



## Public finances in Mozambique: past, present and future

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### SUMMARY

In Mozambique, public finances continue to face significant challenges that directly impact the country's economic and social development. Among these challenges, there is an urgent need for improvements in critical areas such as transparency of public accounts, public debt management and the fight against corruption. The lack of transparency in Mozambican public accounts has been a recurring concern, with reports of a lack of adequate accountability by the government and difficulty in accessing detailed financial information. This scenario makes it difficult to effectively assess the use of public resources and undermines citizens' trust in government institutions. In addition, Mozambique has faced significant challenges related to public debt management, including undisclosed and unsustainable borrowing. This situation led to a debt crisis that required intervention by the International Monetary Fund (IMF) and other international partners, highlighting the need for more responsible and transparent management of the country's financial resources. Another challenge is the persistence of corruption, which undermines efforts to promote socioeconomic development and undermines the effectiveness of public policies. It also undermines citizens' trust in democratic institutions and the rule of law.

**Keywords:** Public finances, public accounts, public debt management and the fight against corruption.

### ABSTRACT In

Mozambique, public finances continue to face significant challenges that directly impact the country's economic and social development. Among these challenges, the urgent need for improvements in critical areas stands out, such as transparency of public accounts, management

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of public debt and the fight against corruption. The lack of transparency in Mozambican public accounts has been a recurring concern, with reports of a lack of adequate accountability by the government and difficulty in accessing detailed financial information. This scenario makes it difficult to effectively assess the use of public resources and undermines citizens' trust in government institutions. Furthermore, Mozambique faced significant challenges related to public debt management, including undisclosed and unsustainable borrowing. This situation led to a debt crisis that required intervention by the International Monetary Fund (IMF) and other international partners, highlighting the need for more responsible and transparent management of the country's financial resources. Another challenge is the persistence of corruption, which undermines efforts to promote socioeconomic development and undermines the effectiveness of public policies. But it also undermines citizens' trust in democratic institutions and the rule of law.

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## INTRODUCTION

This article aims to analyze the panorama of public finances in Mozambique, examining its past, present and future prospects. Over the past few decades, Mozambique has faced a number of challenges and opportunities in relation to fiscal management, transparency, economic and social development, as well as their integration into the economy global.

We will explore the main characteristics of Mozambican public finances in periods distinct historical events, from its independence to the present day, highlighting events significant that shaped its trajectory. In addition, we will critically examine the challenges faced by the country at present, including issues such as public debt, transparency in financial management, distribution of resources and the effectiveness of fiscal policies.

As we look to the future, we will consider the prospects and strategies that Mozambique can adopt to strengthen their public finances and promote economic development and sustainable social development. This will include an analysis of ongoing reforms as well as possible areas of international intervention and cooperation that can help boost efficiency and effectiveness of Mozambican fiscal management.

Modern societies are based on democracy, one of its pillars being what is calls the Rule of Law. Of the Democratic Rule of Law; article 3 (*of the Constitution of the Republic of Mozambique (CRM) Law No. 1/2018 of June 12*), several principles emanate

that guide the governance of nations. It is important to note that these principles, for the most part, are enshrined in the constitution.

It is from the constitution, the mother law, that all and any governance seeks its foundation and operation. Having as a principle of exercise of power the *checks and balances*, whence emanates the separation of powers executive, legislative and judicial although there is an interdependence between the three; article 134 of the CRM. As a result of this fact, that citizens have Individual Rights, Freedoms and Guarantees embodied in articles 35 to 95 of the CRM. In this process, the government has the burden of ensuring that these rights, freedoms and guarantees individual information reaches the common citizen. To this end, the government needs to equip itself with resources for this purpose, and as such it needs to finance and manage them, this is where Public Finances emerge.

Since the theme of this work is Public Finance, Past, Present and Future, we will focus on exclusive in Public Finance where we will deal with the concept, in form, its functionality in past, present and from a futuristic perspective.

For this purpose, we consider it necessary to divide not only in time, but also in stages. evolution of the construction and consolidation of the government system of the Republic of Mozambique and, only then, we believe we can do a job with the minimum detail to understand the yesterday, today and looking to the future of Public Finances in Mozambique.

The division will be, the first republic in which one-party rule prevailed, we will try to do a feature of Public Finances that was considered the past or yesterday from 1975 to 1990 (it is important to note that there is little literature on this era). From 1990 to 1994 a period that we consider to be a transition in many things, the governance regime itself was confused between socialism and capitalism, which we will call the transition period, during this period, we will not present value judgments or opinions because the dynamics administrative structures were very volatile, several models were applied since the PRE (Plan of Economic Recovery) PPI (Indicative Perspective Plan) and many other essays revitalization of the national economy, some unsuccessfully and others unsuccessfully.

In the Second Republic, in which pluralism prevails, that is, multi-partyism considered the present, that is, today, which runs from 1994 to 2024, and tomorrow, in which the historical milestone will be from the validity of the sovereign fund onwards or more specifically from 2025 onwards, trying



put a stop to it until 2028, the year in which the consolidation of the African Union is expected through introduction of a single currency in Africa (*in the Abuja Treaty on 3 June 1991 and which came into force on 12 May 1994 article 6 numbers 1 and 2 paragraph f) (iii)*), which will compete so that economic, tax, political and other systems undergo changes significant and important.

In short, this work seeks to provide a comprehensive understanding of public finance in Mozambique, highlighting the challenges and progress, contemporary problems and future perspectives, with the aim of contributing to the debate and policy formulation that promote the sustainable and inclusive development of the country.

#### THEORETICAL FRAMEWORK

According to Castel-Branco (2015), Public Finance in Mozambique refers to the management of financial resources from the Mozambican government to finance its activities and projects intended for the economic and social development of the country. This includes the collection of revenues, planning and execution of the public budget, expense control and public debt management.

- **Revenue Collection:** Mozambique obtains revenue through several sources, including taxes, fees, tariffs, natural resource royalties, grants and loans. Diversifying sources of income is important to reduce dependence on one single source and ensure fiscal stability.
- **Public Budget:** The public budget is the central instrument of fiscal policy and reflects the government's priorities in terms of resource allocation. Mozambique prepares an annual budget that defines planned expenditure in different sectors, such as health, education, infrastructure, among others.
- **Expenditure Control:** It is essential to monitor and control public expenditure to ensure that resources are used efficiently and effectively.

#### 1. Concept of Public Finance

According to Silva (2018)

“Public finances include the collection, management and administration of resources by the State to finance its activities. Raising funds by the State is done mainly through taxation, that is, the activity government that aims to coercively subtract a portion of the resources of society.”

According to Wate (2004)

“Public finances refer to the economic reality of a public entity, or with public functions, tending to allocate assets to the satisfaction of needs that are entrusted to him or, in other words, and approximately, the finances public refers to the acquisition and use of financial means by public entities that include the State, local authorities and parastatal entities state.”

According to the Brazilian Institute of Geography and Statistics (IBGE), public finances can be defined as:

“It includes information on budget execution of administrations federal, state and municipal public and results of public companies, covering details of income and expense accounts, cash flows, assets and passive, among other aspects.”

Based on the definitions presented above and bearing in mind the attempt to demonstrate understanding of the subjects under study, we summarize the concept in following terms:

Taking into account the doctrine, the designation Public Finances, incorporates two senses, the organic and the functional. Now, if this is the case, we believe that it is not enough to simply to focus on the concept only and only in the functional sense, unless the sufficiency of the definition overrides the dichotomy of sufficiency and necessity that sciences impose their concepts because sometimes it is not enough to just be sufficient it is at some point required the need for many definitions to incorporate the necessity and sufficiency, this is the case of the concept below, we will present where, the

necessity embodies the organic side of the definition and sufficiency embodies the organic side functional of the definition.

Like this:

“Public Finances are the set of government bodies and activities that aim to collect and allocate resources to pursue its governance objectives for the sake of social well-being.”

Although this research is not in the field of economics, it is necessary to understand these concepts.

Public Finances also struggle with the dilemma of scarce resources, but the needs are always unlimited.

According to Samuelson (1990)

“Any discussion of any economic phenomenon, extending to Public Finances must not be dissociated from this economic and social truth absolute about the scarcity of resources while the needs are unlimited.”

### **Economic Diversification**

According to Rosário (2016), Reducing dependence on natural resources is essential for sustainability of public finances and long-term development. Investing in sectors how agriculture, tourism, industry and services can generate jobs, increase revenue and make the economy more resilient to fluctuations in commodity prices. By diversifying the economic basis, a country can mitigate the risks associated with the volatility of stock markets commodities and reduce their vulnerability to external shocks. For example, a country that relies heavily on oil exports could face serious challenges when prices oil prices fall on the international market. In addition, economic diversification can promote more balanced and inclusive development, distributing the benefits economic activities more broadly among different sectors of society. For example, investing



in agriculture can benefit rural communities, while the development of the services can create opportunities for young people in urban areas.

However, economic diversification does not happen overnight and requires a careful planning, strategic investments and effective public policies. This can include tax incentives to attract investment in key sectors, training programs for the workforce and public-private partnerships to promote innovation and entrepreneurship. In addition, it is important to consider the environmental and social impacts of economic diversification, ensuring that economic growth is sustainable and inclusive in the long term. This may involve adopting sustainable agricultural practices, development of responsible tourism and the promotion of clean and low-carbon industries, economic diversification is crucial to promote sustainable growth, reduce vulnerability to external shocks and create a more resilient and inclusive economy. By investing in a variety of sectors, countries can build a solid economic foundation that benefit all segments of society.

### **Responsible Debt Management**

According to Castel-Branco (2017), the government needs to adopt prudent management of public debt, seeking to restructure existing debt and avoiding excessive indebtedness. It is crucial to ensure that the resources from loans are used in a transparent and efficient in projects that promote sustainable development.

In this case Mozambique should consider a holistic and sustainable approach, considering various economic, social and environmental aspects. Here are some guidelines that could be considered:

• **Long-Term Planning:** The government of Mozambique should adopt a long-term approach long-term planning when taking on debt. This means considering not only immediate financing needs, but also the long-term impacts on the country's payment capacity and fiscal sustainability.

• **Diversification of Financing Sources:** To reduce dependence on loans external, Mozambique can seek to diversify its sources of financing, exploring

alternatives such as public-private partnerships, foreign direct investment and the development of development of domestic financial markets.

• **Transparency and Accountability:** It is essential to ensure transparency and accountability.

of accounts in the management of public debt. This includes the full and timely disclosure of information on the terms and conditions of loans, as well as the use of funds obtained, to ensure that they are directed towards projects that benefit generations future.

• **Socioeconomic Impact Assessment:** Before taking on new debts, Mozambique

must carry out socio-economic impact assessments to ensure that projects financed generate tangible benefits for future generations. This may include analyses of cost-benefit, environmental sustainability assessments and inclusion considerations social and the reduction of inequality.

• **Efficient and Effective Management of Resources:** Resources from loans are

must be managed efficiently and effectively to maximize their long-term impact. This involves the implementation of sound financial management practices and the establishment of supervision and control mechanisms to ensure that resources are used in a productively and responsibly.

• **Investments in Sustainable Development:** Prioritize investments in projects

that promote sustainable development is essential to ensure a prosperous future. but for future generations. This includes climate-resilient infrastructure, education of quality, affordable healthcare, rural development and environmental protection policies.

• **Risk and Resilience Planning:** Mozambique faces significant challenges,

such as climate change, economic volatility and external shocks. Therefore, it is crucial incorporate risk and resilience considerations into debt management to ensure that the country be prepared to deal with unforeseen contingencies and protect the well-being of generations future conditions.

### **Strengthening Tax Collection**

According to Castel-Branco (idem), Expand the tax base, combat tax evasion and improving the efficiency of tax administration are essential measures to increase

collection and finance quality public services. These combined actions will allow the government mobilize more internal resources, reduce dependence on external financing and invest in priority areas such as education, health, infrastructure and social protection.

The tax base can be expanded by bringing more individuals and businesses into the system. tax, increasing the number of taxpayers and the quality of income subject to taxation. By implementing these measures to expand the tax base, combat tax evasion and improve the efficiency of tax administration, Mozambique can increase revenue collection and financing quality public services, boosting economic and social development of the country and improving the lives of its population.

### **Transparency and Good Governance**

Transparency in the management of public finances and the fight against corruption are fundamental to restoring the confidence of international investors and donors and to ensure that public resources are used for the benefit of the population.

Promoting transparency and good governance is essential for development sustainable development of Mozambique. The implementation of measures to increase access to information, public participation, control and accountability, as well as combating corruption, will contribute to a more efficient and responsible management of public resources, strengthening trust in institutions and promoting inclusive economic growth and sustainable.

Here is how these principles can be applied considering the improvement of these finances:

• **Access to information:** In Mozambique, ensuring open and easy access to information can be especially important in combating corruption and promoting accountability.

This involves implementing policies that ensure transparency in procurement processes. bidding, public contracting and management of natural resources, such as gas and mining. In addition In addition, the government can invest in information technologies to make information available tions in an accessible and understandable way for citizens, especially in rural areas where access to information may be limited.

- **Accountability:** Mozambique can strengthen accountability institutions, such as the Administrative Court and the Central Anti-Corruption Office (GCCO), ensuring that they have the resources and independence necessary to carry out their functions. In addition, promote a culture of accountability within government and among political leaders it is essential to ensure that they are accountable for their actions and splits.
- **Citizen participation:** Given the ethnic, linguistic and cultural diversity of Mozambique, promoting citizen participation can be a challenge, but also an opportunity for enrich the democratic process. This may involve creating spaces for dialogue and public consultation, the promotion of equal representation of women and ethnic minorities cases in politics and strengthening civil society so that it can play a role active in monitoring and evaluating government policies.
- **Ethics and integrity:** Mozambique can strengthen laws and regulations that combat corruption, nepotism and other unethical behavior in government. This may include the implementation of codes of conduct for public servants, the creation of agencies independent anti-corruption agencies and strengthening reporting and protection systems for those who report irregularities.
- **Transparency in public finances:** Given the importance of natural resources for economy of Mozambique, ensure transparency in public finances, especially in the gas and mining sector, is crucial. This may include detailed disclosure of contracts government agreements and payments related to natural resources, as well as the implementation of monitoring and auditing systems to ensure that these resources are used in a transparent and effective manner for the benefit of the Mozambican people.
- **Rule of law:** Promoting the rule of law in Mozambique requires strengthening of the judicial system and respect for human rights. This may include the training of judges and prosecutors, improving access to justice for all citizens, including most vulnerable, and combating impunity for human rights violations and abuses of power.

## Investment in Human Capital

Investing in education, health and infrastructure is essential to promote human development, create a skilled workforce and reduce poverty and inequality.

By investing in education, health and infrastructure, Mozambique not only promotes human development and reduces poverty and inequality, but also strengthens the pillars transparency and good governance. An educated, healthy population with access to adequate infrastructure is better able to actively participate in political life and country's economy, demand accountability from the government and contribute to the growth and sustainable development of Mozambique.

Let's explore a little more about each of these areas:

• **Education:** By investing in education in Mozambique, the country can ensure that all children have access to quality education, regardless of their background socioeconomic status or place of residence. This will not only promote equality of opportunity, but will also help build a more skilled and prepared workforce to face the challenges of the global market. Furthermore, an educated population is fundamental to driving innovation, entrepreneurship and economic development. sustainable monkey.

• **Health:** Investing in health in Mozambique is crucial to improving living conditions and reduce the incidence of preventable diseases. This includes building and improving infrastructure health infrastructure, the provision of accessible and quality health services, and investment in prevention and health promotion programs. A healthy population is more productive and resilient, which directly contributes to economic development and poverty reduction.

• **Infrastructure:** Improving infrastructure in Mozambique is essential to boost promote economic development and improve access to basic services such as clean water, transport, electricity, and communications. This may include road construction,

bridges, ports, energy and telecommunications networks, as well as investments in infrastructure urban and rural infrastructure. A robust and efficient infrastructure is essential to attract investment investments, facilitate trade and promote equitable development throughout the country.

### **Balanced Regional Development**

Promoting balanced regional development is crucial to reducing disparities between different regions of the country and ensure that all citizens have access to opportunities and quality public services.

From a public finance perspective, investing in regional development can be a challenge, but it is essential to ensure long-term economic sustainability. This may involve allocating financial resources to basic infrastructure, education and professional training, tax incentives to attract investment to less developed areas developed and regional economic development policies that take into account the characteristics and potential of each region. By promoting regional development balanced, the government not only contributes to reducing social disparities and economic, but also creates a more favorable environment for economic growth sustainable across the country. This can result in a broader and more stable tax base, reducing dependence on certain regions or sectors to finance public services essential. Therefore, it is a strategy that can contribute significantly to health general financial situation of the country.

### **Promotion of Peace and Security**

Promoting peace and security in Mozambique is not only crucial for stability politics and the well-being of the population, but also plays a fundamental role in financial outlook of the country, especially looking to the future. Political stability and security are key factors in attracting foreign direct investment (FDI). Companies foreign companies seek environments where they can operate without fear of armed conflict, political instability or legal uncertainty. By promoting peace and security, Mozambique can improve its attractiveness to foreign investors, resulting in capital inflows that drive economic growth and generate additional tax revenues.

The conflict in Cabo Delgado represents a significant challenge to the country's development. It is essential to invest in peace and security efforts to create an environment conducive to investment, economic growth and the well-being of the population. By promoting peace and security in Cabo Delgado, Mozambique could create a more favorable environment for investment, economic growth and financial stability in the country as a whole. This may result in increased tax revenues, a broader tax base, greater investor confidence and an economy more resilient to external shocks.

It is essential to promote peace and security in Cabo Delgado, which in turn will contribute for a more stable and growth-friendly economic environment. Here are some strategies that can be adopted in this regard:

**Investing in Security and Law Enforcement:** Allocate adequate resources to strengthen capabilities of security forces and law enforcement in Cabo Delgado. This involves training, equipment and effective coordination between different security agencies to combat armed groups and ensure the safety of the population and critical infrastructure.

**Multidimensional approach to conflict resolution:** Adopt a multidimensional approach comprehensive approach that goes beyond military solutions, including diplomatic efforts, dialogue community, socio-economic development and reconciliation. This can help to resolve the root causes of conflict, such as inequality, marginalization and lack of opportunities economic, thus reducing their persistence and recurrence.

**International and regional partnerships:** Working closely with partners international and regional efforts to combat terrorism and violent extremism in Cape Town Delgado. This may involve sharing intelligence, cooperating in intelligence operations, cross-border security and support for regional development initiatives that address the underlying causes of the conflict.

**Post-conflict reconstruction and development:** After stabilization of the region, focus efforts in the reconstruction and development of Cabo Delgado. This may include investments in infrastructure, education, health, agriculture and other areas that help boost the economic growth, create jobs and improve the well-being of local communities.



## The Era of Natural Resources and New Challenges

According to Selemene (2021), The discovery of vast reserves of natural gas in Rovuma Basin and coal mine in Tete turned Mozambique into a destination attractive to foreign investment. These attractive natural resources have transformed the country in a highly desirable destination for foreign investment, generating a large interest from multinational companies and global investors. This transformation was driven by several factors:

- **Export Potential and Revenue:** Natural gas and coal reserves provided Mozambique with the opportunity to become a major exporter of these natural resources. The export of these products promised to bring revenue significant for the country, strengthening its public finances and boosting the economic growth.
- **Infrastructure Investments:** The development and exploitation of these resources required massive investments in infrastructure, including production facilities, ports, roads and other logistics infrastructure. This not only boosted the economic growth, but also created employment opportunities and development in various regions of the country.
- **Attracting Foreign Direct Investment (FDI):** The discovery of resources natural resources attracted a significant influx of foreign direct investment to Mozambique. Multinational companies and global investors sought to participate in the exploration and development of these resources, bringing with them capital, technology and expertise for the country.
- **Economic Diversification:** The exploitation of natural resources offered the Mozambique the opportunity to diversify its economy, reducing its dependence from traditional sectors such as agriculture and small-scale mining. This could help drive sustainable growth and create a more sustainable economic base resilient in the long term.

However, it is important to note that the transformation driven by the discovery of these natural resources also brought important challenges and issues to be considered, such as sustainable management of resources, mitigation of environmental and social impacts, transparency

in the management of resources and the promotion of inclusive development to ensure that benefits are shared equitably by the entire population. The success of Mozambique's ability to fully harness the potential of these resources will depend largely on the formulation and effective implementation of appropriate policies and strategies. The country has become seen as one of the African economies with the greatest growth potential.

### **Resource Management and Governance Challenges**

Transparent and effective management of natural resources is crucial to ensuring that the benefits reach the population and contribute to sustainable development. However, Mozambique faces significant challenges in terms of governance, transparency and fight against corruption.

#### **Corruption and Mismanagement**

According to FMO (2022: p. 12): "Widespread corruption and mismanagement of public resources represent a significant barrier to the effective implementation of public policies in Mozambique. Corruption undermines the integrity of government institutions, harms the efficiency in resource allocation and undermines public confidence in government." This can lead to poor distribution of resources and inadequate implementation of policies aimed at to promote economic growth and reduce social inequalities.

Corruption permeates various spheres of Mozambican society, from high levels of government government down to local levels, and negatively affects all areas of public life, including public finances. Resources allocated to social programs, infrastructure investments and economic development are often illegally diverted to benefit corrupt individuals or groups, instead of being used for the well-being of the population in general.

Furthermore, poor management of public resources contributes to the ineffectiveness of public policies. The lack of transparency and accountability in the management of public funds can lead to waste, misallocation of resources and inadequate implementation of programs and projects. This results in a limited impact of government policies in promoting growth.

economic and reducing social inequalities, further exacerbating disparities existing.

### **The Hidden Debt Crisis**

According to Ronguane (2017), the Hidden Debt Crisis in Mozambique was one of the most significant and controversial events in the country's recent history. This crisis involved the revelation that the Mozambican government had taken out significant loans and had not disclosed, totaling billions of dollars, with sovereign guarantees, without due approval parliamentary or transparency.

The crisis began in 2013, when the Mozambican government took out secret loans from international financial institutions to finance development projects, including investments in infrastructure and security. These loans were not disclosed to the parliament or the international community. In 2016, the revelation of hidden loans incurred by state-owned companies shook the confidence of investors and partners international. The hidden debt has generated an economic and political crisis, with a negative impact on public finances and the country's development.

As a result of the crisis, Mozambique was forced to renegotiate its debt with creditors international. In 2019, the country reached a debt restructuring agreement, which involved reducing interest payments and extending repayment terms. However, the debt restructuring also had negative impacts on the economy, including cuts in public spending and tax increases. The hidden debt crisis highlighted the need for institutional and governance reforms in Mozambique. The government has committed to improve transparency and accountability, strengthen oversight institutions and combat corruption. However, implementing these reforms has been challenging and remains an ongoing process.

### **Limited Inclusion and Participation**

The lack of inclusion and participation of civil society and marginalized groups in the formulation and implementation of public policies is also a significant challenge. Without consultation

adequate and citizen participation, policies risk becoming disconnected from needs and realities of the population, which can lead to inadequate implementation and lack of effectiveness.

According to TIMBANE (2017: p.115) "The majority of the population is deprived of enjoying the public policies because most decisions do not satisfy the interests of the population. The population is rarely heard and served."

There is a need to ensure greater participation of citizens and civil society in general, creating debates and consultations that have to do with improving the financial system Mozambican and therefore public policies.

In this sense, TIMBANE (2017: p.116) explains that:

"Political, economic and social reforms characterized by liberalization economic and political that aimed at the modernization of the state Mozambican to make them more efficient and closer to citizens, led to the movement towards decentralization of public policies and administrative in Mozambique since 1988. It was in this context that the openness to citizen participation in the governance process in Mozambique."

Although at a legal level there is admissibility for citizens to participate in debates on issues of society including debates on public finances, in practice this does not occur freedom, resulting from the lack of publicity of public accounts and transparency at present.

### **Weaknesses in the Tax System**

Weaknesses in Mozambique's tax system pose a significant challenge for the effectiveness of public policies, especially with regard to resource mobilization fiscal measures to promote economic growth and reduce social inequalities. These weaknesses include tax evasion, economic informality and excessive dependence on some sectors for tax collection.

FMO (2022: p. 14) explains that, “tax evasion is a serious problem that reduces government revenue.” government and undermines the ability to finance essential public policies. Many companies and individuals avoid paying taxes through fraudulent practices, such as underreporting of income or manipulation of accounting records.” This deprives the government of vital resources that could be invested in education, health, infrastructure and other sectors fundamental for economic and social development.

Furthermore, economic informality is widespread in Mozambique, which means that many economic activities occur outside the regulatory scope and do not contribute appropriately to the tax system. This reduces the government's tax base and creates inequalities between formal and informal companies, as the latter often escape of tax obligations.

Another weakness in the tax system is the excessive dependence on a small number of sectors for tax collection. This makes the government vulnerable to price fluctuations of commodities and changes in market conditions, affecting their ability to raise consistent revenue over time.

These weaknesses in the tax system limit the government's ability to mobilize resources for investments in infrastructure, social services and other priority areas. To address these challenges, comprehensive reforms of the tax system are needed, including measures to combat tax evasion, formalize the informal economy and diversify sources of revenue fiscal. Only through a fairer, more efficient and comprehensive tax system, Mozambique could strengthen its public finances and promote economic growth more sustainable and inclusive.

### **Limited Institutional Capacity**

Limited institutional capacity is one of the main obstacles faced by effective implementation of public policies in Mozambique. This limitation encompasses several aspects, from the lack of qualified human resources to inadequate infrastructure and inefficient bureaucratic processes.

First, the shortage of qualified human resources is a critical issue. The country faces challenges in training and retaining qualified professionals in key areas, such as economics, public administration and financial management. The lack of expertise in these areas makes it difficult the formulation of sound fiscal and budgetary policies, as well as their effective implementation.

Furthermore, inadequate infrastructure also poses a significant challenge. Many government institutions in Mozambique face problems of lack of access to adequate technologies, outdated information systems and poor physical facilities. This makes it difficult to collect, analyze and use relevant data to inform the development process. policy formulation and implementation.

According to (SIÚTA, 2021: p. 34)

“Inefficient bureaucratic processes are another point of concern. Excessive bureaucracy and lack of agility in procedures government measures can significantly delay the implementation of policies, leading to delays and wasted resources. This can undermine the effectiveness of fiscal and budgetary policies, compromising their objectives of promoting economic growth and reducing social inequalities.”

In short, the limited institutional capacity of the government in Mozambique represents a major challenge for the effective implementation of public policies, including fiscal policies and budgetary constraints. Overcoming this limitation will require significant investment in training human resources, improving infrastructure and simplifying bureaucratic processes, in order to strengthen government institutions and increase their capacity to formulate and implement policies effectively and efficiently.

### **Analysis of the Effectiveness of Fiscal and Budgetary Policies in Mozambique**

Since Mozambique's independence in 1975, the country has faced significant challenges with regard to the effectiveness of fiscal and budgetary policies to promote growth economic and reduce social inequalities. A comprehensive analysis of this period reveals that

the policies implemented by the government have often failed to achieve these goals in a satisfactory manner.

As FOMO (2022: p.8) explains:

“One of the main obstacles has been the limited capacity of the government to effectively monitor the formal market. This resulted in a proliferation of the informal sector in the economy, where many traders operate without paying taxes or complying with regulations appropriate. This informality creates an unequal environment, where formal businesses are harmed by unfair competition and the State loses important tax revenues that could be directed to social and development programs.”

Furthermore, the poor exploitation of Mozambique's natural resources for the benefit of the State and its people has been a persistent concern. Although the country is rich in resources such as natural gas, coal and minerals, the lack of effective management and distribution policies for these resources have limited their potential to drive economic growth and reduce social inequalities. These resources are often exploited by foreign companies, leaving little tangible benefit to the local population.

Over the decades, the lack of progress in reducing social inequalities and promoting economic growth has been a source of frustration and discontent for many Mozambicans. Fiscal and budgetary policies have failed to address the disparities in income and opportunity that persist in the country, contributing to a sense of marginalization and exclusion among the most vulnerable segments of the population.

One of the problems that highlights the ineffectiveness and inefficiency of policies at the level of finance public is the problem of GDP.

The FMO (2022: p.10) explains: “However, in Mozambique, the poor performance of finances public policies are often reflected in distortions in GDP, which does not fully reflect reality and the potential of the country's economy. This creates a framework for interpreting growth economic, leading to misleading conclusions about the country's financial health and progress.”

According to the FMO (idem) “The poor performance of public finances translates into a structure GDP growth is not very encouraging as it does not reflect the reality and potential of the Mozambican economy breaking any economic logic of sustainable growth inclusive in the long term.”

It is important that the country has a good and organized fiscal structure to the point that, in cases urgent, can be resolved without maintaining international financial dependence, as happened in February 2021 when “the Government of Mozambique requested the international community a total of 700 million dollars to be able to deal with the effects of the pandemic on the economy, specifically with a view to: (a) implementing fiscal policies, such such as temporary tax exemptions to support families and the health sector; and (b) increase spending in response to the health crisis and humanitarian needs, including high spending on health goods and services and financial transfer programs.” (SIÚTA, 2021: p.129)

Given this scenario, the need for a comprehensive review of policies becomes evident. fiscal and budgetary policies of Mozambique. This includes measures to strengthen the capacity of supervision of the formal market, encourage the formalization of the informal economy, and ensure an equitable and sustainable exploitation of the country's natural resources. Only through a more inclusive and equitable approach, the government of Mozambique will be able to truly promote economic growth and reduce social inequalities for the benefit of all its citizens.

## METHODOLOGY

The method to be used in this work is the deductive method since it was not possible to carry out surveys or other types of extraordinary field research, combined with the great difficulty to obtain credible quantitative information, for the preparation of this work and for

consequence of being able to issue an opinion based on numbers about the fact or topic in question study.

The author prioritized the qualitative research type with a greater focus on documentary research and explanation of the contents of the subjects under study.

Therefore, this work may have a shortage of numerical data precisely due to the lack of information and in cases where it exists, it is difficult to access, in other cases, it may even be, not credible.

This is bibliographical and documentary research.

## RESULTS AND DISCUSSION

### Public Finances in the Past, Present and Future

To understand the past, present and future, it is important to note that the demand for resources imply the existence of an active economy, that is: according to Silva (2018)

*“... implies the existence of entities that generate such resources, which are companies public, private and state-owned entities; individuals and other entities.”*

However, knowledge about the concept of Public Finance, other concepts purely economic are necessary to make an analysis of what the Public Finance in the past, present and future.

Such knowledge includes the notion of Gross Domestic Product (GDP) and Product Gross National Income (GNI).

According to Sousa (2016)

*“GDP is the acronym for Gross Domestic Product, which, broadly speaking, is a economic indicator widely used in Macroeconomics (branch of Economic Sciences) that presents the sum of all goods and services produced in a geographic area in a given period (which may*

*be a year or a quarter). Therefore, GDP represents the dynamics economic of the place, pointing to the possible growth of the economy."*

According to Ribeiro (2018)

*"Gross National Product (GNP) refers to the sum of all wealth produced by a nation/ country during a certain period, in territory national or not. Companies that have branches abroad are also considered by this indicator."*

### **Public Finances in the Past**

In the introduction to this topic, the timeline of the evolution of Public Finances was divided and administrative power in Mozambique, having been considered the first stage to which was adopted right from the founding of an independent Mozambique (*at zero hours of June 25, 1975*), that is to say; in the People's Republic of Mozambique, From 1975 to 1990, the popular dictatorship prevailed. The rule of law, where laws prevail, had been relegated to a secondary position, thus prevailing what was called "*will popular*".

Therefore, there was a group of individuals who dictated what is good and what is not. Well, what is necessary and what is not necessary, what is harmful and what is not harmful for society and, as a result, the decisions of this group became decisions of the people and were manifestly the popular will. ("Part of this conclusion is found in the which would be a kind of minutes of the 8th Session of the Central Committee held in Maputo on 11th February 1976 *In <https://www.marxists.org/portugues/machel/1976/02/11.pdf>*") Now, the needs of society were determined by this group of people and, not there could be discordant ideas because the whole idea in that sense, its mentor was considered reactionary and consequently shot without appeal, in view of the people.

At this time, the ideological orientation was Marxist-Leninist and the system government was socialism. In this system, the means of production were held by the State, for this reason, private companies were nationalized people received

only what the regime of the day considered sufficient to manage his private life having the **Law** on the salary regime has been implemented .

It is in this context that Public Finances and their Administration had their genesis, social needs were defined by this group of people, the management of funds was carried out by this same group, the supervision of the executions was carried out by the same group. So the administrative and management process was excessively centralized.

The rights of the individual were subject to the collective, the rights, freedoms and guarantees individual ones did not exist, there was, however, the predominance of the collective will defined by some about individual rights and freedoms.

It is against this backdrop that Public Finances develop, without any demands for tax because according to the theory of the government system, the tax was the work of the oppressive colonist.

In this condition, what was the basis for collecting revenue?

Revenues were obtained directly from state-owned companies as they were not intended for profit, but rather aimed at ensuring the sustainability of the government and the achievement of social projects.

Since the management of companies was carried out by people who did not have the competence necessary, on the one hand and on the other hand because the same companies did not aim for the profit, but rather the satisfaction of popular needs, they were becoming insolvent and gradually declared bankruptcy. Companies such as Mabor, Vidreira, Cometal Mometal, Boror, Madal, Tudor, Texlom, Texmanta, Fasol, Ufa, Facobol, Soberana, the foundry industries and many others were succumbing slowly and progressively due to the two facts mentioned above.

As illustrated, Public Finances at that stage did not have the relevant role that they have today. have a lot due to the current government system. Furthermore, no one knew what was collected nor what was spent on public service.

It is important to mention the entire administrative machinery of Public Finance management was under the supervision of the Ministry of Finance, which only fulfilled the desiderata of "*popular will*", the sources of revenue collection were state-owned companies and the side of carrying out the expenditure was in charge of this group of people who had the sovereignty and the destinies of the nation in their hands. Finally, it was also up to this



same group to monitor the implementation of measures and policies established for people who composed or held totalitarian power.

In the past, although corruption rates were not as high as they are today, the Public Finance management process was managed in a non-transparent manner and in returns to secrecy.

In the first republic of Mozambique, which was in force from 1975 to 1990, the socialist regime based on the dictatorship of the proletariat was in force. Finances Public were not managed in a public way. For this reason, this mode had its advantages and its disadvantages or limitations.

Due to these conditions listed above, the war for democracy and the internal and international social dynamics (fall of socialism and end of the Cold War), there was an urgent and pressing need to change the government regime and the social development systems.

Hence we believe that there was a period of testing of several models from 1990 to 1994. period that will not be covered in this work for the reasons already indicated.

### **Public Finances in the Present**

As we understand it, the second Republic is the one that has been in force from 1994 to the present day, although during this period there were several changes to the political order and to the economic system. We do not intend to erase from history the period from 1990 to 1994, we believe that the political, socio-economic and systemic uncertainty regarding the type of social regime, which Mozambique experienced in this period of 4 years, could bring erroneous and complex interpretations for this work.

Let us therefore focus on the 30 years from 1994 to 2024. During this period the political system is multi-party, the economic system has changed to a system neo-liberal capitalist.

The local industry, already eclipsed, meant that the economy was now guaranteed by trade, largely of the informal type. It was during this period that multinationals began to operate in the various industrial spheres of the country. It was also during this period that begins to establish tax collection principles at all levels to support the government actions and make room for social good.

It is important to note that during this time, the World Bank (WB) through the Fund International Monetary Fund (IMF) and other *Bretton Woods institutions*, begin to subsidize the state budget.

Paradoxically, many industrial companies are starting to operate in the country, but, Even so, there was no noticeable evolution in the revenue collection system. due to what many scholars of the local economy have called tax evasion.

According to Carlos Nuno Castel-Branco:

*“Capital taxation keeps the relationship between political elites stable national and multinational capital, even if, in the medium term, this option endanger political relations and domestic social stability”*

However, somehow, Public Finances began to perform significantly better compared to the period of the first republic until hidden debts pejoratively called odious debts became a scandal, national with international proportions, which forced the IMF to stop subsidize the state budget.

Currently, with the approval of PESOE 2025, the State's incapacity is evident.

Mozambican to recruit staff in the Human Resources sector for the Public Administration in General, with the exception of the areas of health, education, justice, etc.

For the proper functioning of Public Administration, motivation is necessary State Officials and Agents, implementing administrative acts. Since the year 2021 in which there is no benefit from it. Which, the outgoing Government (2020-2024), had promised that the same would occur in early 2025. But the biggest boss of the Mozambican State (International Monetary Fund) had allegedly prohibited the execution of the same claiming that firstly, the Country must pay for overtime of teachers and subsidies to health personnel. And, there are probably acts administrative in the year 2026, if the boss doesn't change his mind.



With the advent of gas exploration in the Rovuma River basin in Cabo Delgado on the name of *Mozambique Liquefied Natural Gas Project* (in Portuguese, Gas Project Natural Liquefied Petroleum of Mozambique) it is predicted that Public Revenues will grow and consequently there would be greater availability to cover Public Expenditure, which may improve the performance of Public Finances in terms of customer satisfaction needs of society.

Now, analyzing this projection, without considering the fundamental dilemma of the economy, that of unlimited needs to be satisfied by scarce resources, leads us to think that as there is greater availability of recipes, there will be an increasing natural of needs.

On the other hand, the idea of creating a sovereign fund leaves serious doubts about the real or on the effectiveness of revenue growth and consequent greater availability to improve the performance of Public Finances.

Although the economic development framework for Mozambique is the most promising, consider that the contractual clauses of the benefits that Mozambique has from the mega-projects, from Mozal to Panda Gas, are covered with great secrecy

It is quite difficult to predict or foresee the future of Mozambique's Public Finances, although the numbers may show certain trends of great hope.

With this *status quo*, we return to Professor Carlos Nuno Castel-Branco's statement:

*“the commitment that the Mozambican elites (i.e. government elites) have with multinationals that override the commitments of these elites with the society they swore to serve.”*

Despite the indicators indicating a trend of revenue growth, even without taking into account the LNG *Liquefied Natural Gas projects*, expenses grow in proportion greater which leads to wanting the performance of Public Finances to be hostage to several factors outside the true action and activity of Public Finances.

Mozambique is a country that has undergone significant transformations in its economy and public finances, driven by the discovery of large natural gas reserves. In

However, challenges such as high public debt, corruption and poor financial management have

impact on the country's public finances. It is essential to understand the current context of public finances public in Mozambique to design future scenarios.

The outlook for public finances in Mozambique for the future is challenging, but also offers opportunities for the country to build a more robust, transparent and focused on sustainable development. To achieve this, it is essential to implement reforms structural, combat corruption, invest in human capital and promote diversification economy. Mozambique's future depends on the country's ability to overcome challenges and take advantage of the opportunities that arise, building a public finance system that responds to the needs of the population and promotes the well-being of all.

## CONCLUSION AND RECOMMENDATIONS

### CONCLUSION

It should be concluded that broadening the collection base is not a necessary and sufficient condition. recipe to guarantee the performance of Public Finances because they do not depend on a the only variable in this case is revenue, Public Finances by their definition, incorporate the side of expenditure that is intrinsically linked to the satisfaction of needs.

Now if we consider the thought according to which needs are unlimited and scarce resources, it may happen that due to such a lack of schools in good conditions, quality and reference health centers, lamentable road network and the deplorable condition human to which about 83% (*if we consider that the Mozambican population is 30 million inhabitants and that about 5 million live in cities*) of the population is subject and exposed, so the availability of revenue can trigger the desire to solve all problems at once causing hence a harmful effect on Public Finances themselves.

We are currently in a very tense political-military situation, we have a dossier of Rwandan troops, we have the ongoing war of terror, all of this may demand expenses that may be unavoidable and thus make the activity of Public Finances inefficient.

The efficient performance of Public Finances is linked to the improvement of the tax base, to the structural organization of the Public Finance bodies, to the training of staff, to elimination of influence peddling within the Public Administration, the elimination of orders



superiors and the implementation of the true Rule of Law Article 3 of the CRM; associated with the articles 1 (Republic of Mozambique), 2 (Sovereignty and Legality) no. 3 and 35 (Principle of Universality and Equality) all from CRM.

Public Finances are one of the most complex branches of common good management because involves money, people, organic structures and obedience to specific laws that lead to the efficient performance of the executive machinery of Public Finances.

It is not enough to have a large enough tax base to consider that Public Finances are being effectively and efficiently managed and are producing the expected results.

What attitude should we take when faced with this tangle of problems that prevent Finance from Public performance sufficient to satisfy social needs?

It is important to note that in this work, the corruption component was barely or not addressed at all for strategic reasons so that other factors are not lost sight of structuring elements such as those discussed in this work.

Perhaps this was not the role of law students *per se*, but of the economy as a whole. should look into this topic.

## RECOMMENDATIONS

The Government recommends that:

- Take a serious look at the situation of State Employees and Agents, with regard to administrative acts. As everyone knows, the Mozambican State is composed of three elements, namely: Territory (which belongs to the people and which those who represents the People must look after the same), People (who are the legitimate owners of everything that exists in the Mozambican territory) and the Government (which has the obligation to satisfy the People who legitimized it to be able to carry out the tasks through the superior interest of the People).
- That the Government of the day preserves the devastating riches that Mozambique has, so that In the near future it will no longer depend on the West.



- That there be a distribution of wealth in the country. That is, that there be equality of opportunities between a foreign citizen and a Mozambican and that at the end of the day, the revenues arising from the wealth existing in the country are for the purpose of satisfying the needs collective.
- That there be a separation of powers between the executive and the judiciary. Because, there is no transparency in cases of penalizing offenders for wasting resources financial, especially in Public Companies;
- That the Government hires more State Employees and Agents and that there are also administrative acts for the proper functioning of the Public Administration in order to fulfill with zeal and dedication the obligation to satisfy the People, the community.

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