



CENTRO DE INTEGRIDADE PÚBLICA
Anticorrupção - Transparência - Integridade

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Government ought to review VAT exemptions for private Education and Health services

- VAT exemptions in the private education and health sector should follow criteria that promote fiscal and social justice and active citizenship

1. Introduction

In the context of resumption of the International Monetary Fund (IMF) programme in Mozambique, in which a funding package of US\$ 470 million was approved, CIP learnt through the media¹ that the Minister of Economy and Finance announced that one of the objectives of the Executive is to “*eliminate tax exemptions from Value Added Tax (VAT) because they do not benefit those who need it most*”.

Despite this, CIP partially agrees with this measure because it understands that there are certain exemptions, as in the case of the health and education sectors, which cannot be eliminated in their entirety and without any measure to isolate certain groups. Even so, it draws attention to the fact that with the elimination of exemptions it is more than urgent to reduce the VAT rate in order to minimize the impact on the cost of living, which is already high².

Thus, exemptions in the education and health sectors cannot be eliminated in their entirety. Exemptions should be maintained for the public sector, and for the private sector, criteria should be defined to attract taxpayers whose effect of imposing VAT will be truly marginal.

Specifically, CIP draws the Government’s attention that VAT exemptions in the education and private health sectors need to be aligned with the public services provided by the State, meaning that any additional benefit, whether by choice of the consumer or associated with packages created by employers, should be taxed under this consumption tax.

Thus, in the education sector, this alignment involves taxing under VAT any and all alternative education services from which the consumer chooses to benefit in relation to subjects that are not taught within the approved curriculum in the public National Education System (NES). For example, if a particular public school teaches in the same class subjects approved under the National Education System and the so-called Cambridge system, among other extra-curricular activities, the school’s monthly fee exempts VAT for services provided that find alignment with the public NES curriculum and taxes VAT on any and all additional components.

In turn, in the health sector, which is a vital sector and to a certain extent does not allow for differentiation of the services provided through the National Health System, as a way of contributing towards some balance as regards the right to equal

¹ <https://www.opais.co.mz/fmi-aprova-retoma-do-financiamento-ao-orcamento-do-estado/>

² Year-on-year inflation stood at around 10.8% in June 2022.

access to health services, CIP defends that all users of private health services with additional benefits, i.e. whose costs are covered by their employer, should be subject to VAT.

CIP advocates this measure to alert the Executive that it cannot eliminate any VAT exemption without defining clear criteria, widely publicised and debated at civil society level, simply to respond to the IMF's wishes, on pain of exacerbating current social tensions due to the rising cost of living.

2. Analysis

2.1 Historical Background

The education and public health sectors, despite being the sectors that together benefit from about 70% of the total resources allocated to the social sectors³, are considered the most precarious in terms of quality service delivery, given the weak (or inert) response capacity of the Executive to meet the growing demand for these services.

The difficulties faced in these sectors have been recognized since Mozambique became independent more than 47 years ago and remain prevalent. For example, in the period immediately after independence (until 1980) the country had an illiteracy rate of about 98%.⁴ corresponding to about 10 million⁵ illiterate people. In turn, in 2021, the illiteracy rate stood at 39.9%.⁶, that is, there are currently about 11.2 million illiterate people in Mozambique. Therefore, 47 years later, with all the reforms implemented, with emphasis on those that will be referenced below, the Mozambican state proved incapable of reducing the number of illiterates in the country and lack of human and financial resources in the health (and education) sector⁷.

These sectors experienced between 1987 and 1992, when Mozambique joined the Bretton Woods Institutions - BWI (International Monetary Fund and World Bank)⁸, changes in its dynamics, which began in 1987 under the structural adjustment program, with the imposition of economic and social policy measures aimed at significantly reducing public spending by the state to ensure the provision of free health and education services for the majority of the Mozambican population⁹.

In general, the health and education services were liberalized and the collection of user fees for public services, privatization of public companies, devaluation of the currency to reduce the level of imports and stimulate exports in order to balance the balance of payments among other reforms that culminated in the transformation of the Mozambican economy from centrally planned to market economy¹⁰.

In the health sector, in the midst of a context of pressure from certain political elites, associated with pressure from the BWI, Mozambique reintroduced (once abolished soon after independence) the exercise of private medicine for profit, through Law n.º 26/91, of December 31, 1991, a law that authorizes the provision of health care by individuals or legal entities under private law with a profit or non-profit character¹¹.

And, in turn, private education was legalized through Decree n.º 11/90 of June 1. With this, Law n.º 4/83, of 23 March, approving the Law on the National Education System, was readjusted by Law n.º 6/92, of 6 May, with a view to adapting the provisions contained in Law n.º 4/83, of 23 March to the new social and economic conditions in the country, both from a pedagogical and organizational point of view. The emphasis for this readjustment is essentially on the role of the State

3 See table on sectorial commitments in the Economic and Social Plan and State Budget 2022

4 <https://www.teses.usp.br/teses/disponiveis/48/48134/tde-29032017-131853/publico/emanuel.pdf>

5 In 1975, Mozambique had about 10.17 million inhabitants. Source: World Bank Statistics

6 <https://www.jornaldomingo.co.mz/nacional/reduz-taxa-de-analfabetismo-em-mocambique/>

7 <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-131-PT.pdf>

8 Moçambique aderiu as IBW em 1984.

9 <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-131-PT.pdf>

10 <https://www.teses.usp.br/teses/disponiveis/48/48134/tde-29032017-131853/publico/emanuel.pdf>

11 <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-131-PT.pdf>

with regard to the duty to provide education, that is, by virtue of this legal provision, education continued to be a right for all, but it became a duty of all citizens and not a duty of the State.

This discourse is aligned with the Constitution of the Republic, which through its articles 88 and 89 (right to education and health, respectively) emphasize:

Article 88, number 1: *“In the Republic of Mozambique, Education constitutes the right and duty of every citizen.*

Article 89: *“All citizens have the right to medical and health care, according to the law, as well as the duty to promote and defend public health.”*

These reform processes, which culminated in liberalization in the provision of most public services, came in a context where the health and education sectors were extremely weakened due to the civil war. Statistical data from the education sector indicate that between 1987 and 1992, out of a total of 2.6 million school-age children, the state was only able to absorb 46% and the rest were left out¹² of the education system, and the same was true in the health sector, which at that time was severely understaffed and had a large number of destroyed health units¹³. Therefore, the state found itself without the capacity to meet the health needs, especially of women and children.

2.2 Framework for eliminating VAT exemption in the education and private health sectors

Value Added Tax (VAT) in Mozambique was first approved through Law 3/98 of January 8, to replace the circulation tax in place until then. VAT is an indirect tax, that is, it falls upon all economic agents in the same proportion, thus making it regressive¹⁴.

It is a consumption tax, so it is levied on the current expenses of taxpayers. In simple words, in the case of education and private health expenses, the 17% “flat” tax rate currently in effect will impact the final bill, which will make the cost more expensive for the final consumer. But depending on the level of income or benefits that this taxpayer has, the impact may be marginal or even almost zero.

VAT is originally a neutral tax in design (no exemptions, zero rates, or other manipulations designed to distort it), so when free of distortions it represents a very significant source of revenue in developing countries. In Mozambique, for example, even with the numerous exemptions, it contributes on average about 32% of tax revenue¹⁵.

VAT exemptions in Mozambique have emerged in an attempt to respond to the conjuncture dynamics associated with each period in which they were approved. The exemptions in the transmission of goods and services in the area of education and vocational training, as well as health, were framed in Article 9.3 of Law No. 32/2007 of 31 December, and later modified through the wording given by Law No. 3/12 of 23 January, focusing on the provision of services aimed at education and vocational training. No. 3/12 of January 23, focusing on the provision of services related to education, as well as the transfer of goods and related services, when performed by public or private establishments integrated in the National Education System and recognized by the Ministry that oversees the area of Education, as well as the transfer of goods and provision of health services regarding the provision of medical and sanitary services and closely related operations, carried out by hospitals, clinics and similar dispensaries¹⁶.

At the time of the concession, it was implied that the rationale behind these exemptions arose from the fact that the state recognized its inability to meet the demand for these services at the public sector level.

The reason for this is as follows:

12 <https://www.teses.usp.br/teses/disponiveis/48/48134/tde-29032017-131853/publico/emanuel.pdf>

13 <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-131-PT.pdf>

14 Regressive taxes are those whose impact of the tax burden is the same for all social classes regardless of their income or wealth, it is in this sense that it is said that their weight is greater on people with low income.

15 See PESOE 2022

16 For more details see Article 9 of the CIVA through Law number 13/2016 of December 30.

“Tax exemptions translate into the use of taxation with an extrafiscal purpose resulting from a concern to direct and accelerate economic and/or social development using tax laws to favour and accelerate certain activities considered important from the social or economic point of view of each country” Adapted from Milagres (1986); Law No. 4/2009 of January 12¹⁷.

Additionally, tax exemptions are considered to be exceptional and temporary measures¹⁸. Therefore, they are understood to be abolished or eliminated when the purposes for which they were granted are achieved.

Looking at the current stage of the health and education sectors, as described above, it can be said that the government has not yet achieved the desirable levels of quality in service delivery in these sectors, especially for the vast majority who attend the public sector.

On the other hand, it has been notorious, especially in the urban area¹⁹, a greater adherence to private services in these sectors and less active citizenship on the part of social strata that are in the highest consumption quintiles, or subsidized by employers, which reduces the pressure on the government to improve the provision of public services since a strong group is insensitive to the structural problems of these sectors. On the other hand, a greater uptake of private services in these sectors and less active citizenship by social strata that are in the highest consumption quintiles, or subsidized by employers, has been noticeable, especially in urban areas, which reduces the pressure on the Government to improve public service provision since a strong group is shown to be insensitive to the structural problems in these sectors.

It is in this sense that CIP, in order to promote fiscal and social justice and the stimulation of active citizenship, suggests:

- VAT taxation on private education in all activities that by consumer choice are distinct from the subjects taught in the National Education System. By adopting this criterion there is room for parents and guardians of higher social extracts to demand from the Government improvements in the NES curriculum since this is the only way they can benefit from exemptions and minimize private education costs.

- The taxation of VAT on the entire billing of health plans covered by employers. This proposal arises as a strategy to mobilize resources on a group of consumers whose effect of imposing VAT on health costs will not have a direct impact on their income.

Additionally, these measures, or the elimination of exemptions in general, should be accompanied by reductions in the VAT rate to levels closer to SADC (around 15%) and the revenues to be mobilized should be earmarked for the respective sectors to finance investment expenditures, most of which receive external financing²⁰.

2.3 Political Dimension of Exemption Prevalence

With the indefinite continuation of exemptions in health services and private education, precarious conditions in public and private education and health have become target sectors for clientelism and conflicts of interest, where public officials only take advantage of the resources allocated to these sectors for illicit enrichment²¹.

CIP²²²³ and a news article from Carta de Moçambique²⁴ state that currently the lack of regulation of health and education services raises questions about WHO OWNS THE PRIVATE SCHOOLS AND CLINICS? and ARE THE POLICY MAKERS NOT IN CONFLICT OF INTEREST?

17 Law approving the tax benefits code.

18 https://repositorio.ul.pt/bitstream/10451/37184/1/ulfd135698_tese.pdf

19 See data from IOF 2019/20

20 See General State Account, various years

21 See various Public Expenditure tracking reports at: www.cipmoz.org

22 <https://www.cipmoz.org/wp-content/uploads/2021/09/Falta-de-Regulac%CC%A7a%CC%83o-do-prec%CC%A7o-dos-Servic%CC%A7os-Me%CC%81dicos.pdf>

23 <https://www.cipmoz.org/pt/2022/06/22/carmelita-namashulua-o-evidente-conflito-de-interesses-na-apresentacao-dos-resultados-da-comissao-de-inquerito/>

24 <https://cartamz.com/index.php/sociedade/item/154-quem-controla-a-selva-fiscal-no-sector-privado-da-educacao>

Therefore, the political dimension of this problem lies in the fact that these exemptions cause the middle class to focus only on seeking resources to support expenses for private schools and clinics, not creating demands or pressure for improved service delivery in these sectors and to massively raise the questions made above. That is, if these sectors (in the private sector) were not exempt from VAT, prices would be relatively higher. This would cause the middle class to be less accommodating and put pressure on the Governments of the day so that there would be greater investment in health and public education.

Thus, CIP believes that it is urgent to review these and other VAT tax exemptions, especially when they stimulate fiscal and social injustice and favour a lack of active citizenship.

3. Final Notes:

- VAT is levied on consumption expenditure and, therefore, caution must be exercised in granting and/or eliminating certain exemptions so as not to exacerbate social inequalities even though the empirical reasoning is acceptable for either situation.
- CIP, through this analysis, suggests reviewing part of the exemptions granted to the education and private health sectors.
- In the health sector, CIP demands the elimination of all exemptions on transfers of goods and services that are paid for by consumers with employer-covered health plans, given the insignificance that health costs represent for this group.
- In the education sector, CIP demands that any and all private education services that are differentiated from the approved public NES curriculum be taxed under VAT.
- CIP warns the government not to indiscriminately eliminate tax exemptions without clear and widely publicized criteria, in advance, just to meet the IMF's wishes, under penalty of exacerbating the current social tensions arising from the rising cost of living.
- CIP demands that the revenues to be collected from the elimination of exemptions be earmarked for the respective sectors, especially in investment spending.



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