participating in this measure through investments both on the agricultural and the industrial side.



IMPROVE COMPETITIVENESS OF NATIONAL AIRPORTS AND LOGISTICS CORRIDORS

This measure aims to increase the flow of people and the volume of goods into and through Mozambique, reinforcing the contribution of this important sector to the national economy. In this framework, the associated procedures will be simplified to make them more efficient.

Transshipment incentives will be introduced for operations in the main ports, and procedures to improve efficiency at the main border posts and the competitiveness of the tariffs applied by airports, ports and logistical corridors.

A comprehensive plan is being developed to simplify border procedures and streamline transshipment.



12

STIMULATE THE LOCAL PRODUCTION OF GOODS ACQUIRED IN SCALE BY THE STATE

This measure aims to generate an incentive for goods that are frequently acquired in scale by the Government to be produced locally. In this framework, public procurement rules will be adjusted to ensure that local production carries a higher value in public tenders' criteria. The measure aims to create an incentive for goods that are currently purchased on a recurring scale by the state to be produced locally. In this framework, public procurement rules will be adjusted to ensure that the addition of productive value in Mozambique is much more valued in the evaluation criteria for public tenders, and to allow for an increase in the duration of contracts so as to generate predictability of revenues for companies investing in the industrialization of Mozambique.

This shift from a state procurement paradigm focused on large, long-term transactions aims to encourage industrialization of the country that will result in more quality domestic jobs.

An assessment of the procurement accounts of all major government sectors is being done in order to align demand to national feasibility. The Government goods and services acquisition law is under revision to include additional support to local production.

A large, white, outlined number '13' is superimposed on a background image of a tropical beach with turquoise water and a sandy shore. The number '1' is on the left and the number '3' is on the right, both with a slight shadow effect.

13

REVISION OF THE VISA REGIME FOR ENTERING THE COUNTRY

This measure aims to improve the business environment while increasing the country's competitiveness in the attraction of foreign direct investment, leisure and business tourism.

Thus, visa exemption will be introduced for citizens of countries with low risk of immigration. The country will also grant investment visas with longer periods to foreigners holding investments in Mozambique and convert short-term tourist visa into a mixed tourist and business visa. To facilitate visa issuance, electronic visas will be introduced for citizens of countries not covered by the visa waiver.

The eVisa system has been developed and is currently under stress test. The system should be online towards the end of the year. An exemption list is under evaluation and is expected to be proposed to the government next year.

The number '14' is displayed in a large, white, outlined font on the left side of the slide. The background of the slide shows two workers in orange safety gear and yellow hard hats looking at a laptop. The scene is set in an industrial or construction environment with blurred lights in the background.

LABOUR AND INVESTMENT LAWS ADJUSTMENTS TO MAKE THEM MORE ATTRACTIVE TO FOREIGN INVESTMENT

This measure aims to create stable and qualified jobs while promoting the transfer of skills and knowledge to Mozambican workers.

It includes the establishment, for the first time in the country, of an insurance fund for cases of involuntary personnel reduction.

These adjustments will also result in the reduction of impacts on workers in the event of cyclical unemployment associated with economic cycles and will increase the resilience of companies in the event of a crisis.

The final draft legislation is about to enter public consultation. Its effectiveness is expected to be 1st quarter of 2023.



SIMPLIFICATION OF ADMINISTRATIVE PROCESSES IN THE RELATIONS BETWEEN THE STATE, COMPANIES AND PEOPLE

This measure consists of simplifying administrative processes in the relations between the state, companies and people, to facilitate the creation of private companies and increase their competitiveness; to facilitate the lives of the population and reduce their cost in accessing public services. Highlighted within this measure is the simplification of notarial acts, with police stations certifying the simplest notarial acts free of charge for citizens. Certified lawyers will be authorized to certify more complex notarial acts, allowing for more expeditiousness and cost reduction for companies. This measure includes an important innovation for the private sector: the elimination of selected permits in some business sectors.

The measure also improves the productivity of economic activities inspections, introducing greater predictability in their performance, adopting a less punitive and more educational nature, with a view to improve the provision of companies and the protection of citizens' interests.

The national police is working on an implementation plan regarding simple notary acts (authentication of signatures and copies) and its effectiveness is expected to begin Q1 23. An international benchmark for complex acts is underway at the Directory of Notary Acts and a draft proposal is expected by Q1 23.

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REFORM OF SELECTED ELEMENTS OF THE JUSTICE ADMINISTRATION SYSTEM



This measure aims to promote a better business legal landscape.

In particular, the review and simplification of procedural legislation; modernization of processes through digital solutions, strengthening and training the sector's human resources, expanding training centres and recruitment in order to respond to the challenge of accumulating processes; and massify alternative means of dispute resolution.

Working groups were created in the Ministry of Justice to address 6 main subjects including Judiciary costs code, Judiciary process code , Digitalization and Modernization, Dispute resolution, Human resources increase and expansion of the National training center of Judges and Prosecutors.



STRENGTHEN THE SUPERVISION OF SOCIAL SECURITY FUNDS AND COMPLEMENTARY FUNDS

This measure will strengthen the supervision of social security funds and complementary funds, with a focus on greater diversification of investments and reinforcement of taxpayer protection. This measure includes the review of mandatory investment mandates so that the funds and revenues generated are better safeguarded, directing them to more robust and diversified portfolios, with a view to guaranteeing greater protection of taxpayers' interests and increasing the contribution of these funds to development of the country.

Under this measure, all pension funds, including the INSS, are now supervised by the Insurance Supervision Institute.

The management of the INSS will be modernized, changing its governance model, with the establishment of an independent committee to approve and evaluate the performance of all investments, and change the criteria for selecting members of the board of directors, which will now be comply with the best international management practices of similar financial institutions.

The World Bank in association with a team from the MEF is currently working on a draft concept proposal including new regulations and the revision of the legal framework.

A large white number '18' is superimposed on a background of wooden blocks. The blocks are arranged in a pyramid shape, with some blocks featuring small black silhouettes of people. A hand is visible at the top, placing a block on top of the pyramid.

SIMPLIFICATION IN THE ARCHITECTURE OF PUBLIC ADMINISTRATION

This measure will result in the simplification of public administration, improving efficiency and increasing the quality of the services provided to citizens.

This will be achieved through the merge of institutions of public administration that have redundant activities, the use of digital platforms and the introduction of greater interoperability between systems to better serve the general public.

We want a public administration that does more with less.

The delivery unit is currently reassessing two different ‘eBau’ solutions that have been developed in the past but never fully implemented. With the support of the World Bank, a consolidated version of a digital government platform should begin implementation in 2023. In addition, an assessment of public entities redundancies is taking place to evaluate merging opportunities over the next 2 years.



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CREATION AND IMPLEMENTATION OF THE SOVEREIGN WEALTH FUND OF MOZAMBIQUE

This measure is focused on the creation and implementation of the Sovereign Wealth Fund of Mozambique, which will have a robust regulatory framework to ensure that oil and gas revenues are used transparently while protecting the economy against the effects of volatility and external shocks, contributing to the promotion of socio-economic development and generating benefits both for current and future generations. The Fund must be operational before the beginning of the revenue stream that will come from the liquefied natural gas production projects located in the Rovuma Basin.

As part of the implementation of these measures, the Government will also deepen and accelerate the reform of the State's business sector, to improve its performance and to prepare the privatization of non-strategic companies, reducing their fiscal risk, the pressure on public accounts and to eliminate at the same time economic distortions and unfair competition that some of these companies creates to selected competitive markets.

The final draft legislation has cleared public consultation and has been submitted to the council of ministers for approval prior to parliamentary submission. Its effectiveness is expected to be January 2023.



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REFORM OF THE STATE'S INTERNAL AUDIT SUBSYSTEM

Addressing the continuous need to improve governance, transparency, and accountability in the state administration, this measure will reform the state's internal audit subsystem.

It will align the structure and model of governance, control and risk management to international standards oriented towards the consolidation of the State's financial administration system, aiming to contribute to the fight against corruption and the diversion of public funds.

A plan to improve preventive auditing to cover 70% (currently at 21%) of the State budget is being drafted and an external consultant will be retained to support the process.

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