

UNCOVERING THE TRAIL OF DIRECT AND INDIRECT EFFECTS OF THE FULL TAX STUDY

**A Preparation Task for the
Hague PSIA Workshop
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1. OBJECTIVE OF THE TASK

During the week prior to The Hague Workshop of 13-14 October, the Consultant undertook two days of preparation time for the presentation scheduled together with Kit Nicholson (see the Specific Agenda Items in the Terms of Reference). These two days were aimed at “hunting-gathering” evidence likely to uncover the trail of direct and indirect effects of the Mozambique Full Tax Study, one of the 12 Pilot PSIA Studies carried out about a year ago. This information gathered, as well as informing his speech for the conference, was expected to be fed back to ODI and DFID, thus forming the first step in reviewing the policy impact of the DFID pilots.

During the two days of “hunting-gathering” relevant information the consultant spoke with six relevant stakeholders. On the first day, three of the stakeholders interviewed were people who contributed to the Mozambique PSIA pilot: one from the Ministry of Planning and Finances (MPF), a second one a petrol station’s owner, and the third a wholesaler and transporters person. On the second and last day three other people were contacted: a small businessman, a journalist and an economist and lecturer at the Eduardo Mondlane University.

In addition to these individual contacts the consultant also browsed six local newspapers (*Notícias*, *Vertical*, *Savana*, *Zambeze*, *Demos*, *Domingo*) and searched for titles and articles relevant to the topic under preparation. The search was not exhaustive, but scattered through newspaper editions covering the past five to six months.

2. DIRECT EFFECTS OF THE 2002 MOZAMBIQUE PSIA PILOT STUDY

1. Following the last revisions introduced in the 2002 Mozambique PSIA Pilot Study last April 2003 there have already been at least two revisions of the fuel prices in Mozambique, one in May and the other one in September. The government official contacted in the context of the preparation for The Hague Workshop is a senior director at the MPF. He explained that the last two fuel revisions were to so extent motivated, or at least directly informed, by the findings and recommendations provided by the Mozambique PSIA Study (Moz-PSIA2002). In particular, he referred to the recommended gradual increase of fuel tax aiming up to 100% aiming at offsetting the erosion experienced by this tax in the past five or so year due to inflation.¹
2. Thus, according to this interviewee, during the current year some key senior government officials have already used the Mozambique PSIA pilot study to persuade their political bosses to update the fuel tax. In this regard, the insistence made by the IMF and the World Bank staff on this same issue of fuel tax has certainly helped to keep the matter alive as well. But to be fair, one needs to acknowledge that at least some government officials who already made some use of the 2002 Mozambique PSIA Pilot Study did it because they agree with its key recommendations.
3. Still, according to the MPF's staff official, besides the two previous fuel price updates, in which part of the fuel price increase includes the fuel tax adjustment, his Ministry is contemplating introducing a decree intended to formally establish a regular and automatic mechanism of adjustment as an integral part of the overall fuel price revision mechanisms. Again, the IMF's report mentioned above confirms this statement and adds that the authorities indicated that earlier in 2004 there will be further fuel taxes adjustments. This IMF report refers explicitly to the 2002 Mozambique PSIA Pilot Study, supported by DFID, and its key conclusion that the impact of increasing fuel taxes on poor in Mozambique is relatively modest (see Box 2 from the IMF's report below).

¹ This is confirmed by the IMF's *Fifth Review Under the Poverty Reduction and Facility and Request of Waiver of Performance Criterion*, published last September 2003.

Box 2. Poverty and Social Impact Analysis (PSIA): the Case of Petroleum Taxes in Mozambique

In October 2002, a group of consultants concluded a PSIA report that was supported by the DFID. The study assessed the impact of an **increase in fuel taxes** in Mozambique. Fuel taxes, which are specific, had not been increased for five years and their real value had been substantially eroded. As a result, the share of these taxes in government revenue, which had traditionally been around 10 percent, had been reduced to 7 percent.

The study focused on **two policy scenarios**: (i) updating the fuel tax in line with inflation, which would involve a 65 percent increase in these taxes and would lead to a 13.5 percent increase in fuel prices; and (ii) updating the taxes to protect their dollar value, which would involve a 100 percent adjustment and would result in a 20.7 percent increase in prices. Taking into account the potential impact on vulnerable groups and the goal of maintaining price consistency with South Africa, the study recommended the first scenario.

Main effects

Given the very small share of fuel in the economy, the PSIA suggested that the net economic impact would be smaller than generally envisaged, as fuel imports have amounted to only 3 percent of GDP in recent years, with fuel taxes accounting for slightly more than 1 percent of GDP. In this connection, the study concluded that the impact of an increase on the poor would be relatively modest, and that any increase may be more constrained by the need to preserve consistency with South African prices than by concerns about its impact on poverty.

Fuel prices in Mozambique affect other prices in the economy mainly through their effect on transport costs. In this regard, models of transport operations usually assume that fuel accounts for a high proportion of direct operating costs, but other sources of information used in the PSIA (such as a social accounting matrix, SAM) suggest that fuel accounts for a much smaller share of all transport costs (about 10 percent). These differences may be explained by the fact that the SAM coefficient is an average involving many types of transport, while models of transport operations concentrate on motor vehicle transport, which has the highest fuel content.

In the course of the study, key Mozambican stakeholders were of the view that an increase in fuel taxes would have a significant negative impact on poverty levels. Although some activities are more sensitive to fuel price changes, the PSIA argued that the aggregate impact on purchasing power of the fuel price change associated with a 100 percent increase in the fuel tax (the second and stronger policy option referred to above) would not be large, as the cost of living would increase by only 0.42 percent (pushing 28,500 people below the poverty line).

Further analysis and comparative assessment

The PSIA did not look at the impact of the alternative revenue measures that would be required to generate an increase in tax receipts similar to that envisaged in the exercise. Furthermore, the report did not incorporate in the analysis the positive effect on poverty of the higher expenditure level that would be associated with the increase in fuel taxes. More emphasis should also be given to the need to introduce an automatic mechanism of adjustment for these taxes in order to avoid their erosion with inflation over time.

4. Aside from the restrict use of the Moz-PSIA2002 within or between the MPF and other ministries, such as the Ministry of Energy, apparently there has not been any further effort to make the study available to the key stakeholders or the public in general. The MPF, as the immediate client interested in the Mozambique PSIA Pilot Study, has made no effort to translate it into the official language in the country (Portuguese), which also restricts its accessibility to a wider public. It is true that the PSIA studies can be reached through the internet, from the DFID and World Bank WebPages, but there has not been a similar initiative in the beneficiary country. Indeed, neither the terms of reference set for the PSIA study nor any of

the relevant ministries seem to have afterwards contemplated the usefulness of sharing the PSIA study with the wider public, namely the media and interested organizations from the civil society.

5. The previous point is particularly relevant when one considers the debates provoked in at least two occasions by the recent Government's decision to increase of fuel prices. The latest price revision was made public last September 23; local newspapers reported it and in particular stressed its inevitable impact on the cost of living and inflation.² However, when one reviews the articles published on the new fuel prices increase (Notícias, 24.09.03, p. 1; 26.09.03, p. 4-5; 03.10.03, p. 4-5; Vertical, 24.09.03, p. 4; see below a scan of one such a newspaper article), contrary to what the government official asserted one finds no single reference in the public declarations to the fuel tax recommended in the 2002 Mozambique PSIA Study.

Subida dos combustíveis

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...o com a 15.330 meticais, e daqui para 15.380 meticais por litro. Enquanto isso, o gasóleo, combustível usado pela maioria dos transportadores quer de carga quer de passageiros, fixou-se em 12.440 meticais a 24 de Junho, tendo baixado para 11.400 meticais no mês seguinte, preço que se manteve até Agosto. A 23 de Setembro o gasóleo subiu para 12.260 meticais, o litro.

Regra geral, o agravamento dos combustíveis significa o aumento de preços de quase todos os produtos de primeira necessidade, com os vendedores a justificarem-se com o agravamento da tarifa de transporte das mercadorias, o que significa que essa factura será é pelo consumidor, na sua maioria a auferir o salário mínimo nacional, actualmente fixado em cerca de 900 mil meticais.

Alguns camionistas posicionados junto ao Porto de Maputo, responsáveis pelo transporte de grande parte da mercadoria que entra na cidade de Maputo, dizem que apesar da subida dos preços de combustíveis, eles ainda não actualizaram a tabela de fretes. Os camionistas negam, implicitamente, que a alta de preços dos produtos no mercado esteja relacionada com o aumento dos custos de transporte de mercadorias. "Todos os outros transportadores já aumentaram as tarifas e nós confirmamos na mesma", disse um camionista.

Duarte Amad Ismael, camionista com mais de oito anos de experiência, diz não se recordar de nos últimos anos os transportadores de carga terem agravado a tabela, o que significa que a sua margem de lucro vai "enagrecendo" de todas as vezes que os combustíveis sobem.

Segundo o entrevistado, o lucro dos transportadores de carga tem vindo a minguar porque, além dos combustíveis, há mais um factor: as entidades que alugam os camiões para o transporte de carga já exigem recibo selado pelo Ministério do Plano e Finanças, ou seja, os camionistas devem pagar o imposto sobre o Valor Acrescentado (IVA).

"Vamos tentando renhar contra a maré. Se conseguíssemos fretes diários para dentro da cidade de Maputo ou para Matola precisaríamos de 100 litros de gasóleo", disse Ismael, explicando que nalgumas vezes, os custos de combustíveis têm subido ligeiramente porque os camionistas evitam passar pela Portagem da Matola. Um camião de dois eixos paga na Portagem da Matola 75 mil meticais.





Alberto Jesu Luís Davane Arturide Mavie

TPM complica-se

Como se isso não bastasse, ainda de acordo com Luciano Sitor, na hora de ponta, os autocarros da empresa não conseguem cumprir o horário, devido a problemas de congestionamento do tráfego rodoviário, sobretudo nos trajectos entre a Praça dos Combustíveis e Hulene "Expresso" e a zona do bairro do Jardim, o que se reflecte no número de viagens e, consequentemente, no volume de receitas arrecadadas.

São estes problemas que fazem com que a empresa tenha dificuldades até de garantir a manutenção dos autocarros, cuja cota fixava-se em 65 unidades por dia, até ao fim do primeiro semestre deste ano.

A disponibilidade dos autocarros baixou actualmente para 60 carros por dia, contra uma frota considerada operacional de 70 unidades.

Antes do agravamento do preço do combustível, factor determinante nos custos de operação da empresa, a Transportes Públicos de Maputo estava com problemas financeiros relacionados também com o facto de o número de trabalhadores não ser proporcional ao dos autocarros.

O que acontece é que um autocarro está para 16 trabalhadores, contra o ideal de oito.



Evolution of PVV of permitted products 2002

Legend: LPS (Mg), LPS (Kg), LPS (L), LPS (M), LPS (D), LPS (C), LPS (S), LPS (T), LPS (U), LPS (V), LPS (W), LPS (X), LPS (Y), LPS (Z)

²

The latest IMF report on Mozambique, released last 5 September 2003, also singles out the contribution of fuel prices increase to raising inflation, together with other factors such as, the drought effect on some food products and the appreciation of the South African Rand.

6. Even those government officials called to explain the recent fuel price adjustments, who were also aware of and at a certain stage even contributed to the PSIA study (i.e. by providing interviews and participating in the seminar held to present the main findings) made no reference to any adjustment specifically associated with the fuel tax adjustment. For instance, Ms Iolanda Cintura, the National Deputy Director for Energy, appears in one of the local newspapers describing the fuel price revision mechanisms (Notícias, 20.10.04, p. 5). Cintura explained that the fuel price mechanism includes a monthly revision and update, and enumerated the following key determining factors of changes in fuel prices in Mozambique: the situation of the international market, the exchange rate and the consumer price index. In relation specifically to the latest price increase, Cintura informed that the key determinant was the import cost. If part of the referred price increase included an update of the fuel tax as well, as the government official from the MPF suggested, Cintura did not acknowledged it in public.
7. The example provided in the previous paragraph counters, at least on the surface, the information provided above by the director from the MPF. A closer consideration, however, is likely to reveal that this not the case. As in several other situations, government officials retain so much discretion in implementing new decisions, regulations and laws that they appear to be rendered ineffective (Nasir et al., 2002: 27). If they are not ineffective in this particular case of the fuel tax adjustment, so it seems because the referred adjustment is then mixed out with the overall adjustment, for instance, to the international price changes. It main be useful to recall here Nasir et al. (2002)' study entitled *Mozambique Industrial Performance and Climate Assessment*, in which they state: "...government officials retain so much discretion in implementing new laws and regulations that the laws are often rendered ineffective. Officials often obstruct implementation of the new policies by delaying or even ignoring decrees. In some cases local officials have never even heard of legislated changes". This has actually happened in the past in relation to the fuel tax. In spite of the assurance made by the official from the MPF interviewed, it remains to be seen whether the fuel tax will no longer be delayed or ignored again for the same reasons.

3. INDIRECT EFFECTS OF THE 2002 MOZAMBIQUE PSIA STUDY

8. One of the persons approached and briefly interviewed in the context of the preparation for The Hague PSIA Workshop was a journalist who has a particularly interested on economic issues. As mentioned above, the edition of Vertical dated 24.09.2003 reported the latest increase of fuel price in a small article entitled: "Fuel prices going up again". The article described the different increases according to the type of liquid fuel, and wondered to what extent the Mozambican economy can be said to be running well when, time and again, the increase of fuel prices provoke an increase of several other food and non-food products. The journalist was not aware of the Mozambique PSIA Study and lamented that professionals from the media have very often no access to such specialised studies, which could improve their knowledge on complex matters such as the market prices and help them to provide more qualified and informed assessments to their readers.
9. In turn, the lecturer approached by the consultant declared to have not heard any more about the Mozambique PSIA Study, following brief information when the study started more than a year ago. He asserted that the dissemination of such studied was paramount, for they could contribute to clarifying many misunderstandings and misconceptions. He insisted in particular that several organizations from the so-called civil society should be given the opportunity to access to such specialized studies. Such organizations are, for instance, the consumers' rights associations, the trade unions, some national and international NGOs, and professional associations like the transporters associations. According to the same academic, very often people, including researchers and managers, complain about the side-effects of Mozambique's high dependency from international aids. However, most people do not realise that the implication, or the way out from aid dependency, is through mechanisms that strengthen internal revenue sources, such as the fuel tax. The link established between the fuel tax and road rehabilitation in rural areas goes along such lines of gradually reducing Mozambique's dependency on aid, but this is seldom made explicit. If technocrats do not share with the wider public the motivation of such revenue sources, they then miss a very good opportunity for dialogue aiming at raising public aware about the need of economic instruments. In this context, it is not surprising that during the recent debates concerning the latest fuel price increase in Mozambique some transporters from the public transport sector even claimed that the

Government should subsidise the fuel cost used in their activity as a way to minimize the financial constraints they are facing.

4. FINAL REMARKS AND RECOMMENDATIONS

10. The above remarks are not intended to be exhaustive, but simply to inform the participants at The Hague PSIA Workshop on some possible effects, direct or indirect, of the 2002 Mozambique PSIA Study, and provide a first step in reviewing the policy impact of the PSIA studies.
11. Despite the lack of public aware and knowledge about the main recommendations provided by Mozambique PSIA Pilot Study, its direct and most immediate effect seems to be the implementation of some of its key recommendations.
12. As to the indirect effects of the referred study, so far they appear to be still very weak. The study has not been shared with the media, or even with the key stakeholders.
13. Throughout the conversations and exchange of ideas with the people mentioned above, they put forward the following recommendations for further consideration:
 - The main deliverables associated with the PSIA studies should be made available also in the local language. Perhaps, this could even be contemplated in the terms of reference and cost set up for the consultancies that undertake the studies;
 - Even though, for any justified reason, a specific study is not translated into the official language of the beneficiary country, that alone should not prevent the national institutions from making them public and sharing their content with media and key stakeholders;
 - The “poverty observatory” recently set up in Mozambique should consider the possibility to undertake further PSIA studies within the spirit of the Mozambique PSIA Pilot Study, particularly the idea of undertaking ex-anti studies aiming at anticipating or minimizing the negative impact on poor people of specific economic measures;

- The PSIA studies could be used as an instrument not only for monitoring and evaluating the implementation of the PRSP/PARPA, but also for the longer term new actions plans, such as the Agenda 2025 and the New Partnership for Africa's Development (NEPAD). The latter need to be strengthened in terms of realism and operational instruments.