MDR ADVOGADOS

LEGAL ALERT

ECONOMIC ACCELERATION PACKAGE

In view of some internal and external circumstances, such as the conflicts in Cabo Delgado, the pandemic caused by COVID-19 and the war in Ukraine, which have had harmful consequences for the Mozambican economy, the Government of Mozambique announced the Economic Acceleration Package (EAP) on 9 August. The measures included in the EAP are the result, *inter alia*, of consultation and input from the various sectors of the government and also from the private sector, with the aim of establishing reforms that contribute to Mozambique's economic growth in the short and medium term.

The EAP comprises a total of 20 measures, which in turn relate to two major areas of intervention, namely: on the one hand, fiscal and economic stimulus measures and, on the other hand, measures to improve the business environment, transparency and governance, and to speed up strategic infrastructure projects.

In analysing the first (fiscal and economic stimulus measures), the following stand out: **reduction of the VAT rate**, from the current 17% to 16%; exemption from VAT on imported inputs for agriculture and electrification, with a view to increasing production and competitiveness in the agricultural sector and promoting investment in renewable energy. In the case of **IRPC**, the reduction in the rate from 32% to 10% is notable in relation to income from agriculture, aquaculture and urban transport. In the agricultural sector, in order to make it more attractive to investment (including from abroad), the withholding rate has been reduced from 20% to 10% on services provided by foreign entities to domestic agricultural enterprises and the 20% rate (currently used) on interest on external financing for agricultural projects has been eliminated.

At the level of **tax incentives**, it is envisaged that depreciation of paid-up capital will rapidly accelerate to half of the period used today, as regards investments in plant and equipment related to enterprises' productive activity, provided that this will result in the creation of at least 20 permanent jobs. Incentives are covered in the agricultural, agro-processing, manufacturing, tourism and urban transport sectors.

With the aim of stimulating the economy, **procedures for the repatriation of capital** are to be **simplified** in order to facilitate the flow of capital, making it less costly and ultimately contributing to attracting foreign investment.

Highlighted also is the **increase in supervision of natural resource export operations**, in order to increase their tax efficiency and thus combat tax evasion, as well as allocating 10% of tax revenues from the extraction and exploitation of natural resources to development in the provinces where this occurs, in the form of the resource allocation in financing infrastructure and development programmes with an impact on the local economy. The setting up of a **Borrower Guarantee Fund** - initially estimated at USD 250,000,000 - was also approved, with the aim of responding to one of the main obstacles to investment for small and medium-sized enterprises; in this case, the high cost of their financing. The objective of this measure is to enable national banks to grant loans at a more affordable interest rate to micro, small and medium-sized enterprises active in the sectors of agriculture, fish farming, agricultural marketing and processing, tourism and housing.

On the other hand, the measures concerning improvements in the business environment, transparency and governance, as well as the acceleration of strategic infrastructure projects, are aimed at **improving the competitiveness of airports and national logistics corridors**, in order to ensure an increase in the flow of people and goods to or in transit through Mozambique. Local production of goods bought at scale by the state will be boosted and thereby encourage the industrialisation of the country, which in turn will lead to the **introduction of changes in procurement** which will, therefore, in particular, give more weight to the criterion of adding productive value in Mozambique and awarding longer-term contracts (generating greater predictability of revenue for local companies).
With regard to **migration**, the general visa conditions for entry to Mozambique are to be revised with the aim of promoting a greater influx of tourists and investors, which will include the introduction of visa-free travel for citizens from countries considered to be at low risk of immigration; the introduction of a new type of visa (the mixed tourist and business visa); extending the duration of investment visas; and, not least, the implementation of electronic visas.

In terms of **employment**, a reform of labour law is planned in order to make it more attractive to foreign investment, foster job creation and increase the transfer of skills to the Mozambican workforce.

With a view to simplifying administrative procedures, the **simplification of notarial deeds** is highlighted - with police stations and lawyers being able to certify simpler and more complex notary deeds, respectively - as well as the removal of permits as a requirement for starting up businesses.

In the **justice** sector, reform of procedural legislation and the cost code and the introduction of technological solutions are planned, without prejudice to the further development of alternative means of dispute resolution.

Finally, the intention to **restructure the public administration** and its operation is highlighted, as well as the creation and implementation of the **Mozambique Sovereign Fund**, which aims to ensure the transparent use of oil revenues for the country's socio-economic development. Moreover, with regard to transparency (*rectius*, governance and accountability by the State), the aim is to reform the State's internal audit system in line with the relevant international standards and, inherently, to combat phenomena such as corruption and/or misappropriation of public funds.

To sum up, the Government's objective is to implement these measures within two years, which will involve the adoption and amendment of various pieces of legislation and the implementation of substantial investments, including the creation of the EAP Coordination Unit - under the aegis of the Ministry of Economy and Finance - which will be responsible for monitoring their implementation.

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