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Doctoral Dissertation

**Value-Added Tax and Social Conflict in Mozambique:
An Analysis of the Causal Relationship**

2021

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ABSTRACT

Understanding the root causes of social conflict as linked to value-added-tax (VAT) is indispensable in the current context of social dynamics in developing countries. Because will give us suitable approaches to solve and avoid them. Therefore, this research examines the causal relationship between social conflict and value-added tax using Mozambique as case of study. The study tests two hypotheses; the “*tax-burden*” hypothesis is used to evaluate the long-run relationship between the main variables (VAT and Social Conflict). And the “*tax-conflict*” hypothesis estimates the short-run relationship. To prove the hypotheses, I use both qualitative and quantitative methods. In the qualitative method, I look at the events that occurred in 2008 and 2010 in Greater Maputo Area. While in the later, I use the Vector Error Correction Model (VECM) to examine the short and long-run relationships between VAT and social conflict. The data used comprise the period from 1994 to 2018. The results from the analysis of the Greater Maputo case suggest that prices of goods and services included in VAT have a causal relationship with social conflict in the short-run supporting our “*tax-conflict*” hypothesis. Under this hypothesis, the results that unsustainable tax imbalances can be mitigated by exempting or reducing the VAT of some indispensable consumption goods and service. The VECM results suggest bidirectional causality between social conflict and VAT in the long-run, supporting the “*tax-burden*”. Under this hypothesis, our finding suggests that Mozambique's central government should design a new VAT system; expand and diversify the revenue sources.

Keywords: Vector Error Correction Model, Value-Added Tax, Social Conflict, Causality.

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LIST OF ABBREVIATIONS

ADF	Augmented Dick Fuller
AIC	Akaike Information Criterion
ECM	Error Correction Model
EEC	European Economic Community
ERP	Economic Rehabilitation Program
FDD	Fundo de Desenvolvimento Distrital (District Development Fund)
FPE	Final Prediction Error
FRELIMO	Frente de Libertação de Moçambique (Front of Liberation of Mozambique)
GDP	Growth Domestic Product
HQI	Hannan-Quinn Information Criterion
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
PAPA	Action Plan for Food Production
RENAMO	Resistência Nacional de Moçambique (Mozambique National Resistance)
SADC	Southern Africa Development Community
SDG	Sustainable Development Goals
SIC	Schwartz Information Criterion
UNDP	United Nations Development Program
VAR	Vector Auto Regression
VAT	Value-Added Tax
VECM	Vector Error Correction Model
WB	World Bank

1. INTRODUCING THE SUBJECT

1.1 Introduction

Value-Added Tax (VAT) is considered one of the most important tools when it comes to the fiscal policy development of the last quarter of the twentieth century in many countries. It was first adopted in Europe, and subsequently, it quickly spread around the world. Many developing countries adopted VAT for many reasons, among them: budget deficit, the adhesion to the International Monetary Fund (IMF), and for its simplicity. But one of the most argued reasons is related to budget deficits—phenomena observed when the government expenditure surpasses its revenue. This triggered many developing countries to start using VAT as a solution to their financial problems. Within a short time, VAT became a fashionable and important fiscal policy instrument. In fact, in these developing countries, VAT has been one of the most significant tax reforms (Bird, 2005). Another reason that has led these countries to implement VAT is related to its characteristics. Palma (2015) affirms that the success of VAT is particularly associated with its generality and neutrality, which is obtained through its invoice and subtractive methods. These characteristics make VAT a simple tax to implement and collect.

Given that VAT can be implemented and collected without an organized tax structure, it gained much success in developing countries. For instance, in Mozambique VAT was introduced in 1999, influenced by the IMF policies toward developing countries, and as a measure to improve financial stability through the increase in internal revenue collection. However, as observed in past cases, the importation of policies without looking at the local reality, in most cases, tends to generate more problems than solutions. In this case, the VAT in Mozambique charged at 17 percent

does not fit the Mozambican socio-economic environment; Indeed, it is a copy of the Portuguese VAT system¹ and was designed for a political and socio-economic environment that is quite different from Mozambique; Thus, VAT in Mozambique tends to be regressive rather than progressive tax. A tax is “regressive” when low-income people pay a higher fraction of their income in taxes than wealthier (Faridy and Sarker, 2011). This is further emphasized by, Itriago (2011) who states, “The IMF and national elites have heavily influenced tax policy in developing countries. This influence has had a negative impact in many cases, focusing on indirect regressive taxation like VAT, and extensive tax incentives for companies” (Itriago, 2011).

For the majority of the Mozambican population, VAT is a burden because they belong to low-income² households and they spend a large fraction of their income on the consumption of goods and services. As a result, the Mozambican VAT is a regressive tax. As stated above, for a regressive tax like VAT, the burden is highest for low-income households and falls sharply as household income rises (Tax Policy Center, 2020). When VAT is increased, two things happen. First, the prices of goods and services paid by the consumer increase (Toder, 2012), which tends to reduce household incomes. Second, the volume of business reduces (Toder, 2012), leading to a decrease in jobs. In the case of Mozambique, which is a small economy based on imports, the increase of VAT and prices of goods and services affected by VAT leads to an increase in the cost of living, resulting in riots, demonstrations, protests, and strikes. In this study, these events are collectively referred to as social conflicts.

¹ VAT standard in Portugal is 23 percent standard to all good and service, with 13 and 6 percent reduced on certain essential goods and service, compared with Mozambique with 17 percent and no reduction. (EY, 2020). Data retrieved from World Bank shows that in 2019 Portugal had GDP per capita of U\$23,462 compared to Mozambique, which had, had GDP per capita of U\$589 in 2019.

² “45 percent live below the poverty line”, and approximately “80 percent of employment in Mozambique is in the informal sector” (World Bank, 2019).

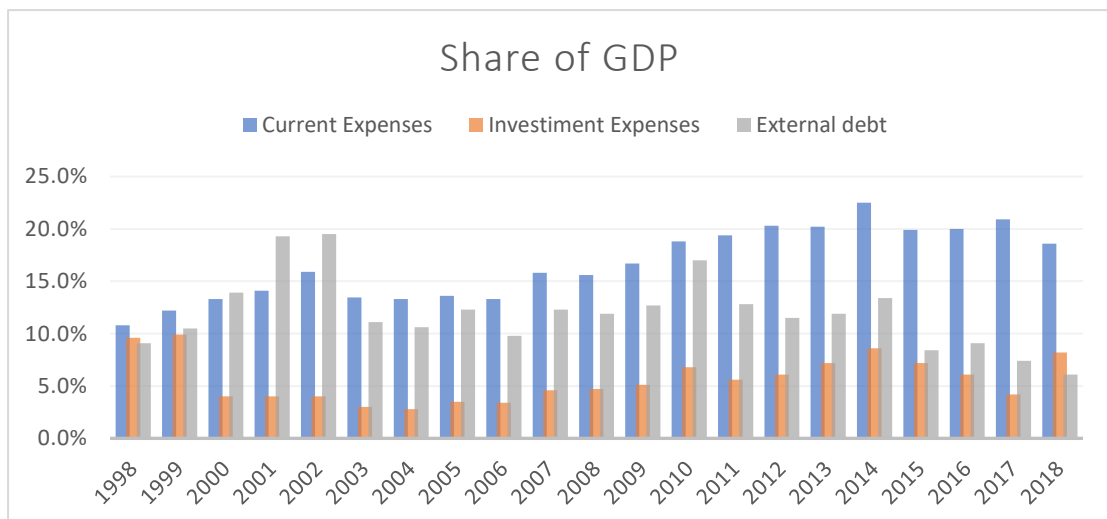
This study, inspired by the fact that the increase in VAT and any fluctuation in the prices of goods and services in the international markets directly affects the prices paid by the consumers in Mozambique, attempts to establish a causal relationship between increase of VAT and social conflicts. To this end, I analyze the degree of social conflicts as measured by the number of participants in riots, demonstrations, protests, and strikes. I also evaluate the importance of VAT as a share of total revenue, and finally, I look at government expenditure as a total amount spent on capital investments. With the above in mind, I examine the causal relationships between VAT and social conflicts in the short- and long-run in Mozambique.

The study is divided into six parts. The first part is the introduction; here, I present the background of the study, the research question that will guide the study, the objectives, the hypotheses, the justification of research, and in the end, the significance of the study. In the second part, I present the theoretical and conceptual framework; in this section, I go through previous research related to this study, and I define some concepts related to the study. In the third part, I present the history and evolution of the Mozambican fiscal policies and VAT system. In the fourth part, I introduce and examine the case of Greater Maputo Area; in this part, I present the reasons that led to social conflict in 2008 and 2010 and I show how the increase of price in goods and services affected by VAT are related to social conflict. In the fifth part, I present the econometric methodology, I show how our data was collected, how the analysis will be estimated, and I present the main equation. In the sixth part, I present and discuss the empirical results using VECM models. Finally, I present the conclusions and policy implications.

1.2 Brief Overview of the Mozambican Economy

Mozambique registered rapid economic growth globally in recent years, with an average annual growth of 7 percent from 2000 to 2016. Even with this expressive economic growth, however, Mozambique remains one of the most deprived countries in the world, with an average per capita income of \$487 in 2019. The current economic progress, which is not inclusive, has registered high economic disparities between urban and rural areas.

Figure 1 Government Expenditure and Foreign Debt (%GDP) 1999 - 2018



Source: Made by author based on data from Tribunal Administrativo, Conta Geral do Estado

In fact, the Mozambican economy continues to exhibit characteristics of a stereotyped developing economy with an extensive informal economy, with deficit balances of payments, heavily dependent on imports, and significantly dependent on external financing (Figure 1).

The 2020 Human Development Report points out that Mozambique is one of the least developed countries with an HDI index of 0.456, occupying the 181st position

among 189 countries in 2019, which means that it is the eighth-most impoverished country in the world in terms of human development index. The UNDP (2020) report points out that 72.5 percent of the population in Mozambique is poor at the multidimensional level, whereas another 13.6 percent can be categorized as susceptible to multidimensional poverty; the average deprivation score experienced by people in multidimensional poverty is 56.7 percent, with 17 percent in urban areas and 70 percent in rural areas.

Table 1 Some Selected Statistics about Mozambique

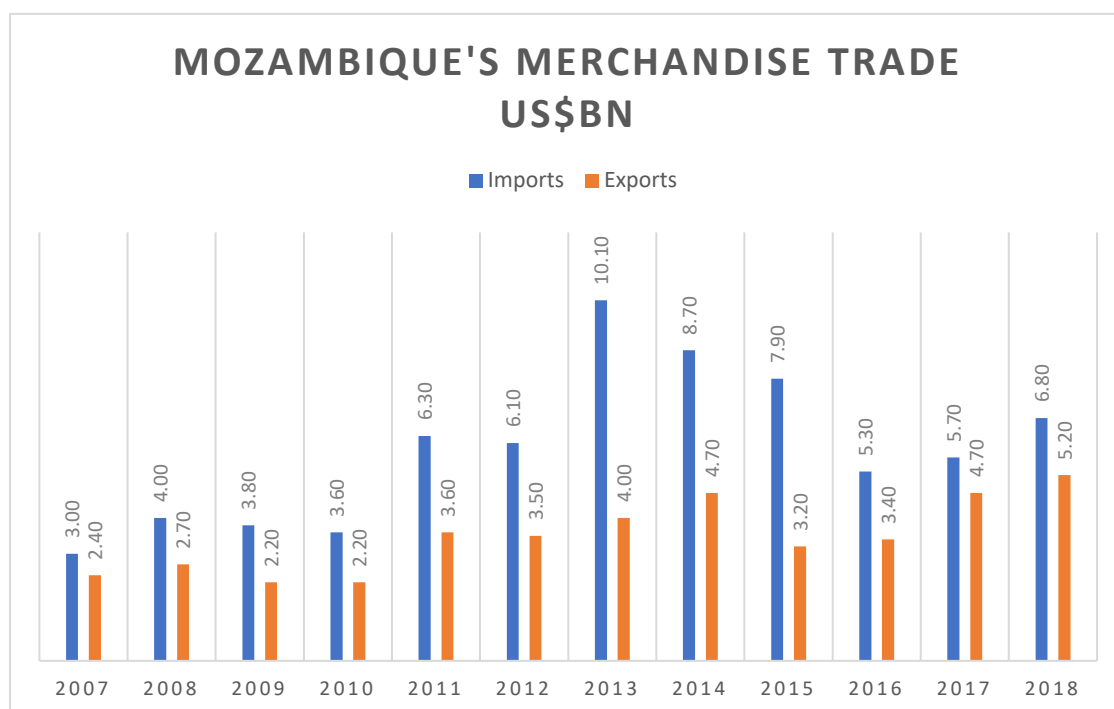
Life expectancy at birth (years)	60.9
Literacy Rate, adults (% ages 15 and older)	60.7
GDP per capita (2017 PPP \$)	1,250
Urban population (%)	36.5
Skilled labor force (% of the labor force)	7.1
Employment in agriculture (% of total employment)	70.3
Education Index	0.395

Source: Human Development Report, 2019

When it comes to trade, for example, in 2014, Mozambique had a trade deficit of more than US\$4 billion. In 2013, Mozambique imported more than twice of its exports in value. From 2007 to 2013, Mozambique's exports doubled from US\$2.4 billion to US\$4 billion, while imports grew faster, increasing from the US\$3 billion to US\$10 billion. From 2013 onwards, exports started to fall due to the drop-in commodity

prices globally. However, from 2016, exports have grown again (Figure 2). Petroleum and products derived from petroleum are the most imported commodities in Mozambique, accounting for 20 percent of total imports in 2018, followed by machinery and mechanics, raw aluminum, and rice.

Figure 2 Mozambique's Merchandise Trade (US\$bn) 2007-2018



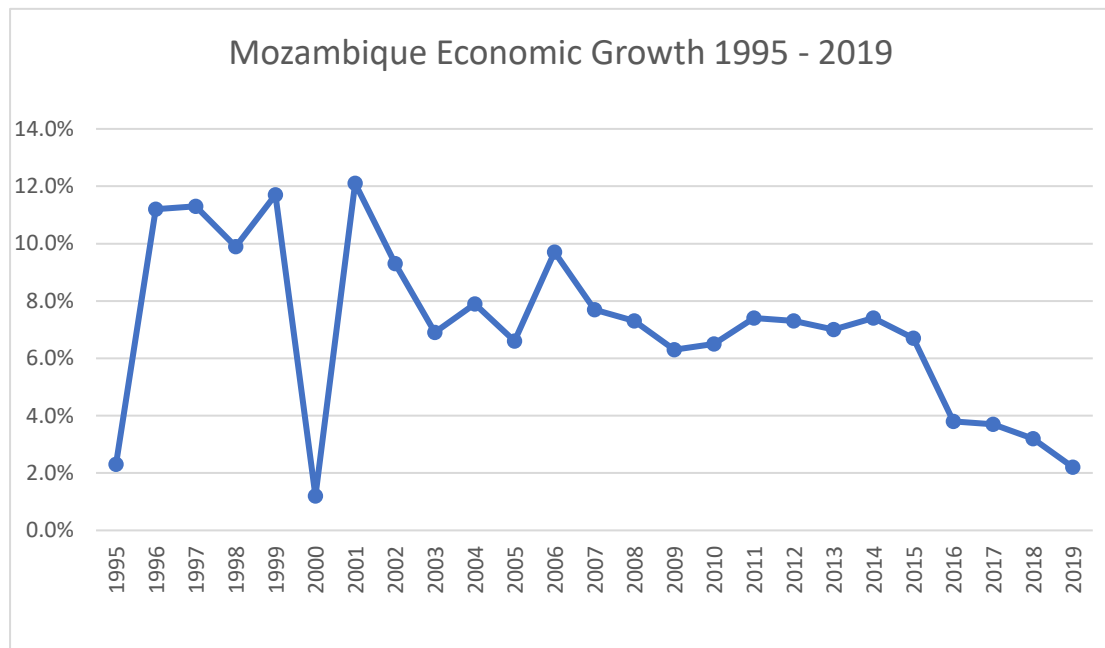
Source: Made bay author based on data from UNTACD

Mozambique, as well as other African countries, are committed to achieving the Sustainable Development Goals (SDGs) by 2030. To meet these goals, the Mozambican government needs funds to finance, intervene, and materialize public investment development goals. In this way, the country reformed its fiscal policy to accelerate the process of obtaining revenues and achieving financial sustainability (Palma, 2015).

The country carried out the first major fiscal reform in 1998 after introducing the multiparty system in 1990. Subsequent reforms were carried out in 2002 and 2015. Under the advice and guidance of the IMF, Mozambique introduced VAT in the 1998

fiscal reform to increase state revenue sources. In 2002, to complete the tax reform transition and increase government revenues, the VAT system evolved from a multiple-rate system formerly known as a circulation tax that was 5 percent for production and 10 percent retailers to a single rate of 17 percent, with a zero rate on exports.

Figure 3 Mozambique Economic Growth (%) 1995-2019



Source: Made by author based on data obtained from World Bank

Le (2016) affirms that Mozambique is one of the Southern Africa Development Community (SADC) countries with low tax collection rates, even with 17 percent, which is the third-largest VAT rate among SADC countries (Le, 2016, p.10). In 2018, Mozambique had a tax revenue-gross domestic product (GDP) ratio of 21.6 percent, which between 2011 to 2018 the average was 20.3 percent, the fifth-highest among SADC countries, and higher than the Sub-Saharan Africa average of 17.3 percent in the same period (Le, 2006, p.15). In 2009, VAT charges represented 40 percent of total tax revenue and 6.3 percent of Mozambique's GDP, which was more than the personal tax and income tax revenues combined (AFRODAD, 2011).

Table 2 VAT rate and Some Statistics in Selected Southern Africa Countries (2016)

Countries	VAT RATE (%)	Nominal Per Capita GDP \$ (constant 2010 US\$)	VAT (% of Revenue)
Botswana	12	7,797	12,119
Mozambique	17	584	37,002
Namibia	15	6,142	25,02
South Africa	14	7,476	33,316
Swaziland	14	4,662	28,64
Zimbabwe	15	1,464	46,78

Source: World Bank Development Indicators

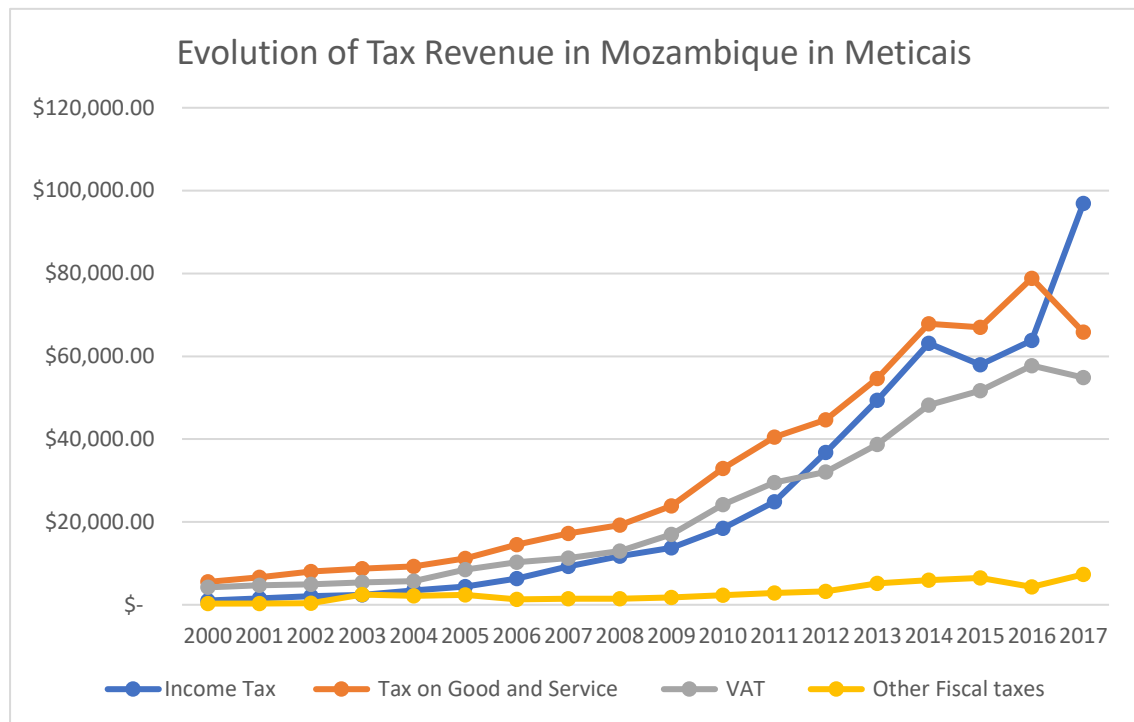
1.3 Research Problem

According to OECD (2020), taxes on goods and services charged in African countries were the main source of tax revenue; In 2017, it was on average around 53.7 percent of total tax revenue, and VAT contributed an average of 29.4 percent, making it the most significant tax on goods and services; Also, 18.6 percent of tax revenue came from corporate taxes and 15.4 percent recorded from individual taxes at the bottom were social insurance taxes with 8.1 percent and property taxes with 1.6 percent. The same case is in Mozambique, where VAT contributed an average of 70 percent of the tax on goods and services, which accounted for 36.8 percent of total revenue from 2000 to 2017. (Figure 4)

The increase in the tax revenue seen in Mozambique at the beginning of the 21th century is due to the implementation of the VAT system in 1999, which increased

economic obligations of the poor, who make up the majority of the population. Although the increase of VAT has brought many benefits and accelerated economic growth in Mozambique, it increased the level of economic inequalities and increased the price hike mainly in imported products.

Figure 4 Evolution of Tax Revenue in Mozambique 2000 to 2017 Local Currency



Source: Made by author based on data from Tribunal Administrativo, Conta Geral do Estado

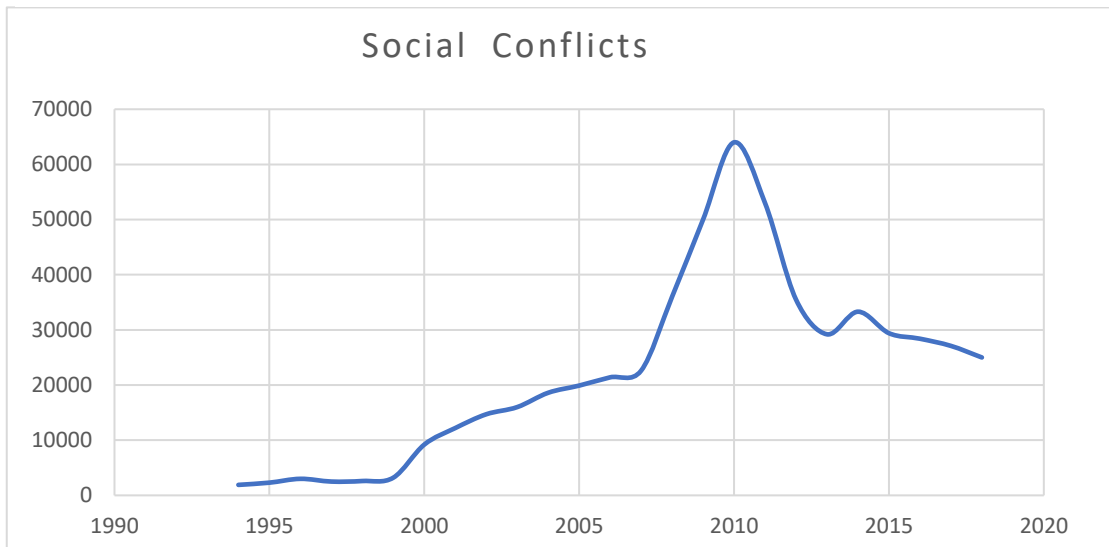
In African countries, which rely on VAT as the main revenue source, VAT increases without policy adjustments tend to be accompanied by growing concern about its impact on low-income households. As the tax increases, general commodity prices also increase. This increase means that the low-income families, in particular, will tend to spend a significant portion of the income on consumption of goods and services, just as business will have to increase the total price of goods and services in order to adjust to the VAT increase. This increase in costs can also be seen in all products affected by the VAT increase. Toder (2012) states that the increase in VAT can affect the total cost

of goods and services consumed by citizens or it can decrease the volume of revenue from the companies; the author also found evidence that suggests that VAT can be passed to consumers through higher prices, where increases in VAT can increase the price of goods and services or reduce the family's real income.

In Mozambique, VAT is problematic because 45 percent of the population live below the poverty line, and approximately “80 percent of employment in Mozambique is in the informal sector” (World Bank, 2019); Therefore, VAT in Mozambique is unsustainable and does not reflect the reality of the country whose majority are low-income households. In this research, I point out that due to the lack of adequacy of the policy to the local reality, VAT is a burden for low-income families. It constitutes “*tax burden*” for the majority of the population. The Tax Policy Center (2020) affirms that VAT is more proportional to income when measured as a share of income over a lifetime; because the income saved today is generally spent in the future, the survey also found that for a lifetime measure of income, the burden of VAT as a part of income is less for high-income families than for others because VAT does not tax returns on new capital investments(Tax Policy Center, 2020, p.558).

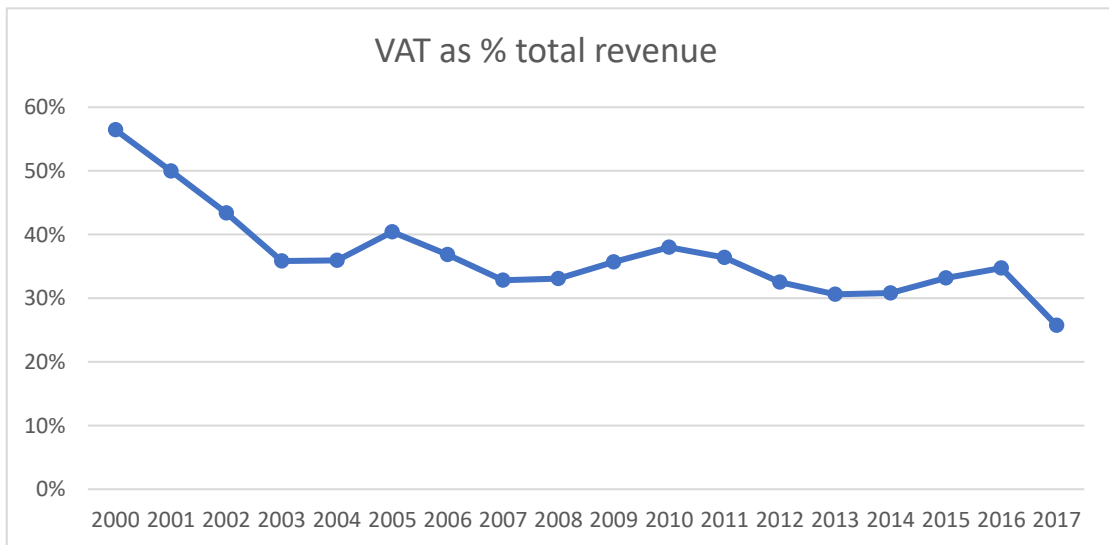
Since its introduction, VAT has become a vital source of revenue in Mozambique (Figure 4).

Figure 5 Social Conflict in Mozambique



Source: Made by author based on data from Instituto Nacional de Estatísticas

Figure 6 VAT as Share of Total Revenue



Source: Made by author based on data from Autoridade Tributaria de Moçambique

As mentioned before, the government of Mozambique increased the percentage of VAT charged on goods and services, following the IMF's policy recommendation under its stabilization program to boost the State's income revenue and financial stability through the increase of internal revenue collection and bring transparency to its indirect tax system. However, the consequences are putting the country's economic

growth and political stability at risk; Since its introduction, the level of social conflict in Mozambique due to the constant rise in prices of goods and services has increased exponentially (see Figure 3).

The critical point is that VAT applied to goods and services in Mozambique is very high compared to the population's per capita income, which spends the largest share of income on consumption. VAT in Mozambique is responsible for increasing the total cost of goods and services paid by households, the majority of whom are low-income. The persistent increase of prices of goods and services affected by VAT in the short-run, in our viewpoint, is the main cause of the social conflict in the last two decades, “*tax conflict*” and coincides with the tax reforms implemented. Therefore, it is reasonable to examine the causal relationship between increase of VAT and Social Conflict in Mozambique.

1.4 Research Question and Objectives

The precedents of research as well as an overview of research problems show that there is an imminent need to understand the causal relationship between VAT and social conflicts in Mozambique. Therefore, the central research question to be answered in this study is:

- What is the short and long-run causal relationship between Value Added Tax and Social Conflict in Mozambique?

To answer this question, I developed and tested an empirical model that supports the proposed hypotheses. Hence, the specific objectives of this study are:

- i. to examine the Short-run causal relationship between VAT and Social Conflict in Mozambique between 1994-2018;

- ii. to investigate the Long-run causal relationship between VAT and Social Conflict in Mozambique between 1994-2018.

1.5 Research Hypotheses

To achieve the objectives of this research, the following hypotheses have been made:

- The VAT has created a burden to low-income households in Mozambique from 1994 to 2018 due to a lack of policy adjustments. “*tax-burden*” hypothesis.
- The constant increase in goods and services affected by VAT in the short-run leads to increased social conflict. “*tax -conflict*” hypothesis.

1.6 Limitation of Study

This study has several limitations; first, I wanted the sample of the study to be more comprehensive and contain more observation numbers. However, due to lack of social conflict data on some months, we had to change the temporal dimension to quarterly. Another limitation was due to lack of previous research related to VAT and its relationship with social conflicts.

1.7 Significance of the Study

This study fills a gap in the literature by linking Value-added Tax and social conflict. This is the first academic study on the case of Mozambique. Furthermore, this research is the first to combine both qualitative and quantitative methods to explain the dynamics of social conflicts and VAT in Mozambique. Most studies on conflicts in Africa have focused on violent armed conflicts. However, while armed violent conflicts are decreasing, other types of security problems are on the rise, namely, demonstrations,

protest, and riots. This study proposes a new approach to the changing nature of social instability in contemporary Africa and emphasizes the necessity to look at more structural policy issues underlying the trend.

2. THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 Social Conflicts and Economy

The social conflict is described by Oberschall (1978) as a consequence of “intentional communication between two or more parties in a competitive environment.” The author states that social conflict, in a systematic way, uses means of communication that can affect or harm one of the parties involved. Oberschall (1978) points out three characteristics that can be found in any theory of conflict:

- “Domain structures that increase the possibility of conflict due to scarcity of resources;
- Constitution of parties involved in the conflict as well as forms of action; and,
- The dynamics of the conflict denotes the communication between the parties involved and aspects inherent to the conflict, its longevity, and resolution”.

Dougherty, Pfaltzgraff, and Robert (1981) define conflict as a condition in which a prominent part of human beings is wrapped up in conscious resistance to one or more identifiable groups. These groups pursue or appear to have antagonistic goals. According to Southhall (2007), conflict is a recurring phenomenon to human beings; it tends to be ubiquitous, communal, and perpetual to human beings and is a crucial and inevitable part of human life. Furthermore, Coser (1956) defines conflict as a struggle for power, scarce resources, values, and claims to status in which opponents aim to balance, damage, or eliminate their rivals. Conflict is not limited to developing countries, but rich countries can also be and continue to be affected by various forms of social conflict.

Concerning violent conflict in developing countries, Williams (2005) states that

Africa and Asia still remain the main source of economic deprivation. Nnoli (2006) affirms that those conflicts tend to have economic and political reasons despite some of them being classified as tribal, political, or of religious origin. Collier and Hoeffler (2004) found that necessity and probability are positively and significantly correlated with conflict, and they are the main determinants of conflicts in developing countries. Also, La Free and Drass (2002) findings suggest a strong relationship between social conflict and underdevelopment.

In this dissertation, I categorize conflict related to VAT in Mozambique based on dimensions proposed by Oberschall, where the two main parties involved in the conflict are the government of Mozambique, at the national and sub-national level, and citizens of Mozambique.

More specifically, I define social conflict in contemporary Mozambique as strikes, riots, protests, and demonstrations, which can be peaceful or violent. Defining social conflict in such a way, rather than an armed conflict, is justifiable from theories explained above. Such a street action is not an isolated phenomenon caused by a particular incident at a particular time, but represents people's persistent discontentment towards the current political or economic regime or more specific policies. People see prospective further impoverishment as a structurally produced scarcity, and find no possibility to change the prospect by other means. This is why street action in Mozambique needs to be understood as a concrete form of "communication" defined by Oberschall between people and the government. The government may modify policies as a result of this communication.

The theories that attribute social conflict to deprivation apply well to Mozambique. Deprivation widens when the prices increase, and it is at that moment

that underlying discontent comes up to the surface. Conflict as a power struggle does not explain the motivation of rioters but it is highly probable that the elites of the regime perceive social conflict in such a framework. The regime may see people's naïve actions as a threat to the regime backed by some conspiracy. This asymmetry of perception indeed illustrates a gap in the Mozambican society.

2.2 Conceptualization of Value-Added Tax

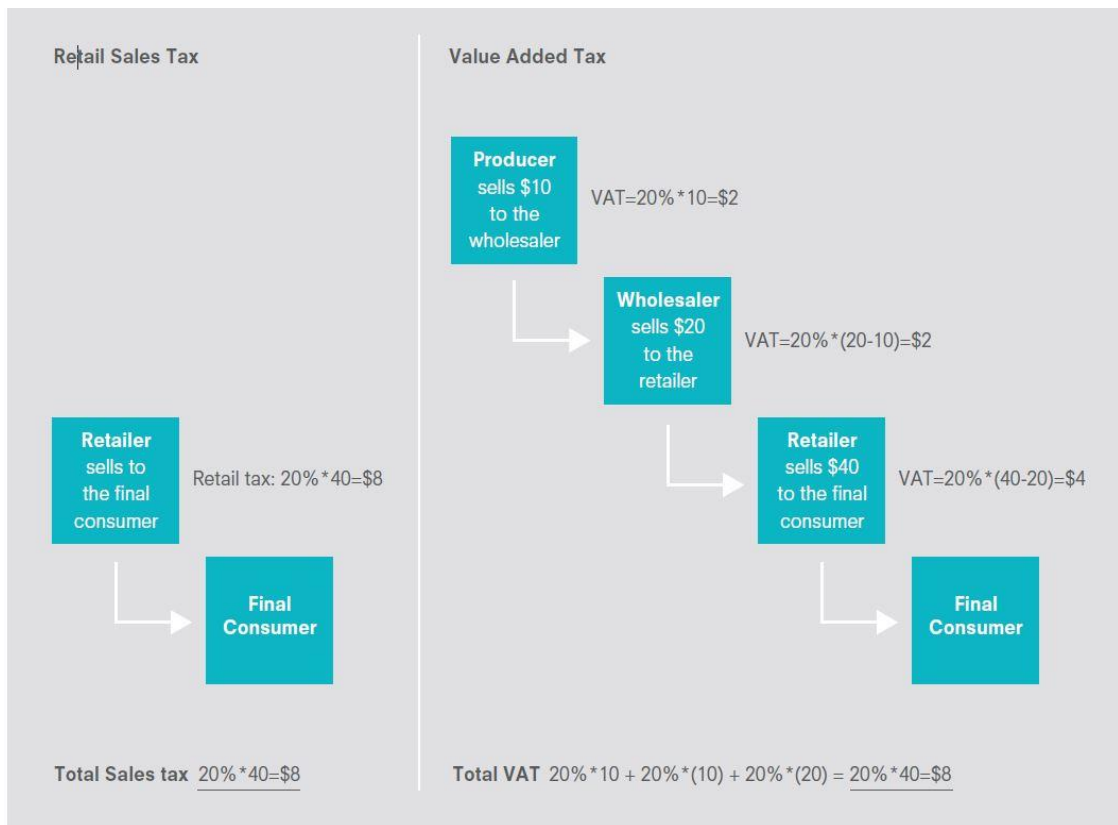
VAT, according to Kamruddin-Parvez (2012), is a tax imposed on the consumption of goods and services whenever a value is added at the production and final sale stage, and it is a multi-phase tax that falls on the added value of goods and services whenever they progress in the various stages of production, distribution, and services whenever they condense, and is collected at each stage of production or distribution chain but is paid by the final customer; according to authors, VAT as consumption tax can be charged for both local and imported goods and services.

Soyode and Kajola (2006) point out that VAT as a tax applies to all goods and services, characterizing VAT as being:

- A tax on consumption;
- A Multilevel tax, and;
- Paid by the final consumer.

As I explained before, VAT is an important tax for the Mozambican government, is levied on goods and services imported or manufactured locally, and is the main source of tax revenue. Figure 7 presents a characteristic VAT system in a formalized supply chain with a 20 percent tax rate. Even though VAT and retail taxes are applied differently, they can be comparable taxes with perfect amortization and with no exceptions.

Figure 7 VAT vs. Retail Tax



Source: (Naritomi and Gerard, 2018)

Rostanmi et al. (2012) states that VAT is the main source of government revenue in many countries and that it is crucial policy when it comes to for tax reforms policies. For the authors most countries that have introduced VAT intended to replace distorting cascading sales and commercial taxes. Ibrahim (2015) writes that VAT is a general tax introduced in business activities that produce and distribute goods and services. According to author, VAT is normally charged on consumption; although VAT is also charged to the importer, producer or distributor, it is the final consumer who ultimately bears it; In that sense, the author also states, VAT is cumulative since the taxes paid on imported goods at the borders and other taxes and fees include VAT.

Mirrless, J., et al. (2011) points out that because VAT is charged within the national jurisdiction at the State's borders, it can be called territorial tax. He found that

because VAT is charged several times during a year, it offers broad and stable tax revenue. The authors also found that, due to the tax deduction, VAT tends to encourage investment because it is paid on consumption expenses and not on investment expenses. Bird and Gendron (2007) found that VAT as a fiscal policy is essential because it affects final consumption and is impartial in production decisions.

2.3 Characteristics of Value Added Tax

VAT as an indirect tax has many characteristics. James (2011) points out the following characteristics of VAT.

- A tax that focuses on consumption;
- A tax that has a multilevel stage;
- It is a value-added tax;
- It is a tax that is charged on goods and services;
- A tax imposed and collected at each production and distribution stage;
- Its tax bearded by the final consumer (James, 2011, p.17).

2.4 Benefits of VAT

Discussing the benefits that contributed to the rise of VAT, James emphasized the following.

- It is the most acceptable method of taxing general consumption;
- It does not apply to exports, and
- It is good to improve countries revenue capacity (James, 2011, p.17, 19).

Additionally, the fact that the VAT does not discriminate between locally manufactured and imported goods is considered among its advantages. It is also simple to operate, given its single flat 17 percent rate in Mozambique, for instance. “These

factors/qualities may explain its global rise and its appeal to policymakers” (James, 2011).

2.5 Models Based on Treatment and Scope of Exemptions

According to James (2011), there are three main models of VAT that are applied worldwide:

- European;
- New Zealand, and
- Japanese

The James (2011) argues that the New Zealand model is the closest to the ideal because it is imposed at a single rate on a comparatively extensive basis. He points out that many countries adopted the European model, which has several exemption rates and is characterized by a multiple rate system. This is the case in Mozambique. James (2011) points out that VAT’s revenue generating potential, like any other tax, depends on administrative capacity in each country. However, he found that that, on average, VAT produces much less revenue and is less efficient in countries with weak administrative capacity (James, 2011, p18).

2.6 Social Consequences of Value-Added Tax

VAT has several benefits in developing countries. However, there is a long debate over the implementation of VAT in developing countries. Keen and Lockwood (2007) point out that VAT has worked as a “cash machine” because it helped many countries to make additional revenue that they could not get before the implementation of VAT Emran and Stiglitz (2005) write that VAT becomes complicated when implemented in a country with a huge informal economy; the case of Mozambique is

exactly this. Keen (2008) found that VAT indirectly taxes the informal sector because certain products sold on the informal market are taxed VAT when imported. Boadway and Sato (2009) proposed that VAT advantages depend on several factors, such as the country's ability to tax individuals and companies; they also found that regressivity of VAT becomes a prominent feature particularly in low-income societies (Boadway and Sato, 2009, p.29).

Bird and Zolt (2005) are more cynical about the impact of VAT on developing countries. They found that the VAT that most often replaced the border tax can be much regressive than previous taxes (Bird and Zolt, p.1639). Boadway and Sato (2009) claim that the tax reform policies that reduced tariffs and transferred the burden to VAT were undesirable from the point of view of impartiality, the evidence brought by the authors points out that the direction that the emphasis on uniform VAT is incredibly regressive (Boadway and Sato, 2009, p.30,31).

Bovenberge (1987) and Gottfried (1991) investigating the consequences of the zero VAT rate, found that the zero VAT rate was a better instrument than the tax exemption. Analyzing the adverse effects of VAT in Vietnam, Giesecke and Nhi (2010) found that a uniform tax without exemptions increases total consumption with adverse distributional consequences for low-income families; they also found that the adverse distributive effects of VAT can be expressly changed, at a small cost for the gain of collective.

Emini (2000) analyzed the introduction of a pure VAT system in Cameroon. He found that a pure VAT system tends to be more favorable than cascading taxes for economic activities that support a substantial tax burden. Emini (2000) concluded that increasing tax revenue through expanding the tax base was better than increasing the

VAT rate. Finally, very few researchers have analyzed the lack of VAT neutrality and have comprehensively analyzed the social impact of VAT to determine the best VAT model that fit low-income households in developing countries.

2.7 Value-added Tax and Revenue

Bahl and Bird (2008), concerning the impact of VAT on revenues, affirmed that until now, VAT is seen as an essential tool for a good tax system for increasing tax revenue in many countries, and one of the primary sources of revenue in many countries (Bahl and Bird, 2008 p. 287). However, Ebrill et al. (2002) found that the rapid increase in VAT seen in many countries in the 20th century was the most dramatic - and perhaps the most important tax development phenomena in the last century. For the authors, the adoption of VAT by many countries was intended to increase state revenues, trade, and control persistent budget deficits. Many African countries affiliated to IMF which had budget problems saw VAT as the optimal and straightforward solution to boost their tax revenue collection; This was the case with Kenya, South Africa, Nigeria, Botswana, and Mozambique.

A study conducted in 2003 by Michel cited by Antwi et. al. (2012) about VAT introduction in France concluded that it led to a constant increase in the state's mobilization of total domestic revenue and that France's GDP increased from \$1.42 trillion to \$1.76 trillion, while GDP per capita increased from \$29.089 in 2002 to \$29.410 in 2003, and that since VAT introduction the revenue target has always been fulfilled (Antwi et. al.,2012, p.2). In addition, Alemayehu and Abebe (2004), studying fiscal reforms in Ethiopia, found that the VAT revenue collection in Ethiopia had shown a significant increase of 50 percent than the substitute sales tax since its introduction. They argued that VAT collection domestically contributed 14.9 percent of their total

revenue, while VAT charged on imports contributed 27.1 percent. The authors attributed the significant influence of import VAT to the total VAT collection in Ethiopia to its well-controlled adoption.

3. TAX SYSTEM IN MOZAMBIQUE

3.1 The Evolution of the Tax System

In 1975 Mozambique gained independence from Portugal. After more than a decade fighting colonialism, and shortly after independence, Mozambique suffered a civil war that lasted more than 16 years and culminated in 1992 with the signing of the peace agreements in Rome. During this period, the Mozambican economy contracted significantly, and the tax administration practically collapsed. From 1981 to 1985, the country's real GDP decreased by almost 25 percent, with foreign debt service representing more than 200 percent of exports of goods and services. Data from that period shows that the informal sector accounted for more than 70 percent of GDP. The transitions described above had a huge impact on the growth and development of the economy and on the structure of the tax system. Hence, Mozambique has undergone several transitions during the last 40 years:

- i. 1975 - From Portuguese colonization to independence
- ii. 1990 - From a centralized socialist planned economy to free-market;
- iii. 1992 - From destabilization war to peace; and
- iv. 1994 - From single-party system to multiparty system.

In 1975, at the time of independence, the Soviet Union was Mozambique's main economic and military partner. Soon after independence, FRELIMO decided to abolish the colonial state regime and created its leadership based on the ideas of Marxism-Leninism. The reasons that led to the adoption of this system lied in the ideology of the FRELIMO Party and the combination of the world and national political situation in

the mid-1970s. The natural development of this logic of socialism led FRELIMO to define a Soviet-style policy, in which there is a one-party state and a planned central economy and a socialist-style of public finances with regard to tax collection.

Mondlane (2008) affirms that in 1975 after the proclamation of independence the consequent adoption of socialism as a political and economic model to follow brought about significant changes in the national tax system; according to him, these changes were intended to serve the principles of social justice, contrary to the regime of collection of taxes from the colonial period, which imposed considerably high rates on income tax known as “Chibalo”³. Statistics show that at the time of independence 82 percent of state expenditure was financed by tax revenue, which could be seen as a situation of relative fiscal chaos. In addition to the issue of social justice, the relative chaos mentioned above, about the Mozambican tax system, was also linked to a sequence of factors triggered by the departure of the Portuguese colonial power, such as the decay of the administration tax, sabotage in then existing private companies and industries, as well as looting of private property (Newitt, 1997).

The first significant tax adjustment was made soon after the independence from 1976 to 1978, with the Customs Tariff's revision and the Consumption Tax Code's approval. Government Resolution no. 5/77 approved the general principles of fiscal policy. Consequently, Law no. 3/78 introduced the circulation tax as a means of advancing the industrial contribution and a mechanism for channeling state companies' profits to the state budget.

³ Chibalo was tax paid through forced labor during the Portuguese colonial administration.

As could be expected, the collection of taxes depended on these bodies. Moreover, when they ceased to exist, it led to a fall in the collection of production and consumption taxes. Furthermore, after independence, we see an aggravated decline in industrial production; this decline led to a further deterioration of tax collection. Ibraimo (2002) points out that in the impossibility of maintaining the volume of revenues reached in the period before independence, three tax reforms were carried out in post-independence Mozambique, the first of which is 1978, and the following two in 1987 and 2002.

In 1978, it was necessary to guarantee the functioning of the social service sectors, such as health and education, given the deficit created by the Portugal's departure. At the time, there was also the problem of ensuring the realization of the revenues for the state-outlined social justice objectives. It can be seen that, from the outset, the system needed a reform, which took place in February 1978, and which would be based on the principles of fiscal policy (*princípios da política fiscal*) defined in Resolution 5/77 of the Popular Assembly, which included progressive and other taxes measures aimed at achieving social justice.

The resolution 5/77 established that income and “private property” were subject to progressive taxes, set according to social justice criteria. The resolution also included the taxes adopted in the country's budgetary policy, based on the economic policy of the socialist ideology conceived in 1977, whose central assumption was the solution of the social problems of all the people and defense of sovereignty through a centrally planned economy, where the public sector performed a significant role in collecting revenue to the State Budget.

Overall, the 1978 reform aimed to collect revenue based on a mechanism that would meet budgetary requirements. In effect, the first tax reform resulted in profound changes, with emphasis on:

- i. Simplification of the process of capturing the income of companies;
- ii. Billing of services;
- iii. Maintenance of industrial contribution and maintenance of the complementary tax as corrective tax;
- iv. Merging the various forms of income taxes into one tax;
- v. Increment of corporate tax rates and simplification of tax legislation.

Also, resolution no. 5/77, introduced the National Reconstruction Tax, which was intended to be temporary, and the Circulation Tax; finally, the Income Tax Code was revised and amended. The Consumer Tax, which aggravated the contribution of superfluous products, was also changed.

3.2 Market Economy

Several fiscal and budgetary reforms were applied to adjust the tax collection system to other rates and cover more sectors of the country's economy during this phase. In addition to the reforms, the FRELIMO government developed and implemented various development plans and programs in order to reduce poverty and minimize adverse effects of war, which contributed, among others, to the enhancement of the health and education systems, good governance, communication channels.

The first half of this period observed the first widespread public sector reforms in the post-colonial era. When it was founded that the central and bureaucratic planning

of the economy was not able to reverse the decline of the economy at all levels, the FRELIMO government decided to reform the economic system and subsequently, the public finances. In 1987, the government implemented the Economic Rehabilitation Program (ERP) and began Tax Reform intending to correct the economic and financial imbalances then verified, under Bretton Woods agencies' supervision.

Mondlane (2008) refers that the first phase of the tax reform carried out in 1978 aimed to adapt the tax system to the philosophy of the State that had just emerged, promoting greater social justice and contributing to social progress. The author then states that the second phase of fiscal reform, carried out in the context of the ERP, intended to correct the imbalances of the national economy, as well as to minimize the harmful effects of the war. Mondlane (2008), also affirms that in this phase, new tax system reforms were introduced and some taxes reduced, for the author this was very important because it reduced some distribution channels that emerged with the informal sector and adjusted the payment system, collection, and correction of the fiscal year calendar.

3.3 Multiparty Constitution

The radical change in Mozambican politics come in 1990 with the implementation of a democratic constitution. Some of the changes in the economy occurred in the execution of the market economy in 1987. The constitution unbolted the political system, formerly a one-party state, to a multiparty system. Because of these amendments, political negotiation with Mozambique Nation Resistance Party (RENAMO) was initiated. In 1992 they reached a political agreement, General Peace Agreement, and subsequently the first democratic election took place in 1994.

From this constitution, the FRELIMO government abandoned the socialist

economic regime adopted in 1975, opened to private initiative and started reforms to reduce the State monopoly, also started the reduction of barriers to foreign trade and the consequent increase in foreign investment in projects based on natural resources, the reduction of bureaucracy in the licensing processes for commercial activities and the implementation of various institutional and structural reforms, placed the country on the development route with a tendency to achieve the highest rates of economic growth in the world. This third phase of tax reform took place not only to change purely financial aspects but also to introduce reforms in the area of human resources. It is at this stage of the reform that VAT was introduced.

3.4 History and Development of VAT in Mozambique

The history of VAT in Mozambique dates back to 1999 when the Government felt a need to review its entire tax system to expand the financial base for revenue generation. Before the advent of VAT, the main existing Tax on consumption was Tax of Circulation on goods and services, levied on all goods and services with 5 percent in production and 10 percent rates in wholesales and retailer stages. Palma (2015) argued that behind the adoption of VAT in Mozambique can be summarized as the need to achieve:

- Simplification of the indirect tax system
- Enhancement of tax neutrality in international trade
- Reduction in tax evasion, and
- Expansion of tax base

3.5 Characteristics of Valued Added Tax in Mozambique

According to Palma (2015), we can summarize the characteristics of VAT in Mozambique as the following:

- Similar to European Union VAT (Mozambican VAT system is very similar to the Portuguese one);
- Relatively simple;
- VAT model consumption type;
- A general tax on goods and services;
- It affects all phases of the economic circuit;
- Economically neutral;
- High performance;
- Administratively efficient;
- A single rate of 17 percent and zero rate tax for exports;
- Taxation at the destination for international operations;
- Existence of three classification levels of taxable persons: general scheme, small taxpayer schemes, and specific schemes.

3.6 Application VAT in Mozambique

In the Mozambican tax legal system, VAT was enacted in 1998 and introduced in 1999, and today represents more than half of what is collected in tax revenue (Neves,

2017). The general principle of a model based on VAT is to apply a general consumption tax proportional to the price of goods and services to goods and services, regardless of the number of transactions that occurred in the production and distribution process prior to the phase taxation. In transactions between taxable persons of VAT, in each of the transactions, the VAT, calculated on the price of the good or service at the rate applicable to the said good or service, is chargeable, with prior deduction of the amount of the tax on the added value that has directly affected the cost of the various elements that make up the price. In a broad-based model, VAT tax is applicable up to and including retail trade (Palma, 2015).

Palma (2015) also writes that in Mozambique, indirect taxation covers VAT, the Specific Consumption Tax, and Customs Rights. The Basic Law of the Mozambican tax system (Law No. 15/2002, of June 26), in its article 67, characterizes Mozambican VAT as follows: “The Value Added Tax is levied on the value of the transfers of goods and provision of services carried out in the national territory, against payment, by a taxable person acting as such, as well as on imports of goods, and:

- i.* Exemptions are limited to exports and the consumption of some goods and services whose nature and utility justify;
- ii.* The respective rate is established by the Council of Ministers up to a maximum limit of twenty-five percent”.

Consequently, according to Palma (2015), VAT in Mozambique is essentially characterized by an indirect, multi-phase tax, affecting all acts of consumption through the indirect subtractive method.

4. VAT AND SOCIAL CONFLICT IN MOZAMBIQUE: THE CASE OF GREATER MAPUTO 2008 ~ 2012

This chapter tries to demonstrate how the transformations caused by international crisis, resulted in the loss of the purchasing power of the poor and how it led to rise of the prices of goods and services affected by VAT. For this purpose, an analysis is made based on the existing literature of the two popular riots that took place in Greater Maputo⁴ in the year of 2008 and in the year of 2010.

In 2007-2008 many African countries experienced a huge wave of social conflict mainly because of the increase in the cost of living.⁵ Most of these riots took place in Central, Northern Africa and the Horn of Africa, but also in Mozambique and specifically in Greater Maputo. Patel and McMichael (2014) describes these riots as “bread riots”. These riots coincide with the international financial crises and increase of the prices of grain such as wheat, corn, and rice. The prices increased by more than 100 percent. According to Lagi et al. (2011), the increase was caused by:

- i. Severe weather drought;
- ii. Increase demand for meat in developing countries;
- iii. Speculations by investors seeking financial gains on commodities market;
- iv. Currency exchange, and
- v. The linkage between oil and food price.

⁴ Greater Maputo is composed by Maputo City and Matola, with approximately 2 million habitants (2017). Two cities constitute the financial, industrial, political and economic center of the country.

⁵ Burundi, Somalia, Mauritania, Libya, Uganda, Cameroon, Ivory Coast, Mauritania among others. (Patel and McMichael, 2004)

In recent years, there has been a constant rise in the prices of various goods, with particular emphasis on food products on the one hand and with a low increase in wage levels and high unemployment and underemployment rates on the other hand in Mozambique. Brito et al. (2017) point out that as most Mozambican households have low income and are below the poverty line, the household members have to engage in informal business to minimize the income deficit (Brito et al.,2017, p.19). This aspect is common both in urban and rural areas, where alternative forms of work are generally the supply of labor in the largest and most productive farms (Machambas), in the sale of agricultural products, and other forms of informality similar to those practiced in urban areas.

Figure 8 Food Price Index

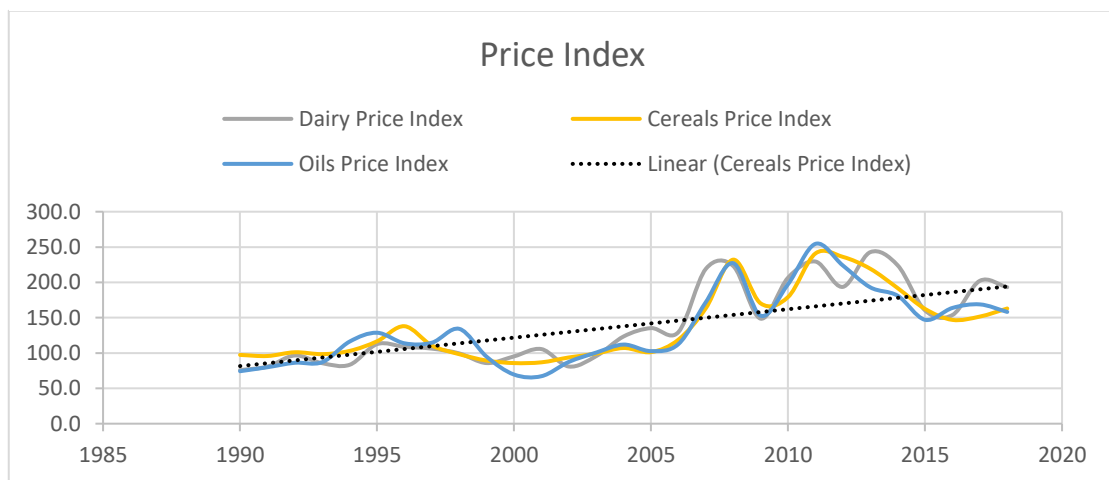


Source: Made by author based on data from FAOSTAT

Besides this, 2008 was characterized by the international economic crisis that began in 2007 with the crisis of the United States real estate market and spread to different parts of the world with effects such as the bankruptcy of financial institutions, liquidity crisis, and a drop in the main stock market indexes. Combined with the international crisis, the prices of oil and food in the international market rose

substantially, with emphasis on cereals (**Error! Reference source not found.** and), which had a direct impact on the price of goods in Mozambique (Massarongo, 2017). In a scenario where a large part of the people is unemployed or exercise the informal economy in some way, it happens that this group spends its little income on food and/or consumption. Thus, in the context of the international crisis, where there is a strong impact on price volatility, it certainly contributes to the fact that food prices frequently rise, creating suffocation for the majority of the population.

Figure 9 Price Index on Some Selected Items



Source: Made by author based on data from FAOSTAT

4.1 Mozambique: Small Import Based Economy

Mozambique has always been a food-importing country. Accompanying this, agricultural food production is essentially from peasant agriculture. One of the consequences is that it is affected by natural catastrophes, droughts, cyclones, floods, and pests, which regularly hit the country. Poor domestic productivity means that Mozambique depends heavily on imports. Mosca (2014) illustrates this productivity, based on the agricultural and livestock censuses of 2000 and 2010 and on a series of statistical data for the period from 1961 to 2012, and demonstrates that the *per capita* domestic food production has been decreasing in absolute terms over the past fifty years.

It is evident that the country is not self-sufficient and has always depended on imports, as its domestic production, not being of a large scale, has also faced natural adversities, forcing the country to feed its domestic market through imports. And in a scenario of international crisis, prices internally are subject to change. One of the results of the crisis was the increase in the price of a barrel of oil from around US\$60 to US\$95 between February 2007 and February 2008 (having continued to increase throughout 2008). This increase in the price of oil on the international market had an immediate effect on the rise in fuel costs and, consequently, on transportation costs. In turn, cereals, whose price had been increasing since 2005, also experienced further significant increases between February 2007 and February 2008. The price of corn, for example, more than doubled in a year from about US\$170 per metric ton to about US\$380 per metric ton (IMF cited by Massarongo, 2017). These facts show Mozambique's dependence on the international market for meeting the country's food needs, as well as its vulnerability to food price shocks on the international market. Therefore, in a clear dependence on imports, with the outbreak of the international crisis in the middle of 2007, there was a direct impact on the cost of living for Mozambicans.

4.2 The Greater Maputo: Social Conflict, Cost of Life and Popular Revolts

The Greater Maputo is where the capital of the Republic of Mozambique and the largest city in the country is situated. It is located on the southeastern coast of Africa in the extreme south of the country. In addition to this, Greater Maputo is the center of the country's administrative, industrial, financial, and commercial activities. The cities are located in the southeastern part of the country, 120 km from the border with South Africa and 80 km from Swaziland's border. The Great Maputo Area has population of approximately 3 million.

Like many other cities of colonial origin on the African continent, especially in sub-Saharan Africa, Greater Maputo is made up of two “distinct cities”. The city is often described in its spatial duality, confronting the “Formal City” or “Cement City”, a planned, structured and organized reality, provided with collective equipment, essential services, and infrastructure, with the “Informal City” or “City of Caniço,” lacking essential services (water supply, basic sanitation, electricity) equipment and infrastructures, of which growth is often spontaneous (Viana and Alves, 2006).

Contrastingly, despite of the best average statistics in the country in terms of development and well-being⁶ indicators, Greater Maputo has the highest concentration of poverty at the national level.

⁶ With regard to education and literacy, Maputo has a higher schooling rate than rural areas and other urban areas. If the average illiteracy rate is 48.4 percent in urban areas, compared to 81.1 percent in rural areas, in Maputo it is around 40.3 percent. While the national average of citizens with primary education is 32.4 percent and only 5.8 percent have secondary or university education, in Maputo, the rates are 45 percent and 14.1 percent, respectively (INE, 2007 cited in Brito et al., 2017)

Table 3 Selected Indicators – Greater Maputo

Population (2017)	2,120.646
Per capita income US dollar (constant 2010)	942
People Living Below Poverty Line	54.7%
Life Expectancy	52 years old
Adult Literacy	51.6%
HIV/AIDs Prevalence	15%
The mortality rate in birth	66/1000

Source: Pimentel (2012)

Tvedtren et al. (2013) points out that the poverty rates and inequality in Great Maputo are comparatively higher compared to other cities in Mozambique. In 2002 from the poverty rate was 71 percent in Greater Maputo compared to 55 percent in other cities. also, the differences in income and expenditure between rich and the poor is higher compared to other regions of the country.

4.3 Social Conflict Vs. Cost of Life

Mozambican economy has experienced a high level of growth with increasing FDI, but also there is a weak capacity to create jobs and to reduce poverty (Forquilha, 2014; Chaimite, 2014). Besides that, the prices of goods and services are continuously increasing, especially after experiencing periods of high rise influenced by the international crisis of the cereals during the period from 2007 to 2010. Besides the fuel price, the prices of essential goods and food products also increased. This general increase in prices was not accompanied by an increase in income or policy adjustment to accommodate low-income households (Sambo and Jahassnon, 2017).

The cost of essential products in general increased. In 2008 the government

raised the price of diesel by 14 percent, gasoline by 8.1 percent, and lighting oil by 19 percent. As a result, private providers of transportation raised the tariff for transportation, commonly known as “Chapa”, by 33 percent for a distance of 9 km or less and 50 percent for a distance between 9 and 12 km. Two years later, in September 2010, uprisings broke out again. For example, the price of 250 grams of bread rose from 6.00 to 7.00 meticaís ⁷(17 percent); each of energy went from 89.61 meticaís Kwh to 101.6 meticaís (13.4 percent); the cubic meter of water went from 17.00 to 19.00 meticaís, for consumers on the scale of 5 to 10 cubic meters, and from 22.29 to 25.50 meticaís, for consumers above ten cubic meters; the price of gasoline increased by 8 percent, of domestic gas by 7.9 percent. Tomatoes, rice, onions, etc., also experienced significant increases (Pereira et al., 2014).

It is important to note that in 2010, the increase in the price of essential goods was accompanied by the sharp depreciation of the Metical – local currency against the South Africa Rand and the US dollar. As illustrated by the IMF cited by Massarongo (2017), the average prices of barrel of oil doubled from around US\$ 40 in 2009 to US\$ 80 in December of 2010. Cereal prices have also increased significantly in this period. For example, the price of wheat⁸ increased from about US\$ 155 per metric ton in 2009 to US\$ 205 per metric ton in 2010 (IMF cited in Massarongo 2017 p.78).

As a result, the cost of living increased, according to data from the 2008/09 Family Budget Survey, referenced by Brito et al. (2017) point out that the majority of low-income families in urban areas spend most of their income on consumption of food. Therefore, they low-income families in urban area suffer more from inflation

⁷ US\$ 1 was equivalent to MT 24 in 2008

⁸ Wheat flour, the main raw material used by bakers is imported. the fluctuation in the international market caused the price of bread to increase. And there are no other alternatives for bread. so, either the bakers have raised prices or closed the business

comparing to low-income in rural area.

A study by Wuyts (2011) cited in Mandlate (2017) found that in the period between 2002 to 2010, the food prices in Mozambique rose faster than general inflation, and the author affirms that the increase in prices affected low-income households more, who spend a more significant proportion of their consumption on foods. (Mandlate, 2017) As a result, the Greater Maputo witnessed a reduction in access to food. However, as Brito et al. (2017) highlighted, this reduction in access to food more severely hit people in the urban areas who, due to weak, or non-existent, production for self-consumption, are completely dependent on the purchased foods. This situation makes the urban poor more vulnerable to price shocks.

According to Mandlate (2017) the configuration of consumption in rural and urban families is dissimilar in two ways: i) *according to its sources* (monetary expenditure versus self-consumption) and ii) *according to its functional structure* relative weight of food in the household budget. Therefore, Arndt et al. (2008) analyzing data from the 2003 Household Survey (IAF), show that the consumption of goods and services in urban areas, mostly in the city of Maputo and province, are very susceptible to price variations in the international market.

According to Mandlate (2017), in rural households, self-consumption in most cases constitutes almost all current expenditure, given that two-thirds of the expenditure of poor rural households, particularly food and fuel for cooking and lighting, are provided by own production. The author argues that in Maputo city and Matola, the situation is radically different. Although more than a third of households use their own production, exploring all opportunities to supplement their income, in most cases, does not make a relevant contribution to their current expenses.

More than a half of the economically active poor families in Greater Maputo are in low productive sectors (self-employment, employment without fixed wages, and domestic employment), depending on the low returns generated by uncertain demand for their workforce.

4.4 Mozambique: Small Economy Based on Importation

Mozambique is a food importing country. In the year of independence⁹, the supply of cereals corresponded, in terms of origin, to 49 percent of domestic production, 42 percent of commercial imports, and 9 percent of food aid. However, the situation worsened during the civil war period (1976 – 1992). Brito et al. (2017) point out that since then, despite considerable changes, Mozambique continues to be an import-dependent country.

Mosca (2014), based on the agricultural and livestock censuses of 2000 and 2010, found that the domestic food production per capita had increased in absolute terms in the last fifty years. Another finding is presented by Mandlate, (2017) in his study, highlighted that a large part of the food and basic products, identified as critical for social stability in urban centers, have their internal supply conditioned by an external supply. Virtually all fuels and wheat and nearly 80 percent of the rice consumed in the country come from abroad.

4.5 Rising Prices to Popular Protest

According to Sambo and Jahansson (2017) the price increase not compensated by the variation in the income of the majority of the population generated a high level

⁹ Mozambique got independence in June 25th 1975, after 13 year of war against Portuguese domination.

of economic suffocation in families due to the increase in the cost of living. Indeed, in the days when the price hike in inter-urban passenger transport and the price hike in bread was publicly announced, violent popular protests broke out in Greater Maputo in protest against these price increases (Johansson, 2017, p.98).

Around mid-2007 when the world was witnessing a major international financial crisis, Mozambique was also going through socio-economic transformations. As a country that was dependent on imports of basic necessities with a systemic price volatility, there was naturally a big change in domestic prices. Consequently, as the authors quote Brito et al. (2017), Mozambique experienced several explosive episodes of popular mobilization (2008, 2010 and 2012) in which the factors of riots have been, together with the cost of transportation, the feeling of increasing inequality and increasingly visible corruption, increases in food prices¹⁰. Although they spread, with less intensity, to other cities, the origin and main stage of the protests was Greater Maputo (Brito et al., 2017, p.20).

4.6 Social Conflict of 2008

At the beginning of 2008, the government of Mozambique raised the fuel prices to offset the increase in import prices for these products.¹¹ This decision led private transport operators to readjust their fares, thus an increase ranging between 33 percent and 50 percent. According to Brito et al. (2017), in 2008 the prices of many goods saw

¹⁰ In 2008, six people died in demonstrations against the cost of living after the increase in the price goods and services, and in 2010, 13 people died protests against the rising cost of living. Dozens of others were injured during the demonstrations in Maputo and Matola. Vehicles, stores, fuel stations and other public and private infrastructure were destroyed by the protesters (Voice of America, 2011).

¹¹ The price of diesel increased by 14 percent, lighting oil by 19 percent and that of gasoline by 8.1 percent. (Brito et al., 2017)

a substantial increase. Particularly the price of bread had risen by around 12.5 percent (Brito et al., 2017, p21). This level of the increase of the price of bread can have a devastating impact on low-income households, especially those in the urban areas because they must purchase the staple whose material totally depends on import. Therefore, the high price of bread can be a reason for riot. There is another commodity whose price is directly affected by the international price, i.e., fuels. In 2008 the government raised the price of fuels as a response to the increase in the international price of fuels, and this immediately rose the cost of transport.

The price hike in 2008 resulted in a wave of violent popular protests on the 5th of February a few days after it, during which SMS messages calling for the “strike” were widely circulated. The rioters blocked the main roads with various obstacles, burned tires, looted of stores, mainly of food, burned vehicles, and stoned in the places with the highest concentration of protesters. The strike totally paralyzed Greater Maputo for three days (Brito et al., 2017).

4.7 Social Conflict of 2010

Brito et al. (2017) describe 2010 social conflict events as being initiated by social media, they point out that like in 2008 a wave of SMS calling for strike circulated during the night and in the next day, second major episode of street protests took place, this time against the announced increase in the cost of bread and other basic products¹².

Brito et al. (2017) point out that in 2010 the prices of food products such as rice, tomatoes, and onions, among others, also experienced significant increases, as did fuels. Once again, the scenario of violence that occurred in February 2008 was repeated, with

¹² The price of bread rose by 17 percent, electricity by 13.4 percent, water by two meticaís per cubic meter, gasoline by 8 percent, domestic gas by 7.9 percent (Brito et al., 2017).

nearly a dozen dead and hundreds injured, in addition to major material losses (Brito et al., 2017, p.21).

Table 4 Instigated Factors behind Riots in Greater Maputo

Factors	Social Conflict of 2008	Social Conflict of 2010
Price of public transportation	Rise of fare by private transportation operators (33 – 50%)	The rise in fuel prices (8%)
Rising basic products prices	Bread (12,5%), rice	Bread (17%), rice, electricity (13,4%), LPG (7,9%), water

Source: Massarogo (2017)

4.8 Social Conflict and Government Response

According to Brito et al. (2017) the 2008 and 2010 riots triggered repression by the government that regarded them illegal and mobilized the police forces to reestablish “public order” (Brito et al., 2017). However, the government was forced to take some measures to respond to the protests. As in 2008, in 2010, the government also revised its decisions, freezing prices and announcing subsidies. Brito et al. (2017) affirm that the riots ended after the government decided to keep the prices unchanged and remove VAT on some goods temporarily.

The new tariffs for transportation “Chapas” were canceled, and the government committed itself to subsidize public transportation. Brito et al. points out that the concessions of 2010 were even more comprehensive than those of 2008 because, in addition to containing the rise in the prices of “Chapas” and subsidizing transporters,

the government extended the subsidy to bakeries, announced the freezing of the increase in wages and subsidies of directors of the State, and of the members of the boards of directors of the public companies (Brito et al., 2017).

According to Brito et al. (2017), the government introduced a “basic basket” and extended the District Development Fund (FDD) for urban districts as a form to stop the revolts; also announced the decrease in customs fees for the import of third quality rice and sugar (Brito et al. 2017, p.34).

Brito et al. (2017) highlighted that another important measure adopted in order to face the riots has to do with the formulation of the Action Plan for Food Production (PAPA) in 2008. Because wheat, the main material for bread, whose price fluctuation impacts significantly on the life of Mozambicans in general and of the poorest strata particularly, contributing, in part, to the occurrence of riots, is traditionally an imported product in Mozambique, with domestic production being insignificant (Brito et al., 2017, p.37).

Table 5 Main Government Measures in Response to the Riots

Social Conflict of 2008	Social Conflict of 2010
<ul style="list-style-type: none"> • Transport price unchanged; • Gasoline subsidy instituted and VAT on diesel removed; • It reduced import duties for wheat, rice, and corn from 25% to 2.5%. 	<ul style="list-style-type: none"> • Transport price unchanged; • Bread price subsidy instituted; • They removed the import tax on rice.

This part of the research examined how the social conflict events of 2008 and

2010 are related to the increase in prices in goods and services included in VAT. Using Greater Maputo as a case study, the results suggest the low-income households are directly affected by international market price fluctuation in the short-run. Therefore, the increase in price on goods and services included in VAT had a causal relationship with social conflicts in 2008 and 2010.

5. METHODOLOGY

5.1 Econometric Method

To examine the causal relationship between Social Conflict and Value-Added Tax in Mozambique, I use the Vector Error Correction Model (VECM). To estimate our model, I divide the methodology into four steps:

1. The first step is to inspect the existence of stationarity in our variables using Unit Root proposed by Augmented Dickey-Fuller (ADF) test (Dickey and Fuller, 1979);
2. The second step is to determine optimal lag length selection for our model;
3. The third step is to perform the Johansen cointegration test (Johansen, 1988, 1990) to see the order of cointegration;
4. The fourth and final step is to perform the Granger causality test (Granger, 1974), which is based on Vector Error Correction Models (ref). This test will be used in order to determine the causality direction between the variables.

5.2 Data

For the empirical of this research, I employ time series quarterly data covering the period from the first quarter of 1994 to the fourth quarter of 2018. Variables that are used are the degree of Social Conflict, which is measured by the number of participants in riots, demonstrations, protests, and strikes, VAT variable which is measured as the share of Value-Added Tax on total revenue, and the Government Expenditure as a total amount spent on capital expenditure. The degree of social conflict was obtained from the Center for Democracy Studies and Mozambique National Statistics Institute; VAT

data was obtained from the Mozambique Tax Authority, and Government Expenditure data was obtained from Mozambique Administrative Tribunal. To proceed with our estimation, I converted all of the variables into a log form. “A model with a log dependent variable often more closely satisfies the assumptions when logs are applied, the distributions are better behaved, and taking logs reduces the extrema in the data and curtails the effects of outliers” (Woolridge Jeffrey, 2012). The Stata statistical package was used in this research.

5.3 Unit Root Test

When using time series, time is very important to perform stationarity tests to ensure that they are stationary because if our data is not, we may compromise our model by running false regressions and run fault of spurious regression (Dickey and Fuller, 1979). Thus, in this research we used ADF to test the stationarity of our variable. We used ADF because in this research there is no missing gap and also there is no significant structural break.

5.4 Johansen Cointegration

When variables are not stationary, then we can proceed with cointegration test. In this research I do this by using Johansen cointegration test (Johansen, 1988, 1990). This test gives us two results: Maximum eigen value and trace statistic.

5.5 Vector Error Correction Models

Maddala and Kim state that “when two variables are cointegrated, it implies that there is a long-run relationship, meaning that there must exist some granger causality among variables” (Maddala and Kim, 1998). Hence, we can proceed using the Granger-causality test to examine the nature of the relationship between variables; if they are

cointegrated within the first difference, the VAR model cannot be used because it can mislead the results. (Engle and Granger, 1987), Thus, in the cointegrated variables, there is a need to include an error-correction to examine the equilibrium relationship and capture the short-run and long-run dynamics. Below is our specified VECM model, composed of three variables.

$$\Delta \ln SC_t = \sigma + \sum_{i=1}^{k-1} \beta_1 \Delta \ln SC_{t-i} + \sum_{i=1}^{k-1} \vartheta_j \ln VAT_{t-j} + \sum_{i=1}^{k-1} \varphi_m \Delta \ln GovExp_{t-m} +$$

iii. $\lambda_1 ECT_{t-1} + \varepsilon_{1t}$ (1)

$$\Delta \ln VAT_t = \alpha + \sum_{i=1}^{k-1} \beta_1 \Delta \ln SC_{t-i} + \sum_{i=1}^{k-1} \vartheta_j \ln VAT_{t-j} + \sum_{i=1}^{k-1} \varphi_m \Delta \ln GovExp_{t-m} +$$

iv. $\lambda_2 ECT_{t-1} + \varepsilon_{2t}$ (2)

$$\Delta \ln GovExp_t = \vartheta + \sum_{i=1}^{k-1} \beta_1 \Delta \ln SC_{t-i} + \sum_{i=1}^{k-1} \vartheta_j \ln VAT_{t-j} + \sum_{i=1}^{k-1} \varphi_m \Delta \ln GovExp_{t-m} +$$

v. $\lambda_3 ECT_{t-1} + \varepsilon_{3t}$ (3)

Where, β_1 , ϑ_j , and φ_m , are the short-run dynamic coefficient of the model's adjustment long-run equilibrium; $K - 1$ is the lag length reduced by 1; λ_i denotes speed of adjustment coefficient with a negative sign; ECT_{t-1} is the error correction term, which is the lagged value of the residuals obtained from cointegrating regression of the dependent variables on the regressor; this error correction term contains information derived from the long-run cointegrating relationship and ε_{it} represent denotes our residuals.

6 EMPIRICAL RESULTS

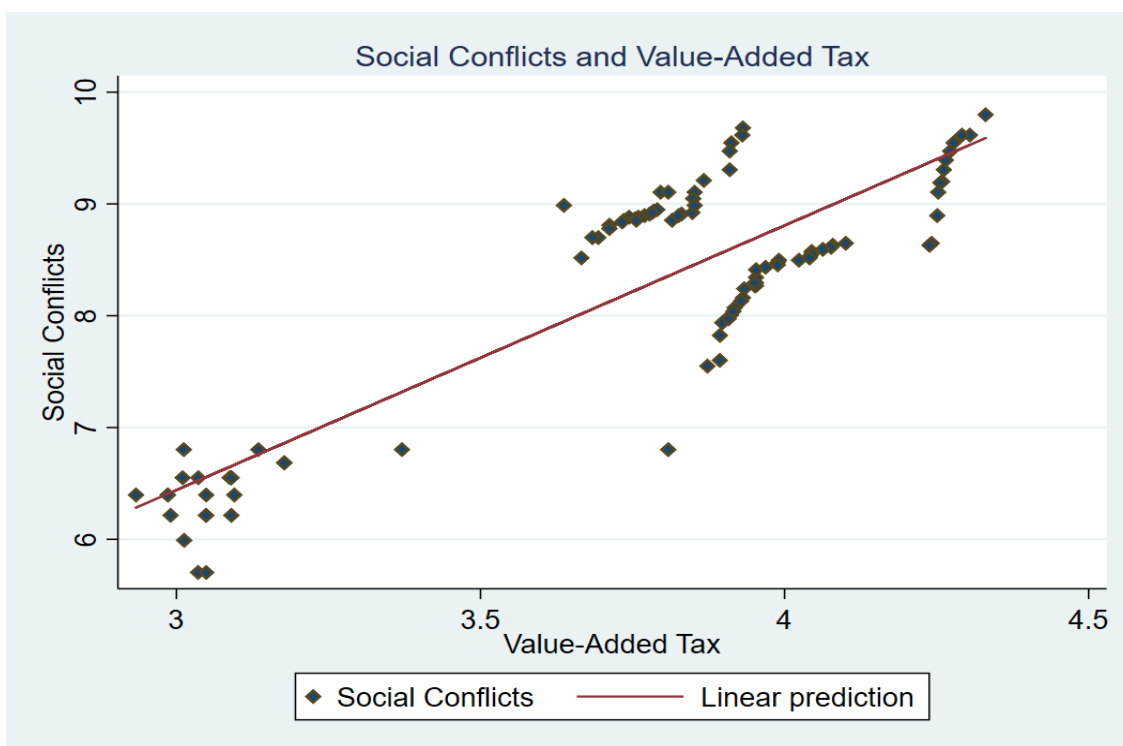
To better understand the relationship between social conflict and VAT, in this chapter, I summarize the variable data using descriptive statistics in Table 6, followed by linear prediction between VAT and social conflict over time; and correlation matrix between variables. Then I present a unit root test proposed by ADF (Table 8). After that, I describe the lag selection criterion test (Table 9), followed by the Johansen cointegration test using trace (Table 10) and max (Table 11) statistics. And finally, we present the main results using the VECM model, where first I present the long-run (Table 12) relationship and then a short-run (Table 13).

Table 6 Descriptive Statistics

Variables	Mean	SD	CV	Min	Max
Social Conflict	8.200	1.101	0.134	5.704	9.798
Value- Added Tax	3.744	0.403	0.108	2.933	4.331
Government Expenditure	19.710	0.785	0.039	18.360	20.973

Analysis of the temporal prediction of the linear relationship between VAT and social conflicts suggests a positive relation (Figure 10).

Figure 10 Linear Prediction Over Time Between Social Conflict and VAT



Correlation analysis also indicates a strong positive relationship between VAT and social conflicts. Government expenditure has the lowest correlation. (Table 7)

Table 7 Correlation Between Variables

	Social Conflict	Value-added Tax	Government Expenditure
Social Conflict	1.0000		
Value Added tax	0.8666	1.0000	
Government Expenditure	0.8064	0.5236	1.0000

6.1 Unit Root Test

When using time series data, it is important to perform a stationarity test to ensure that it is stationary. If the data is or not stationary, we may have spurious regression, which can mislead our results. If series are not stationary, it means that data generated does not evolve around 0, meaning that they exhibit trend. The ADF test performed shows us that our variables are not stationary and levels; therefore, to make our variables stationary; we had to take the first differencing; after taking the first difference, our data became stationary. Below table 3 shows the result of the ADF stationary test.

Table 8 ADF Test for Unit Root

Variable	Specification	Z(t)	5% critical value
ln(SC)	Intercept	1.900	-1.950
	Intercept & trend	-0.819	-3.152
Δ ln(SC)	Intercept	-6.175	-1.950**
	Intercept & trend	-6.708	-3.452**
ln(VAT)	Intercept	0.548	-1.950**
	Intercept & trend	-0.998	-3.452
Δ ln(VAT)	Intercept	-6.976	-1.950**
	Intercept & trend	-7.246	-3.452**
ln(GovExp)	Intercept	3.490	-1.950
	Intercept & trend	-1.863	-3.452
Δ ln(GovExpS)	Intercept	-7.876	-1.950**
	Intercept & trend	-8.429	-3.452**

Note: ** denotes significance at 5 percent.

The above table shows that the absolute value of t statistics in the log of social conflict ($\ln (SC)$) with a value 1.900 in intercept and -0.819 intercept & trend are lower than 5 percent critical values of -1.950 and -3.152 respectively; this tells us that we can not reject the null hypothesis, meaning that the variable $\ln (SC)$ is not stationary. The same can be said regarding the log of value-added tax ($\ln (VAT)$) with t statistic of 0.548 in intercept and -0.998 in intercept & trend and a 5 percent critical -1.950 in intercept and -3.452 intercept & trend; also, in the log of government expenditure ($\ln (GovExp)$) with t statistic of 3.490 in intercept and -1.863 in intercept and trend and 5 percent critical value of -1.950 in intercept and -3.452 intercept & trend. This result tells us that we cannot reject the null hypothesis in this series, meaning that all the series are not stationary at level. Therefore, we proceed to report the results at the first level.

The results from the first difference in the social conflict ($\Delta \ln (SC)$) variable shows us that the absolute value of -6.175 intercept and -6.708 in intercept& trend in t statistics are higher than 5 percent critical values of -1.950 intercept and -3.452 in intercept & trend respectively; we can reject the null hypothesis, and accept the alternative hypothesis meaning that the variable ($\Delta \ln (SC)$) stationary. Also, both of value-added tax ($\Delta \ln (VAT)$) and log of government expenditure ($\ln (\Delta GovExp)$) in their first difference, the t statistics are higher than critical values. Therefore, in this series, the results show that we can reject the null hypothesis when taking the first difference. The ADF test for Unit Root suggests that our series are not stationary at level, but they are at first difference. We conclude that our series is integrated with order one $I(1)$. So, in this situation, it is necessary to perform a cointegration test to establish whether there exists a long-run relationship among our variables.

6.2 Cointegration Results

According to the literature, when the series is integrated with an order $I(1)$, two prominent cointegration tests can be performed: the Engle-Granger cointegration test and the Johansen Cointegration test. In this research, I will use the Johansen cointegration test, and it will be performed on the level form of our variables.

Before moving forward, we have to perform a lag selection test; as we know in economics, the dependence of an independent variable on a dependent variable is rarely instantaneous; Very often, the independent variable responds to the dependent variable with an interval of time, and this interval of time is called lag, there is no rule for how much lags should be chosen, but too many lags can cause a problem of serial correlation and misspecification errors, and lose a degree of freedom. To avoid these problems, in this research, I will use information criterion based on Final Prediction Error (FPE), Hannan-Quinn Information (HQI), Akaike Information Criterion (AIC), and Schwartz Information Criterion (SIC) to decide which one best suits our model.

Table 9 Lag Selection Criterion

Number of Lags	Likelihood Ratio (LR)	FPE criterion	HQI criterion	AIC criterion	SIC criterion
1	723.44	3.8e-06	-3.83108	3.96065	3.6401
2	74.879	2.1e-06	4.32639*	-4.55313	-3.99218*
3	25.902	2.0e-06	-4.31153	-4.63545	-3.83409
4	23.135*	1.9e-06*	-4.26783	-4.68893*	-3.64717

The table above shows us the lag selection criterion results, where FPE and AIC criterion shows four lags as optimal one and SIC and HQI two as optimal. We decided

to use two lags because of the composition of temporal dimension; using two; we will not lose the degree of freedom, and also to get uncorrelated residuals. Once we decided the number of lags, we can proceed with the Johansen cointegration test. And below is our hypothesis:

H_0 : null hypothesis of no cointegration equation

H_1 : Alternative hypothesis

The cointegration test will give us two results (Trace and Max statistics), and based on them; we will see if we accept or reject our null hypothesis.

Table 10 Johansen Cointegration Results (trace statistic)

Maximum Rank	Trace statistic	5% critical value
0	45.52	29.68
1	13.99	15.41
2	2.82	3.76

Notes: Rank 0,1,2 are respective null hypotheses, where the rank 0 means that there is no cointegration equation, * denotes rejection at 5 percent level.

Looking at table 5, the rank 0 with trace statistics of 45.52 is higher than the critical value of 29.68; In this regard, we reject the null hypothesis. In the maximum rank one, which means that there is one cointegration in our equation in this model, here the trace of 13.99 is lower than the 5 percent critical value; Therefore, we cannot reject the null hypothesis of no cointegration; The same can be said at maximum rank two where our trace statistic of 2.82 is lower than 5 percent critical value of 3.76, meaning that our equation is cointegrated rank 1 and 2.

Table 11 Johansen Cointegration Results (Max Statistic)

Maximum Rank	Max Statistic	5% critical Value
0	38.23	20.97
1	5.27	14.07
2	2.01	3.76

Notes: Rank 0,1,2 are respective null hypotheses, where the rank 0 means that there is no cointegration equation

Table 6 presents max statistic results; The null hypothesis that we have cointegration equation on maximum rank 0 is rejected because the max statistics of 38.23 is higher than the 5 percent critical value of 20.97. But looking at the two maximum ranks, we cannot reject the null hypotheses of no cointegration because the max statistic of 5.27 is lower than the critical value of 14.07; The same conclusion can be drawn at maximum rank two, where the max statistic is 2.01 and lower than 5 percent critical value of 3.76. Given the result of trace statistics and max statistics, we conclude that we reject the null hypothesis of no cointegration in our model. The above results imply that our series are related and can be combined linearly. Both maximum rank 1 and 2 agree with the hypothesis that we have more than one cointegration equation in this model. Therefore, we can proceed with estimating our three variable VECM even though the cointegration test shows two cointegrating equations (Harris, 1995).

6.3 Results of Vector Error Correction Model for Long-run Relationship

Once found that our results are cointegrated, this implies that there is a long-run relationship between Social Conflict, Value-Added Tax, and Government Expenditure in Mozambique. Hence, we can proceed with our estimation using both long-run and short-run models. To estimate the long-run model, we will be using the Vector Error Correction Model (VECM). VECM can be understood as a system with a vector of two or more variables, where all the variables are endogenous, and we do not have an exogenous variable. And we use VECM to examine the long, and short-run dynamics of Social Conflict, Value-Added tax, and Government Expenditure; the VECM model restricts the long-run behavior of endogenous variables to converge to their cointegrating relationship; This cointegrating term is called error correction term. The long-run relationships can be derived using Johansen normalization restriction, where the error term ECT_{t-1} is generated. Below, are the results of our target variable.

Figure 11 Johansen Normalization Restriction

Johansen normalization restriction imposed						
beta	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
_ce1						
logScad	1	.	.	.	.	.
logVat	-1.615174	.2060639	-7.84	0.000	-2.019052	-1.211296
logpubexp	-.4787577	.1103429	-4.34	0.000	-.6950259	-.2624896
_cons	7.162606	.	.	.	.	.

Note: Social Conflict (logScad) is positioned as the dependent variable (normalized variable)

The above results show that in the long-run, VAT denoted by logVat, with a value of -1.615, and government expenditure denoted by logpubexp with a value of -0.479 in our results, have a positive impact on Social Conflict, represented by logScad; and both coefficients are statistically significant and 1 percent level, which means that in the long-run, both value-added tax and government expenditure have symmetric

effects on Social Conflict. The ECT results can spell out in equation form as below:

$$ECT_{t-1} = [1.000\ln SC - 1.615\log VAT - 0.479\log GovExp + 7.162]$$

The generalized form of our specified model, which as Social Conflict as the target variable (Equation 1), can be specified as below:

$$\begin{aligned} \Delta \ln SC_t = & 0.006 - 0.622\Delta \ln SC_{t-1} + 0.858\Delta VAT_{t-1} + 0.19\Delta GovExp_{t-1} \\ & - 0.179ECT_{t-1} \end{aligned}$$

In the above equation results, the *ECT* (-0.179), which indicates our adjustment term is negative and statistically significant at 1 percent level; the result suggests that there is long-run causality running from Value-Added Tax and Government Expenditure to Social Conflict. For the short-run coefficient looking at VAT with a value of 0.858 and significant at 1 percent level, we can say that VAT causes Social Conflict, but Government Expenditure doesn't cause Social conflict in the short-run because our coefficient is not significant. Looking at the VAT equation (Table 12), the *ECT* with a value -0.0762 is negative and significant at 5 percent; This denotes a convergence to long-run equilibrium, showing us that there is causality in the long-run. Observing the short-run causality effects, we can infer causality from social conflict to VAT at a 1 percent level, while for government expenditure, we cannot infer causality in the short run. And last looking and the public expenditure equation with positive and not significant *ECT*, we cannot infer long-run causality, meaning that in this equation, there is no convergence to long-run equilibrium. Both equation 1 and 2 with higher values of *ECT* denotes that the alteration is fluctuating fast, tells us that in the long-run, there is bidirectional causality between VAT and social conflict in Mozambique. This result leads to the “*tax-burden*” hypothesis.

Table 12 Results of Vector Error Correction Model

<i>Independent Variables</i>	<i>Dependent Variables</i>		
	Δ Social Conflict	Δ VAT	Δ Gov Exp
Δ SC (-1)	-0.622*** (0.0911)	-0.248*** (0.0556)	-0.105* (0.0628)
Δ SC (-2)	0.259** (0.102)	0.0576 (0.0732)	-0.225*** (0.0782)
Δ VAT (-1)	0.858*** (0.216)	0.0144 (0.0623)	-0.0386 (0.149)
Δ VAT (-2)	0.251 (0.182)	-0.0407 (0.132)	0.265** (0.125)
Δ Gov Exp (-1)	0.197 (0.148)	0.0869 (0.111)	-0.0487 (0.102)
Δ Gov Exp (-2)	0.0168 (0.148)	-0.0483 (0.0905)	-0.166 (0.102)
ECT (-1)	-0.179*** (0.0584)-		
ECT (-2)		-0.0762** (0.0356)	
ECT (-3)			0.0419 (0.0403)
Constant	0.00626 (0.0164)	0.00212 (0.0100)	0.0305*** (0.0113)
Observations	97	97	97

Notes: Standard errors are in parentheses, *, **, *** denotes

This result is consistent with our expectation about causality between VAT and Social Conflict in Mozambique. The significant implication that comes from our VECM long-run relationship result is that continuous increase of social conflict in the long-run causes an increase in prices of goods and services because VAT is a primary source of tax revenue. Therefore, lowering the VAT on the prices of goods and services will reduce State revenue capacity, which will affect government expenditure. Again, reducing government expenditure will increase social conflict because the government needs revenues, which are mainly composed of VAT revenue, to execute public spending. Thus, we have a vicious circle of prices of goods and services increase, Social

Conflict Increase. Regarding government expenditure, we did not see any relationship with Social conflict or even VAT, and therefore, to achieve fiscal sustainability in the long-run, the government needs to diversify and expand its revenue system. Also, the policymakers need to design a Tax revenue system and specifically a VAT revenue system that suits the local reality, so the VAT will not be a burden for most of the population who live in extreme poverty. Also, the government of Mozambique should encourage services that boost domestic production so that even when prices fluctuate internationally, the local impact can be minimized. And In the long-run, the policy implication suggested that there is interdependence between the increase in price on goods and services affected by VAT and the rise of Social Conflicts.

6.4 VECM and Wald Test for Short-run Causality Test

In this research, we test the short-run causality between our variables using the Wald test. To check causality, we will use the Wald Coefficient test, which tells the direction of causality. As a criteria, we reject the null hypothesis if the probability value of chi-square is below or equal to 5 percent. The null hypothesis of this test is described below:

- H_0 : no Granger-Causality
- H_1 : the null hypothesis is not true

In Panel 1 in Table 13 looking at social conflict as a dependent variable, the VAT with a chi-square of 3.13 and probability of 0.00 and significant at 1 percent level, and here we can reject the null hypothesis meaning that VAT does granger Social conflict. The same cannot be inferred with government expenditure, which has a chi-square of 0.55 and a probability value of 0.46 and higher than 5 percent level, here we cannot reject the null hypothesis. Meaning that Government Expenditure does not

granger Social Conflict.

Table 13 Short-Run Granger Causality Test

Panel 1 Dependent Variable ΔSocial Conflict			
Excluded	Chi-sq	DF	Probability
Δ VAT	3.13		0.00
Δ Gov Exp	0.55		0.46
Panel 2 Dependent Variable ΔVAT			
Excluded	Chi-sq	DF	Probability
Δ Social Conflict	24.08	22	0.08
Δ Gov Exp	0.74		0.39
Panel 3 Dependent Variable ΔGov Exp			
Excluded	Chi-sq	DF	Probability
Δ Social Conflict	0.59	2	0.44
Δ VAT	0.89	2	0.34

In Panel 2, where VAT is a dependent variable to Social Conflict with a chi-sq. 28.08 and probability value of 0.08, we cannot reject the null hypothesis, and we can conclude that Social Conflict does not granger VAT in Mozambique in the short-run. However, looking at P-Values in panel three, both Social Conflict and VAT do not granger Government Expenditure; in both variables, we cannot reject the null hypothesis, which means that in the short-run, there is no causality from both social conflict and VAT to Government Expenditure. Overall, looking at these results, we can conclude that there is a unidirectional causality running from Social Conflict to VAT in

the short-run in Mozambique. This result leads to the “*tax-burden*” hypothesis, which means that the increase in prices of goods and services affected by VAT in Mozambique are the source of Social Conflict in the short-run. To control social conflicts in the short run, the government of Mozambique should exempt or reduce VAT on essential goods and services, such as cereals (especially rice, maize, and wheat) and fuel, which are crucial for the low-income households.

CONCLUSION AND POLICY IMPLICATIONS

The present research aimed at studying the relationship between VAT and social conflicts in the short and long-run in Mozambique from 1994 to 2018. For that purpose, I used two hypotheses, “*tax burden*” and “*tax conflict*.” The study was motivated by the fact that the oscillation in prices in the international market affected the goods and services included in the VAT within the Mozambican market. However, even with this relationship, there has never been any study that looked at the social implications. This study filled the gap in the research.

I closely looked at the case of Greater Maputo in two different years 2008 and 2010. I explained how international price fluctuation is related to social conflicts in the short-run. From this case study, I concluded that the increase of VAT and the prices of goods and services included in VAT had a direct impact on social conflicts. This result substantiated the “*tax-conflict*” hypotheses. From the above results, it can be said that in order to contain social conflicts in the short-run, the government of Mozambique should exempt or reduce VAT on essential goods and services, such as cereals and fuel, which are crucial for the low-income households.

Next, I used VECM models in order to understand the short and long-run relationship between VAT and social conflicts using econometric analysis. From the empirical study, I concluded that in the long-run, there is a bidirectional relationship between social conflicts and VAT, while in the short-run, the results show a unidirectional relationship, running from VAT to social conflict.

The results described above show that social conflicts triggered an increase in the prices of goods and services included in VAT and vice versa. These results supported our “*tax-burden*” hypothesis.

A policy implication, in the long-run, is that to contain social conflicts, the government should design a VAT system that is adapted to the local socio-economic conditions, which comes with adjustment programs for low-income households, so that VAT will not be regressive. In addition, the government of Mozambique should encourage services that boost domestic productions so that even when prices fluctuate internationally, the local impact will be minimized.

Similarly, the government of Mozambique should seek to expand its tax base. VAT should not be seen as a substitute for other taxes, such as income tax or property tax. Further, the Mozambican government should move to the formal economy. By making these changes, the government will increase sources of revenue to execute the government expenditures essential to contain social conflicts.

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APPENDIX

Table 14 Mozambique Revenue (2000-2005) Unit, Millions of Meticaís

(unidade: Milhões de meticaís)							
Descrição	Receitas correntes					Receitas de capital	Totais
	Receitas fiscais			Receitas não fiscais	Receitas consignadas		
	Imposto sobre rendimento	Imposto sobre bens e Serviços	Outros impostos				
2000	1.033,53	5.524,37	288,64	297,60	216,63	100,00	7.460,77
2001	1.519,15	6.646,80	333,17	299,86	331,04	340,80	9.470,82
2002	2.120,80	8.016,10	344,69	529,71	345,98	6,53	11.363,81
2003	2.412,88	8.757,59	2.456,73	741,23	210,13	483,00	15.061,56
2004	3.503,10	9.238,75	2.142,16	671,13	387,36	34,95	15.977,45
2005	4.430,79	11.199,07	2.394,32	1.496,00	297,90	1.123,67	20.941,75
Sub-totais	15.020,25	49.382,68	7.959,71	4.035,53	1.789,04	2.088,95	80.276,16

Source: Autoridade Tributaria de Moçambique

Table 15 Mozambique Revenue (2006-2012) Unit, Millions of Meticaís

(unidade: Milhões de meticaís)							
Descrição	Receitas correntes					Receitas de capital	Totais
	Receitas fiscais			Receitas não fiscais	Receitas consignadas		
	Imposto sobre rendimento	Imposto sobre bens e Serviços	Outros impostos				
2006	6.351,40	14.490,13	1.300,59	2.554,07	1.767,42	1.333,06	27.796,67
2007	9.271,54	17.224,81	1.468,74	2.457,31	2.201,16	1.850,07	34.473,63
2008	11.722,75	19.231,84	1.460,84	2.401,05	2.633,34	1.740,26	39.190,08
2009	13.726,83	23.880,18	1.786,85	3.033,98	3.609,12	1.528,02	47.564,98
2010	18.480,06	32.888,42	2.340,09	4.069,49	4.389,85	1.398,22	63.566,13
2011	24.887,51	40.489,81	2.891,31	5.223,68	5.777,78	1.849,09	81.119,18
2012	36.770,76	44.668,53	3.218,25	5.275,49	6.902,60	1.779,41	98.615,04
Sub-totais	121.210,85	192.873,72	14.466,67	25.015,07	27.281,27	11.478,13	392.325,71

Source: Autoridade Tributaria de Moçambique

Translation

Imposto sobre Rendimento	Income Tax
Imposto sobre bens e serviços	Tax on goods and services
Outros impostos	Other taxes
Receitas não fiscais	Non-tax revenue
Receitas consignadas	Consigned revenue
Receitas de capital	Capital income
Receitas fiscais	Tax revenue

Table 16 Mozambique Main tax Revenue (2006-2012) unit, Millions of Meticaais

(unidade: Milhões de meticaais)								
Principais Impostos	2006	2007	2008	2009	2010	2011	2012	Totais
IRPC	2.535,52	4.364,92	5.721,52	7.337,90	9.794,73	14.235,25	24.678,08	68.667,92
IRPS	3.784,36	4.859,06	5.957,21	6.341,55	8.629,24	10.578,17	12.009,89	52.159,48
ISPC	0,00	0,00	0,00	2,14	23,85	48,15	81,82	155,96
Direitos Aduaneiros	3.286,44	3.834,65	3.627,89	4.137,52	5.264,32	6.725,64	7.565,94	34.442,40
IVA	9.385,02	11.314,02	12.969,59	16.974,93	24.164,64	29.523,04	32.235,47	136.566,71
ICE	1.818,66	2.076,13	2.634,36	2.767,73	3.459,46	4.241,12	4.858,21	21.855,67
Outros	6.986,66	8.024,85	8.279,50	10.003,21	12.229,88	15.767,81	17.185,64	78.477,55
Total	27.796,66	34.473,63	39.190,07	47.564,98	63.566,12	81.119,18	98.615,05	392.325,69

Source: *Autoridade Tributaria de Moçambique*

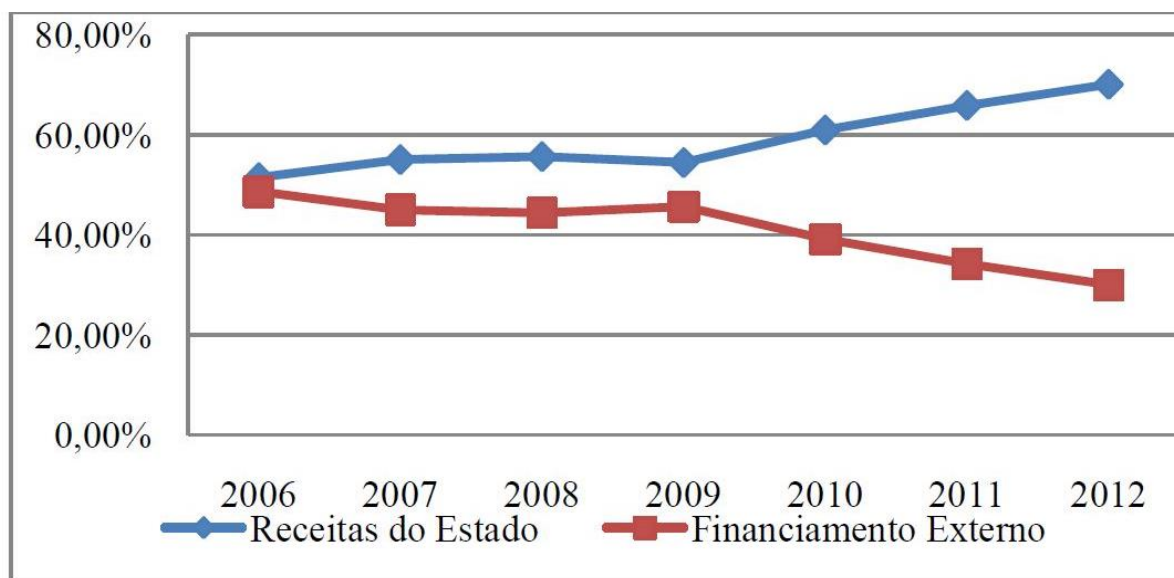
Table 17 Evolution of the contribution of taxes on State Budget

Ano	Receitas do estado	Financiamento Externo
2006	51,40%	48,60%
2007	55,00%	45,00%
2008	55,60%	44,40%
2009	54,40%	45,60%
2010	60,90%	39,10%
2011	65,80%	34,20%
2012	70,00%	30,00%

Autoridade Tributaria de Moçambique

Principais Impostos	Main taxes
IRPC	Corporate tax
IRPS	Income tax
ISPC	Income tax on small business
Direitos Aduaneiros	Customs duties
IVA	Value-Added Tax
ICE	Specific consumption tax
Outros	Others
Receitas do Estado	State Revenue
Financiamento Externo	External financing

Table 18 Evolution of State Revenue and foreign budget financing



Autoridade Tributaria de Moçambique