

Once upon a time there was a State which had a budget.

It was not much, the people peeped inside it and could see the bottom.

So little money for so many dreams.

Considerable economies, put together at the expense of centuries. Where it was thought there was only money, in the end there was sweat. There was blood. There were lives which demanded respect.

(Mia Couto, 'The Foreign Debt' ('Dívida Externa'), *O País do Queixa Andar*, 2003: 141-142).

The book under review is dedicated to the study of the budgetary process in Mozambique. Starting with the title, the authors make it clear that their analysis revolves around the political economy. This means two things. On the one hand, it describes actual phenomena: the growth or stagnation of national production; yield and distribution of wealth; the dynamics of public revenue and expenditure; international economic dependency and aid, among other aspects. On the other hand, at least since the famous *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) by Adam Smith, political economy has become an analytical discourse completely independent from other discourses on human societies. As a science which is able to create theories, methodologies and laws about the factors which determine the production and distribution of wealth, political economy is used, for good or bad, in counselling political decision-makers on what to do about the country's economy.

### 1. Structure of the review and presentation of the book

This critical review is divided into four parts. The first part presents a summary of the book's structure, while the second part highlights some relevant facts about the budgetary process as a phenomenon. The third and fourth parts examine the analytical discourse, in particular the pros and cons of the institutional perspective adopted in the book, and raises some questions for debate or future reflection.

This book by Hodges and Tibana totals two hundred pages and is organised into eight chapters. Chapter 1 introduces the basic issues and arguments. Chapter 2 presents the conceptual framework, 'focussing on the nature and role of the institutions and agents of the budgetary process, which affect budgetary results' (p. 27). Chapter 3 deals with the context and past history, economics and politics of the current budget, while Chapter 4 deals with public expenditure and the weak points in its management. The three following chapters are dedicated to the political economy of institutions, or the 'rules of the game' within the framework of which the budgetary process takes place, and of the agents involved. In particular, there is the influence of the political system on the budgetary process (Chapter 5), the interests and abilities of the different agents (Chapter 6), and a case study on government expenditure for anti-retroviral treatment for HIV/AIDS patients (Chapter 7). Finally Chapter 8 presents the conclusions of the study and prospects for change.

The main conclusion of the book is that there is an almost complete absence of internal demand in the entire budgetary process, from the sources of revenue through to the management and monitoring of expenditure. In the absence of internal pressure by Mozambican society itself, the government is not managing the budgetary process fully committed to the development of the strategic goals and priorities of fighting

poverty, of which so much is said in current literature and discourse. In this context, foreign aid takes on a key role and becomes a vital factor, either because it substantially exceeds domestic revenue, or because it has provided donors with a growing ability to exercise a certain brake as a 'substitute' for the missing counterbalancing mechanisms in Mozambican society.

With the budgetary process being dominated by the relationship between the executive and the donors, to whom the government is more accountable than to Mozambican society, foreign aid plays a crucial role in Mozambican institutions. This trend became obvious in the past decade, in association with the positive role that aid was playing in the post-war reconstruction and the impressive expansion of public services. At present, as the book suggests, foreign aid could turn out to be equally vital, if in the short or medium term it manages to compensate for the weakness of national institutions. Obviously this donor role has its limitations and risks, mainly if those interest groups which influence political power should feel too controlled and accountable. Therefore, within the vast array of directions in which the changes might move, the book does not discard the possibility that one of them might be '(of a) ...destructive nature and that it might set the country back in terms of economic and social development' (p. 194). Negative examples, which can be found in abundance on the African continent, may partially justify this scepticism. Furthermore, although Mozambique has managed to consolidate the peace established in 1992 with relative success, the stability should not be taken for granted. And in this scenario, as the public budget is one of the fundamental instruments in the allocation of resources, it might result in two opposite directions: as either a curative or as an aggravating factor holding back development.

### 2. Some relevant factors regarding the budget in Mozambique

The quotation by Mia Couto at the head of the review elegantly and perceptively captures the most important characteristics of the current budget in Mozambique, which the authors quantitatively illustrate in this book. The study deals with the paucity of public resources in Mozambique, and the extreme weakness of its tax base, which is heavily dependent on external aid. The book estimates that only 8 percent, or in other words about 800,000 economically active Mozambicans, are paying direct taxes (p. 48). In connection with this point, it is worthwhile going through some data which the book does not present but which briefly convey the relevant factors. Firstly, in the last five years, the annual average of domestic budgetary revenue represented about US\$ 30 per inhabitant, of which only US\$ 3 (9 percent) comes from direct taxes, US\$ 19 (62 percent) from indirect taxes, and US\$ 9 (29 percent) from other taxes, non-tax revenue and recorded revenue.

Secondly, more than half of total public budgetary resources come from foreign aid.

While the domestic revenue/GDP account varied between 11 percent in 1997, and 14 percent in 2003 (p. 53), the aid/GDP account represents about 15 percent (p. 48). In the last five years public development aid received by Mozambique reached a yearly average of US\$ 60-70 per inhabitant. This weight of foreign aid on Mozambique's GDP is about two times greater than the average in sub-Saharan Africa (p. 189). As this region is the most dependant on aid at the global level, Mozambique therefore emerges as one of the most aid-dependant economies in the world.

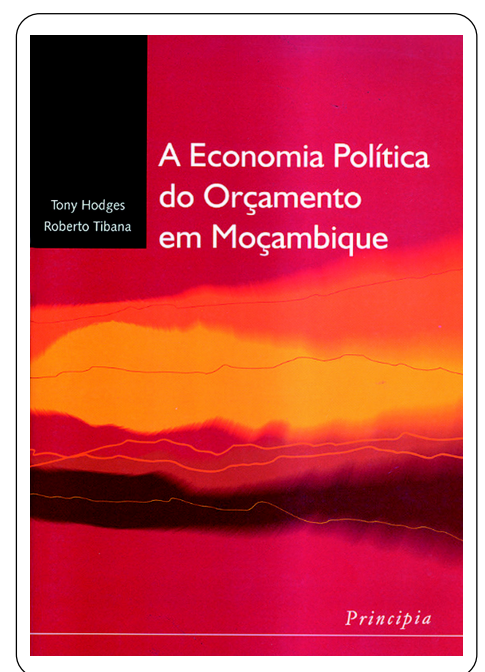
Thirdly, and still on the topic of revenue, there is the enormous fragmentation of the budget sources. In particular, in relation to the formal budget, there is revenue which is approved by the public sector and recorded in public accounts on the one hand, and the 'off-budget' account, on the other. Given that, by law, public income and expenditure have to be entered into one single and comprehensive budget, in reality most of the budgetary flow occurs through channels and mechanisms which fall outside the law. The size of such off-budget flows can only be guessed at, '... but there is no doubt that it is very substantial, especially in the case of foreign aid' (p. 70). Going through the General State Accounts, the book reveals that the percentage of unregistered foreign donations reached 47 percent in 2001 and 27 percent in 2003 (p. 70).

As regards expenditure, the relationship of expenditure/GDP was 34 percent in 2002. The budget deficit before donations doubled from approximately 11 percent in 1998, to 20 percent in 2002. Even the deficit after donations hovered between five to eight percent of the GDP in the period 2000-2003. But the book acknowledges that it is extremely difficult, if not impossible, to effectively evaluate the quality of public expenditure, since the government accounts comprise barely one very incomplete component of available public resources and actual expenditure. This makes it difficult to evaluate the territorial distribution of expenditure, due not only to the large volume of off-budget expenditure not registered in the accounts, but also to the fact that the resources from the state budget are reaching the provinces and districts through different channels.

In terms of distribution of expenditure *per capita*, this is usually presented by the inverse ratio of the poverty incidence, particularly in those provinces with a higher level of *per capita* expenditure (p. 60-61). The weaknesses in budgetary results and the actual process of managing public expenditure stand out even more in relation to three main weak points: the disjuncture between planning and the budget; little consistency between allocation of the approved state budget and the actual expenditure; and the lack of complete budgetary coverage.

### 3. The role of institutions in the previous history of the budgetary process

The scientific understanding of natural or social reality depends not so much on the



quantity of the available empirical data, but rather on the quality of the theoretical and explanatory framework used in the analysis. In this specific case, Hodges and Tibana reduced the statistical data and the descriptions of the outcomes of the budgetary processes to the bare minimum. Generally speaking, this option does not seem to have impaired the treatment of issues and the main argument. It would have helped very little, from the point of view of understanding the subject, if the book had elaborated with meticulous descriptions and detailed statistical forecasts.

The conclusions therefore emerge as the corollary of applying the conceptual outline to the budgetary results and processes in relation to the budgetary facts. Generally, the arguments flow in the book in a manner which is systematic and consistent with the conceptual outline, in a simple, elegant and clear style. But there is one important exception to this consistency. This comes immediately after the presentation of the conceptual framework on the historic and structural context of the budgetary process.

Strangely enough, Chapter 3 seems to halt somewhat short of the conceptual framework applied to the other chapters, as if the previous history and socio-economic context had not been shaped by the institutions. This is unfortunate, because the book misses a good opportunity here to do justice to the importance for economic development which has been attributed to institutions by a vast and growing literature. In particular, there institutional factors such as political stability; private property rights; the legal system and the limitations imposed on the actions of the elite; and equal opportunities for a broad segments of society (Acemoglu, 2005; Acemoglu et. al, 2004).

With regard to previous history which is relevant for understanding the current budgetary process in Mozambique, Hodges and Tibana opted for a simply panoramic reading - in fact a reading which is not much more than a repetition of the common historical interpretation expounded by the regime's intellectuals during the last three decades. For example, Chapter 3 begins by affirming that as a Portuguese colony, the development of Mozambique was stunted. Those who do not know the history of Mozambique might easily get the idea that the formal budgetary institutions in Mozambique were a post-independence creation rather than something put in place by the post-1974 Portuguese colonial administration.

However, anyone who has carefully read the *History of Mozambique*, by Malyn Newitt, one of the works listed in the bibliography, will realise how the

popularisation of Mozambique's history continues to hamper the debate on crucial questions regarding the economic and political evolution of the country over the last 50 years. Some passages in Newitt's book challenge the demonising of the past, on which certain intellectuals of the regime keep insisting, with regard to the tragic transition from the colonial era to what was supposed to be independence. This was to be independence both from the colonial Portuguese administration as well as from the forms of dependence which have replaced it. Of note here are firstly a suicidal economy on its deathbed, then an economy of extreme emergencies and foreign aid, and, more recently, a beggar's economy. The contrast with Mozambique's economic history in the last three decades becomes clear when one considers the picture of Mozambique as painted by Newitt, according to which the new colonial state constituted a harsh experience, but not a completely negative one. 'When the Portuguese finally pulled out in 1975, Mozambique had a wide range of industries and a variety of exports... it was no longer exclusively serving the needs of the metropolitan economy. It had also become economically independent from Portugal before attaining political independence' (Newitt, 1995: 392).

The limited space reserved for this review only allows a few other questions to be raised, questions which deserve to be mentioned, if only briefly, concerning the role of the institutions in economic development, on which the current budgetary process is premised. First, if the role of institutions was supposed to establish a stable structure of social interactions, why were institutions that ideally are most efficient and beneficial for society not chosen? Second, did the economic crisis in the first 15 years of

independence really arise largely from the radical ideological options of conflicting groups, or were there more substantial motives behind it, as certain institutional perspectives claim? Third, how could the private rewards of the people making the decisions, and who control political power and benefit directly from it, be restructured to ensure that public goods benefit the society as a whole? Fourth, up to which point do the reforms introduced in the last 15 years translate into a genuine acknowledgement that the liberal economy can create more benefits for society, instead of being merely the most efficient and convenient option for retaining control of political power?

#### 4. Weak or Bad Institutions, or Both: What is the Book's Final Institutional Perspective?

By putting the budgetary process into the context of the political economy of institutions, the book provides an inspiring point of departure for new and deeper reflections on the role of the institutions, both as regards the budgetary process and as regards economic development of Mozambique in general. But, in the end, what makes this book special?

The answer lies in the framework that the book provides for the analysis of the role of institutions, or the rules of the game, in generating constraints and incentives which limit what the agents can do in the process, and the factors that motivate them to behave in a certain way. And what rules determine the way in which 'the budget game' is unfolding in Mozambique? The book points out three characteristics: First, the developing nature of the budgetary process within the government; second, the role of donors as the main intermediaries of the government; and third, the weakness of internal demand - through Parliament or civil

society - for the improved management of public finances (p. 14).

However, this characterisation of the rules of the game eventually becomes quite generic and abstract. And as the book fails to reveal the epistemological or theoretical inspiration of the institutional approach adopted, it becomes difficult to assess the authors' success in their correlation between the general theoretical perspective, the conceptual framework adopted, and the empirical data on the budgetary process.

In the absence of a clear theoretical explanation in the book, one can still attempt to second guess the framework used by reading between the lines in the text. In this exercise, the classification of institutional theories into four perspectives, as outlined by Danon Acemoglu (2004, 2005), is useful:

- The perspective on efficient institutions where companies choose those institutions which maximize the companies' benefits;
- The ideological perspective in which the institutions are determined by dominant ideas and values;
- The historical or contingent perspective, where the institutions are the result of past accidents and unexpected events;
- The perspective of social conflict that sees the institutions as chosen by groups with political power, in accordance with their economic consequences and benefits.

Of these four institutional perspectives, the most dominant in the book appears to be the historical or contingent perspective. The book suggests that all the economic and political institutions which determine the budgetary processes are a random consequence of past actions and accidental events. In this context, the Mozambican state, and in particular its tax system, bureaucracy, parliament and political parties, are seen as a system which brings together common and coincidental ends, united around the mobilisation of resources according to the objectives set by the government.

However, given the conceptual framework, a contingent perspective focussing on political and economic interests would be difficult to maintain consistently. In certain parts of the book forays are made into those perspectives that refer to efficient institutions as well as to social conflict. Regarding the latter, there are some explicit references to the manifestation of 'rent-seeking' processes, or in other words, the existence of a certain 'trade in government privileges', which creates the incentives that make businessmen concentrate more on this type of opportunity, rather than on production.

Rather than the predominant approach in most of the analysis, the book ends on a note of social conflict by recognising that, in the short or medium term, Mozambican society has no better 'braking and counterbalancing' mechanism available than waiting for donors to 'act as a "substitute" restraining force on the predatory behaviours of the elite ...' (p. 25, 193). However, this argument eventually becomes somewhat superfluous, because the authors choose to put greater emphasis on what they call the perverse collateral effects of foreign aid, in particular the weakening of national ownership of policy formulation and the fragmentation of economic planning and the budgetary process.

Can the weakening of national ownership for certain interest groups not be compensated for by the strengthening of other national groups, which were previously deprived of any influential power? Will the

fragmentation of economic planning not foster decentralisation, conveniently and forever postponed?

It is worth highlighting that this book by Hodges and Tibana comes out at the same time as the publication of two other studies. The one is about what Mozambicans think about governance and corruption in Mozambique, which reveals a devastating perception on the influence of interests in governance. The majority of Mozambicans, for example, believe that the group which exercises the most influence over the Mozambican state are the drug dealers, followed by the multinationals. Moreover, they think that the justice system is far from being fair and is driven by economic interests and by the executive, while they also believe that the government is not really committed to fighting corruption. The other research concerns the audit of state accounts by the *Tribunal Administrativo* (Administrative Court). The audit of 2002 and 2003 revealed a damaging management of state accounts, weak compliance with budgetary standards, and the granting of multi-million-dollar loans from the *Tesouro Público* (Public Treasury), without the slightest guarantee of repayment.

All in all, despite the weaknesses and ambiguities identified here, they do not detract from the merits of the book, both for the issues and arguments presented, and for the ideas and debates which it may encourage. Time will tell, but the best that can be expected and wished for from this book is that it may become a useful instrument for the formulation of current economic policy. This is possible and desirable, but it all depends on whether the changes introduced by the new governing executive, in this current year 2005, end up as merely cosmetic and temporary with limited impact.

Mozambique needs a new type of political economy, in the two senses of reality and analytical discourse. As for analytical discourse, the political economy and economic policies have to translate into viable programmes, which are able to foster real liberalism, instead of the mere parody of a free market economy that has been built up so far. As for reality, Mozambique needs an economy based on a healthier, more productive and dynamic market. In other words it needs an economy based on the 'rules of the game' or institutions which are radically different from and better than those established up to now. And then, yes! With, and only with, good and strong institutions will the considerable economies put together over the toil of centuries - and praised by Mia Couto in her epigraph above - be really respected and valued.

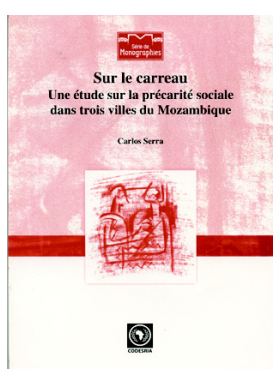
#### References

- Acemoglu, D. S., 2005, 'Political Economy: Institutions and Development', <http://econ-www.mit.edu/faculty>.
- Acemoglu, D. S., Johnson, E., and Robinson, J., 2004, 'Institutions as the Fundamental Cause of Long-Run Growth', [http://econ-www.mit.edu/faculty/download\\_pdf.php?id=1183](http://econ-www.mit.edu/faculty/download_pdf.php?id=1183).
- Couto, Mia, 2003, *O País do Queixa Andar*, Maputo, Ndjira.
- Newitt, Malyn, 1997, *História de Moçambique*, Lisbon, Publicações Europa-América.
- Tribunal Administrativo, 2005, *Conta Geral do Estado de 2002*, Maputo, Conselho de Ministros.
- Unidade Técnica da Reforma do Sector Público (UTRESP), 2005, *Pesquisa Nacional de Base Sobre Governança e Corrupção. Relatório Final*, Maputo, UTRESP.

### CODESRIA Monograph series

#### Sur le carreau Une étude sur la précarité sociale dans trois villes du Mozambique

Carlos Serra



Cette fascinante étude sociologique montre que c'est dans les villes que de plus en plus surgissent et se consolident, dans toutes les régions interstitielles, des figures et des associations sans normes d'exclus de la *société civile du bien-être*, tels les mendiants, les voyageurs des *chapas*, les enfants de la rue, les récupérateurs des poubelles et des décharges publiques, les vendeurs ambulants, les démobilisés, les handicapés physiques, les malades mentaux, les prostituées, les vendeurs de drogue, les trafiquants de devises, divers types de *gangs*, etc., tous constituant à la fois un univers diversifié de « déviants », un pluri-modèle *normalisé* de contre-société et un centre kaléidoscopique de métissage culturel avec leurs formes composites de langage et de représentation sociale. Tous se trouvent, comme dans un tourbillon, entre un cadre social en décomposition rapide (avec leurs visages colonial, révolutionnaire, rural et traditionnel) et un cadre qui se construit (le néolibéral). Ils sont, à ce propos, dans une profonde anomie, dans un milieu d'exclusion.

2004; Série de monographies  
ISBN 2-86978-167-9 ; 86 pages  
Afrique: US\$10.00, 5.000CFA  
Ailleurs : £9.95 /\$15

Afrique

CODESRIA Publications  
et Dissémination  
email: [publications@codesria.sn](mailto:publications@codesria.sn)  
[www.codesria.org](http://www.codesria.org)

Ailleurs

African Books Collective  
[info@africanbookscollective.com](mailto:info@africanbookscollective.com)  
[www.africanbookscollective.com](http://www.africanbookscollective.com)