



# **IMF Technical Assistance to support the Extractive Industry Taxation**

## **Mozambique**

Workshop on Extractive Industry Taxation

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# Outline



- Overview
- Recent advice
- Current agenda
- Challenges and next steps

# Overview

## Relevance to improve Natural Resources Wealth Management



- Resources from extractive industry are macro-critical
  - For the financing of development
  - Economic imbalances to overcome
  - Quality of governance is crucial
- IMF advice
  - Surveillance policy advice (support to EITI...)
  - Technical assistance and training to reinforce government policies and legal framework, systems and process



*The Managing Natural Resource Wealth Trust Fund (MNRW-TF)*

# Overview

The Managing Natural Resource Wealth Trust Fund (MNRW-TF)



- Launched by the IMF in 2011 with several donors
- With the purpose to build capacity in countries to manage their natural resource wealth effectively, on a stable macroeconomic environment and in a socially responsible way
- Delivers technical assistance (TA) through multiple channels to maximize impact (missions, seminars...)
- Mozambique benefits from TA under the MNRW-TF

# Overview



The Managing Natural Resource Wealth Trust Fund (MNRW-TF)

Concentrates on capacity development in five areas

## Module 1

- Extractive Industries fiscal regimes, licensing, and contracting

## Module 2

- Extractive Industries revenue administration

## Module 3

- Macro-fiscal, public financial management, and expenditure policy

## Module 4

- Exchange rate regimes and macroprudential policies

## Module 5

- Statistics for managing natural resources

# Recent advice

Improved mining and petroleum fiscal regimes



- Internationally competitive and reflects Mozambique's attractive resource base
- Increase natural resource revenues
  - Strongly progressive: captures higher share of revenues as rate of return of the projects increases
    - Resource rent tax (mining)
    - Production sharing mechanism (petroleum)
- Consolidate legislation and regulation
  - More consistent tax treatment
  - Simplify tax administration over time

# Recent advice



## Improved mining and petroleum fiscal regimes

- Improve transparency
  - Require annual financial accounts certified by an independent auditor
- Clarify rules for capital gain taxes
  - Ex., tax reduction for non-residents on gains from transfer of immovable property
- Although there is room for further improvements
  - Need for improvement in assessment of the royalty on production
  - Non-deductibility of the royalty for the assessment of the CIT contrary to international practice

# Recent advice

Establishment of natural resources tax administration and modelling units



- Organizational structure, functions, procedures and working methods adopted
- Risk assessment to be based on a more thorough and analytical approach before audit issues are selected
- But the units yet require substantial support to perform effectively, as per good international practice, and collaboration with other government agencies on data sharing is needed.



# Recent advice

## Support to macro fiscal policy formulation



- IMF advised the authorities on how the discovery of natural resources will impact their fiscal policy formulation in the coming years and presented some tools that could be used to inform policy decisions:
    - Exercise prudence and adopt instruments to assess trade-offs associated with alternative policy decisions
    - Adopt a gradual pace of scaling up expenditure in priority sectors, which takes into account institutional developments and absorptive capacity
    - Create appropriate Fiscal Rules
    - Set up a full-fledged Macro Fiscal Unit by consolidating existing responsibilities currently dispersed in different units
  - Little progress achieved in this area
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# Recent advice



Improvement of natural resources statistics in the national accounts

- Improved coverage of LNG and coal sector operations in the compilation of GDP- led to an upward revision of imports, investment and nominal GDP
- Eliminated huge discrepancies between national accounts and BOP accounts
- But further progress needed regarding inter-agency information sharing and incorporation of companies' oil/gas exploration expenditure in the GDP statistics

# Current agenda

Improve fiscal modelling



- Develop Fiscal Analysis of Resource Industries (FARI) Model specific to Mozambique's fiscal regimes and needs
    - Revenue forecasting
      - Detailed forecast of revenues per project
      - Sector-wide forecast for budgetary purposes and economic analysis
    - Tax administration
      - Auditing of collected revenues
      - Risk assessment and targeting
    - Fiscal regime design and evaluation
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# Current agenda

Improve revenue administration of natural resources



- Design and implement revised tax returns (IRPC, IRRM)
- Build models for each existing mining & LNG projects
- Write regulation on mineral pricing
- Do comprehensive risk analysis; develop compliance strategy; audit approach

# Challenges

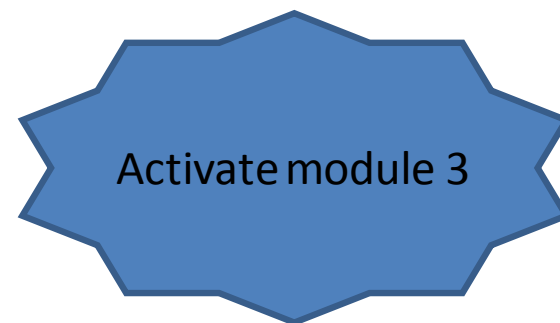


- Enhance transparent and efficient management of natural resources, as recommended by the EITI
  - Clarify and disclose the rules regarding the financial relationship (dividends, financing, loans, reinvestments ...) between the government and the sector SOEs, by end-2018
  - Disclose direct and indirect State's participation in the extractive industries sector (details of the terms attached to their equity stake), by end 2019
  - Implement the government roadmap to disclose beneficial ownership in the extractives sector, by end-2020

# Challenges



- Improve access to data, involving a variety of information sources and systematic sharing practices
- Strengthen the capacity of the natural resources tax administration unit to effectively perform its mandate and maximize collection
- Build capacity on macro-fiscal policies
  - Define fiscal rules
  - Create a sovereign fund



# Thank You

More information at:

<http://www.imf.org/en/Countries/ResRep/MOZ>