

## Impact of armed attacks on tax revenues: Cabo Delgado lost about 2 billion meticaïs between 2018 and 2019

### - Province at Risk of “Conflict Trap”

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## 1. Introduction

The province of Cabo Delgado, which is home to one of the world’s largest reserves of natural gas<sup>2</sup>, has been the scene of armed attacks by insurgents since October 2017, a situation recently classified by the National Defence and Security Council (NDCS) as “external aggression perpetrated by terrorists from the Islamic State”<sup>3</sup>.

For over two and a half years, attacks have grown in frequency and scale, causing over 1,100<sup>4</sup> deaths, more than 200,000 displaced persons<sup>5</sup> and the destruction of various public and private infrastructures.

In the first two years of the conflict, the province lost about 2 billion meticaïs in tax revenues<sup>6</sup> (about 27.6% of the province’s total revenue in this period). Over the same period, resources for the social sectors were seen to have decreased, while resources for the Military Defence areas increased by about 451% at the national level.

Combined with the current national and international situation, the armed attacks in Cabo Delgado represent a threat to the implementation and/or budgeting of investments in the extraction and production of Liquefied Natural Gas (LNG) in Cabo Delgado and put at risk the collection of revenues foreseen by the State.

With the spread of the attacks, and with the Government concentrating its efforts on fighting the insurgents, the perception arises among the residents of the province that the province has not received the proper attention regarding investments in public infrastructure for economic and social development (roads, bridges, hospitals, schools, etc.).

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<sup>2</sup> Cabo Delgado province has estimated natural gas reserves of 170 trillion cubic feet (TCF’s), according to data from the National Petroleum Institute, available at: <http://www.inp.gov.mz/pt/Noticias/Celebrando-os-10-Anos-da-Descoberta-de-Gas-Natural-na-Bacia-do-Rovuma> [accessed on 12 May 2020, at 0:30 a.m.]

<sup>3</sup> Cfr. National Defence and Security Council Press Release dated 23 April 2020

<sup>4</sup> According to the ACLED Data Project, by 25 April 2020, attacks in Cabo Delgado had caused 1,100 deaths, of which 700 were civilians. Data available at <https://acleddata.com/2020/04/30/cdt-spotlight-escalation-in-mozambique/> [accessed on 12 May 2020 at 0:33 a.m.]

<sup>5</sup> Cabo Delgado: “There is no calculated attack on Catholic missions available at: <https://www.dw.com/pt-002/cabo-delgado-n%C3%A3o-h%C3%A1-ataque-calculado-contra-miss%C3%B5es-cat%C3%B3licas/a-53502584>, [accessed on 20/05/2020 as 10h56]

<sup>6</sup> CGE 2018 and REO 2019

The nature of the Cabo Delgado conflict is common in countries rich in natural resources, particularly exporters of oil resources (including gas), as in the context of Mozambique, that are characterised by weak institutions and high levels of social inequality and poverty<sup>7</sup>. Examples of countries suffering from similar situations are those in the Lake Chad Basin region (Chad and Nigeria, among others), which are victims of the Boko Haram insurgency<sup>8</sup>.

The prevalence of this situation puts the province at risk of the “conflict trap”, a phenomenon that occurs because local populations are frustrated by their high expectations of improved living conditions in the short term as a result of large-scale investments expected to take place in the province. The result is widespread discontent which, combined with precarious living conditions, makes the population an easy target for recruiting by the group of insurgents under promises of income or remuneration<sup>9</sup>.

Thus, with the on-going conflict, a vicious cycle begins in which the local population contributes to the aggravation of the conflict due to poverty and thereby delays economic growth and development, in turn increasing the likelihood of a new conflict.

Government actions have not been effective in ensuring the security of the population and its goods and of their access to basic services. At the same time, the province has more than half of the confirmed cases of Covid-19 in Mozambique<sup>10</sup> and, according to the local population, there are communication failures on the part of the government so that communities are still not observing the preventive measures against this disease, particularly in the districts affected by the attacks. All these factors cement the local population’s perception of abandonment by the Government.

The recent creation of the Northern Integrated Development Agency (*Agência de Desenvolvimento Integrado do Norte*, ADIN)<sup>11</sup> is seen as a response to this perception and is expected to stimulate the inclusive development of Cabo Delgado and the other northern provinces of the country, by improving the living conditions and well-being of local populations in the short and medium term.

This article focuses on the analysis of the socio-economic impact of armed attacks in Cabo Delgado province, and, in addition to this introduction, it addresses the conflict’s tax implications, presenting the impact of the conflict on revenue, expenditure and effects on the education and health sectors. It addresses the risk of Cabo Delgado suffering the conflict trap and presents conclusions and recommendations.

In terms of methodology for the preparation of the article, documental research was used: consultation and analysis of budgetary and statistical documents, publications in newspapers and consultation of studies carried out on the subject. Also, interviews were conducted with residents of Cabo Delgado province, specifically in the Palma and Mocimboa da Praia districts, which are the epicentre of armed attacks.

## 2. Tax Implications of Conflict

### 2.1 Revenue

The armed conflict in Cabo Delgado is damaging local and national public finances, contributing to low tax revenue collections. The productive sectors that contribute to the collection of revenues and to the growth of the local economy are either paralyzed or functioning well below their normal level (in the affected areas in particular). Examples are the agriculture, fisheries, tourism and general trade sectors.

The attacks generate insecurity and instability among investors, potential investors and other economic agents in the

7 UNU WIDER (2018) “Simulating the effect on households’ real poverty”

8 FMI, (Abril 2019), “Perspetivas económicas regionais. África Subsariana: Recuperação num contexto de elevada incerteza”, Available at: <https://www.imf.org/~media/Files/Publications/REO/AFR/2019/April/Portuguese/sreo0419.ashx> [accessed on 05/05/2020 at 15h00]

9 ALPS Resilience (2019), A Survey of Communities at Risk of Violent Extremism in Tanzania and Mozambique

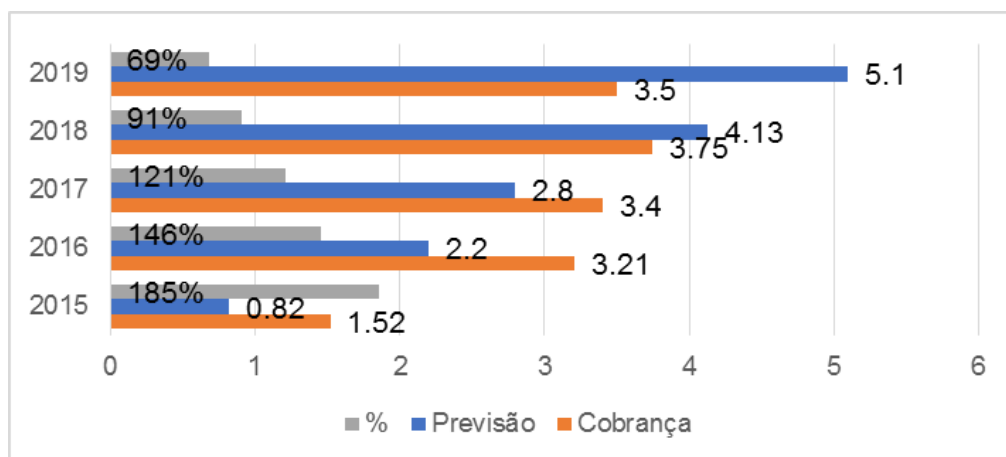
10 As of May 19, 2020, Cabo Delgado had 85 of the 145 confirmed cases from Covid-19, according to the National Institute of Health update

11 “Government of Mozambique creates the Northern Integrated Development Agency”, available at: <https://macauhub.com.mo/pt/2020/03/16/pt-governo-de-mocambique-cria-agencia-de-desenvolvimento-integrado-do-norte/>, [accessed on 15/05/2020 at 10h34]

region, which is a significant risk factor for the business environment in the province and in the country. And, because this leads to the closure of commercial establishments or the reduction of the dynamics of economic activity, due to the situation of instability, it results in a relative reduction of the tax burden in that part of the country.

The attacks hamper the normal conduct of business, create disruption to normal trade routes, and reduce investment, production and productivity in the main sectors of the local economy. In addition, in the districts that are the target of attacks, commercial establishments have closed due to looting and lack of products, which has led to an increase in the prices of goods - a trend that is not captured by the national consumer price index<sup>12</sup>.

Chart 1. Tax collection trend in Cabo Delgado province



Sources: CGE 2015-2018 and REO 2019.

Data from the government financial statements (*Conta Geral do Estado*, CGE) show that tax collection in this province was lower than expected in 2018 and 2019, as can be seen in Chart 1. The forecast for tax collection in 2018 was around 4.13 billion meticaïs, with only 3.75 billion meticaïs collected, and, with a target of 5.1 billion in 2019, only 3.5 billion meticaïs were collected.

It can also be seen from Chart 1 that the difference between the revenue collected and forecast in 2015 and 2016 is greater than the difference recorded in 2017, which marks the beginning of the decline in tax collection in relation to targets in Cabo Delgado.

Therefore, it can be seen that the occurrence of armed attacks by insurgents has largely contributed to Cabo Delgado recording a loss in revenue of at least 2 billion meticaïs from 2018 to 2019 (about 27.6% of the total revenue of the province in this period).

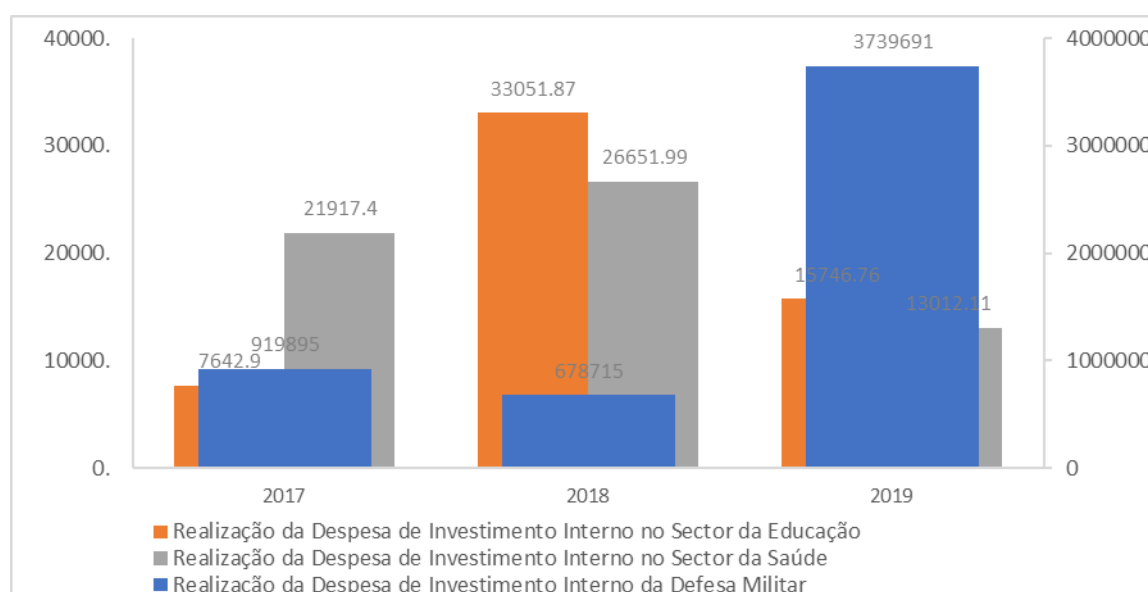
## 2.2 Expenses

The attacks have not only contributed to a reduction in tax revenue in the province but have also led to increased spending, specifically military spending. These factors contribute to the increase in the budget deficit and the consequent increase in public debt. Another problem with this increase in military expenditure is the redirection of resources that are imperative for the social sectors, further aggravating the harmful implications of these conflicts.

With regard to public investment expenditure in this province, as can be seen in Chart 2 below, between 2017 and 2019 domestic investment expenditure (in education and health) in Cabo Delgado was almost insignificant in relation to investment expenditure in national military defence.

<sup>12</sup> The price collection centres for the calculation of the consumer price index in Mozambique are the cities of Maputo, Beira and Nampula

**Chart 2.** Trend of Domestic Investment Expenditure on Education and Health in the Province vs. National Military Defence



Sources: CGE 2017 - 2018 and REO 2019

In particular, from 2018 to 2019, domestic investment expenditure in the education sector in Cabo Delgado fell by 52.4%, from 33.1 million meticaïs in 2018 to 15.8 million in 2019, and in the health sector of this province there was a reduction of around 51.2% in domestic investment, from 26.7 million meticaïs in 2018 to around 13 million in 2019.

In contrast, domestic investment expenditure for national military defence had an inordinate growth from 2018 to 2019, of about 451%, from about 678.8 million meticaïs in 2018 to 3.7 billion meticaïs in 2019.

Meanwhile, in the context where spending on military defence has been increasing, residents of Cabo Delgado describe the scenario in this province as precarious due to lack of public investment in the social sectors by the Government.

In 2019, the Government committed itself to the rehabilitation of the various infrastructures destroyed by cyclones Idai and Kenneth, a fact that was confirmed this year by the plan for the first 100 days of governing. However, with the worsening of the insurgent attacks and the current environment, it is likely that nothing major has been done.

In most cases, it is humanitarian aid organisations that have been carrying out reconstruction and rehabilitation activities in health facilities in Cabo Delgado. For example, the residents of Palma district think that this district has not seen the “hand” of the Government in public works since 2015. According to reports, this district has benefited only from the infrastructure works of a school, water supply and sanitation systems, health centre, and electrification carried out by Anadarko in 2019, as part of the construction of the resettlement village for families who were in the construction area of the liquefied natural gas plant of Area 1.

In general, the armed attacks by insurgents in Cabo Delgado have left a trail of destruction in that part of the country in terms of qualitative impact. Several public and private infrastructures have been destroyed since the attacks began.

A look at the health sector in this province shows that the few existing health facilities that are still operating present a number of impediments, especially linked to a shortage and even lack of medicines<sup>13</sup> as well as intensive care services.

According to residents, there is a lack of health professionals in this province, and health services in local health centres are even more precarious, with most of these services being provided by international aid organisations, such as *Médecins*

<sup>13</sup> According to the Government, the lack of medicines in the health units is a consequence of the problems of access routes to the other districts of the province.

*Sans Frontières*, in places that they can access.

Among the displaced persons there are also civil servants. Quissanga and Meluco are districts that currently suffer from a lack of health professionals and other public agents and services, a fact that is incompatible with the data in the budget documents<sup>14</sup> that point to a rate of implementation of operating expenses of more than 99% in the last two years, since in these districts everything is paralysed.

In this context of conflict, Covid-19 is proving to be another major challenge to the health sector in this province. This situation, combined with the lack of basic health services, medicines and health professionals resulting from the attacks, may lead to an exponential spread of infected cases in the province.

In the education sector, schools that were opened before the suspension of classes due to Covid-19 were operating with deficiencies. According to field interviews, about 50% of schools in the province do not have school books or desks. This poor distribution of school supplies can be attributed not only to the collapse of the bridge over the Montepuez River, but also particularly to the armed attacks in the province, as they make access to other schools in the districts of this province difficult.

In this sector, the execution of operating expenditure between 2018 and 2019 averaged 99.9%. Nevertheless, teachers in schools in that region of the country report cuts in their salaries and non-payment of overtime; in addition, a certain fraction of teachers and assistants hired at the end of 2019 claim that, in April 2020, they had not received their salaries for about 6 months.

The weak investment by the Central Government in the social and productive sectors of the province incites a consolidation of the perception that the Government's only interest, and that of the political elites, is the immense natural resources of the province. This reinforces the argument that the province's socio-economic conditions, characterised by high levels of poverty and combined with an increasing perception that the Central Government is not concerned with meeting the expectations of the population, may motivate groups of the population to join the insurgency.

Therefore, in line with the financial effort for the military, it is necessary to introduce public policies that advocate a strong investment in the province's social and productive sectors in order to reduce the pockets of poverty and social inequality in the province.

### 3. Cabo Delgado and the risk of “conflict trap”

Conceptually, the “conflict trap”<sup>15</sup> refers to the vicious cycle between conflict and economic performance, where conflict slows economic growth and development, in turn increasing the likelihood of further conflicts.

Given the situation as described in the province, Cabo Delgado may indeed be at risk of a “conflict trap”. With the arrival of mega-projects in this province, the local population has had high expectations regarding the possibility of improving their living conditions and now, not feeling like beneficiaries of these projects, there is dissatisfaction which, combined with the precarious living conditions, makes them easy targets of recruiting by insurgents, especially regarding young people. With a conflict, poverty increases through destruction and consequent delay in development, and with poverty, the population is more likely to join the conflict.

By joining armed groups, the population no longer contributes to local development and instead contributes to destruction, prolonging the vicious cycle of poverty-conflict.

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<sup>14</sup> General State Accounts 2018 and Budget Execution Report 2019.

<sup>15</sup> IMF, (April 2019), Regional Economic Outlook. Sub-Saharan Africa: Recovery in a context of high uncertainty. Available at: <https://www.imf.org/~media/Files/Publications/REO/AFR/2019/April/Portuguese/sreo0419.ashx> [consulted on 05/05/2020 at 17h00]



## 4. Concluding Remarks and Recommendations

The armed attacks in Cabo Delgado are negatively contributing to the collection of tax revenues by the state. In the first two years of the conflict, Cabo Delgado province lost about 2 billion meticaïs in tax revenues. At the same time, the attacks are contributing to the reallocation of resources, which would be crucial for social sectors, to military defence spending.

Poverty conditions and the lack of income-generating opportunities, under which the vast majority of the population in the province (about 60%) lives, are factors contributing to the spread of attacks in the province, due to the relative ease of recruitment of the local population - especially of young people – for the insurgency. In turn, the prolongation and spread of the conflict leads to the persistence of poverty and underdevelopment in the province, with the risk of the province experiencing the “conflict trap”, a vicious cycle in which poverty combined with frustrated expectations of improvements in living conditions generates conflict and in turn the conflict prolongs the poverty that feeds the conflict.

Attacks are threatening, making more expensive, and holding back investments in the province, including investments in the extractive sector, which may put at risk state revenues from the exploration and production of Liquefied Natural Gas (LNG) in the Rovuma basin.

Attacks have increased in frequency and intensity, generating in the local population the feeling that the Government does little for the security and well-being of the local population.

In view of this situation, CIP recommends that:

- The central and provincial governments should make effective efforts to avoid conflict and one of the crucial ways, specifically, is to promote inclusive economic growth, development and social cohesion<sup>16</sup>. The Northern Integrated Development Agency (ADIN) should create incentives to improve the business environment in the province in order to attract more investment and propel existing ones, opening the possibility for more employment and income generation for the local population. Additionally, it opens the possibility of broadening the tax base and increasing tax collections.
- The provincial government should create incentives to increase productivity and competitiveness in agriculture and fishing, which are the basic subsistence activities of the people in this province. It should also promote and monitor income support and social security programmes for the most vulnerable populations (under the responsibility of the National Social Welfare Institute).
- The National Institute for Employment and Vocational Training (INEFP), in coordination with the ADIN, should create training programmes and assist in the search for and placement in employment, particularly for young people;
- Central and provincial government should improve the monitoring of the resources allocated to the province, so that these are effectively applied to public investment;
- The Defence and Security Forces (FDS) should provide effective strategies and efforts to ensure security and limit deaths as well as losses of infrastructure. One way could be by increasing the number of defence and security forces in the various districts of the province;
- There should be greater coordination between the central and provincial government to direct affected and displaced populations to safe areas, ensuring social welfare in order to avoid them being potential targets used for feeding the conflict cycle;
- The involvement of all active forces in society at the national level, with a view to seeing this situation resolved. Also, there is a need for SADC intervention to join forces and design strategies to deal with these attacks, given the risk and possibility of this conflict spreading to other countries in the region.

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<sup>16</sup> The literature documents that economic development, lack of economic, political and social inclusiveness, greater resource intensity and weak state capacity are important drivers of conflict (Blattman and Miguel 2010; United Nations and World Bank 2018)



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