

## THE DANGER OF DENYING THE TRAP OF DEBUDGETISATION

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Rigorous analysis of the phenomenon of debudgetisation in Mozambique is ever more pertinent and urgent, not only because of the dangers of the practice of debudgetisation for the balance and sustainability of the public accounts. No less important are the costs, damage and stress it causes in the sectors that generate material and non-material value and wealth, at a time when the private economy is trying to get the country out of a hole, but the public economy is still stubbornly digging.

Based on the comparison of the evolution of the cash balances and of the budgets of some social sectors, in Figure 2 of IDeIAS 106, it can be understood that over the current decade the accumulated balances in the General State Account (CGE) have operated like a suitcase with a false bottom. It is extremely difficult, including for the supervisory authorities such as the Administrative Tribunal (TA), to assess the proportion of the about 51 billion MTs in cash balances in the CGE that on average are annually drained to Hidden Accounts Outside of the State, through the so-called Other State Accounts.

Faced with this, two questions become inevitable. First, if public sectors such as Health, Education and Social Security, shown in Figure 2 of IDeIAS 106, are really priorities, why have they been the first to be affected by budgetary restrictions? What sense of priority is this, when at the same time various other bodies, which are supposedly less of a priority, kept their budgets or even benefitted from budgetary increases, via the Balances of the Other State Accounts of the CGE and of the Other Operations of the Fiscal Chart of the budgetary flows?

Those who wish to seek answers to the previous questions should revisit the first article on the “rolling balances” which IESE published in February 2016, which questioned the claim that “Nyusi found the coffers empty”, at the start of his term of office. The official data of the CGE not only deny that former President Armando Guebuza left the coffers empty, but, as shown in Figure 3, where the data have been converted into US dollars at the 2017 exchange rate, for a better understanding of the sums involved, they can confirm the narrative of government members about the Mozambican resilience to the crisis.

Contrary to the evidence of budgetary reductions imposed on Health, Agriculture and Social Security,

shown in Figure 2 of IDeIAS 106, both State Expenditure and Revenue (taxes, fees, etc.) and the Total Resources mobilised have maintained the growth trend observed during the current decade. Except for the brief deceleration in 2014 and 2015, after 2016 not even in the best years of the Guebuza governance did the State collect so many public resources. And from the recently announced draft OE for 2019, the Government intends to increase expenditure by 7%, next year. If it achieves this, the last year of the current parliament will beat the record for public expenditure in the 21st century.

Faced with these facts, who is really being affected by the financial crisis triggered by the hidden debts? In addition to several private companies which have been forced to declare bankruptcy or to cut production and reduce the number of workers employed, the areas most heavily sacrificed have been the priority public sectors. On the other hand, a significant part of the bureaucratic and propaganda sector and of the

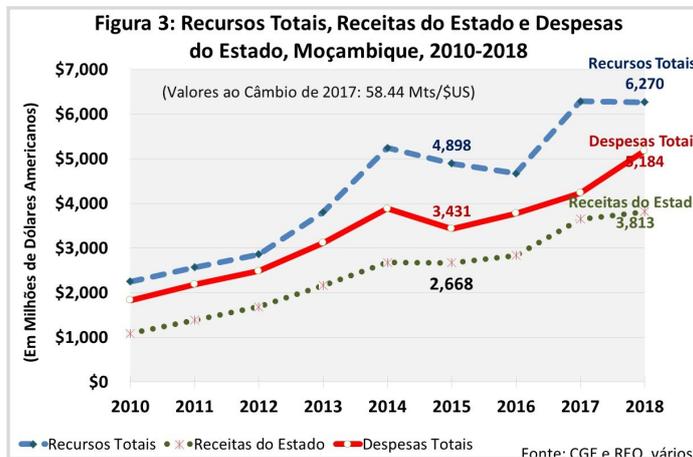
et (OE), how are they used and who benefits from them?

Those who take literally the term “Cash Balances for the following Year” in the CGE, thinking that they are transferred transparently to the OE of the next year, are mistaken. This does not happen, although there is no proper assessment of the scale of the drainage of funds to beyond the OE. It seems that not even the Administrative Tribunal (TA), in its audits of the CGE, has obtained adequate answers from the Government, when asked to explain undocumented financial operations. The lack of transparency on the flows of revenue and expenditure that feed the Other State Institutions, not covered by the OE, has allowed the incubation of obscure accounting operations outside of the prudent and rational management of financial resources.

Recently, after the persistence of IESE in understanding and clarifying the obstacles to expanding the fiscal space for the priority sectors, expressions of good will in helping researchers explain some of the obscurities have begun to appear. Although only informally, and on condition of anonymity, certain well informed technical staff have provided useful indications so that the IESE research does not make technical mistakes that might be used to discredit the valid and pertinent questions raised. Questions that it would be up to the TA to deal with, were it to act less as an auditor and more as a judicial authority, on aspects such as: 1) High lack of transparency in various operations; 2) Lack of a budgetary policy aimed at the rational management of the deficit; 3) Lack of prudential

accountability for public resources; 4) Serious problems of inefficiency and ineffectiveness in the use of public resources, mainly in the way that they prioritise public companies and funds of doubtful viability to the detriment of the priority social expenses. Two examples suffice to show how, alongside the budgetary flows to the OE from one year to the next (through the CUT, the Tax Offices and Other Treasury Accounts), a significant part of the rolling balances pass to somewhere outside of the Other State Accounts not covered by the OE.

One example comes from the TA’s audit report on the 2016 CGE which only managed to trace six of the 39 billion meticais. As for the other 33 billion meticais, the TA (2016, pp. VIII–3) merely



ruling party remain immune to the crisis.

Visibly, the Government has not only succeeded in resisting holding anybody responsible for the illegalities associated with the hidden debts with which it is strongly compromised, but it has stepped up the capture of resources from households and companies to maintain and expand State expenditure. In this context, however much the priority sectors may bleed, there are those who think this option is consistent with the old Brazilian saying – “farinha pouca, meu pirão primeiro” (“when there’s not enough to go round, I come first”).

The second question is really three questions that are closely interconnected: what is the size of the resources expunged from the State Bud-

<sup>1</sup> see [pdf](#) and [debat on Facebook](#). [Fundação MASC](#); for a version with bibliographical references, contact the author.

said: "...the Executive did not provide anything to prove this statement". The second example is more recent, and we shall see in the next audit report, on the 2017 CGE, how the TA will deal with and report it. It concerns the intriguing discrepancies between the sums of the Cash Balance for the Following Year in the 2016 CGE and the Cash Balance from the Previous Year shown in the 2017 CGE, published last May.

How are we to understand that the 2016 CGE reports that 73.3 billion meticaís were carried forward at the end of 2016, but the 2017 CGE reports that the Cash Balance received from the previous year was 32.8 billion meticaís? When comparing the sub-accounts, only the sums for the CUT and the Tax Offices coincide. The sub-account designated Other Treasury Accounts for 2017 indicates that it received 33.5 million meticaís more than the 2016 CGE said was carried forward. But the Other State Accounts of 2017 show they received only 7.7 billion, but the 2016 CGE reports that 48.2 billion meticaís were carried forward to the following year. That is, about 40.5 billion meticaís have disappeared, in the passage from one year to the next, or the whereabouts of this money is yet to be explained.

### 3. Why is Debudgetisation a Dangerous Trap?

Like any trap used as a contrivance or a device to capture something, debudgetisation is a cunning mechanism to capture resources and to transfer them to accounts outside of the OE, in such a way as to enjoy sufficient opacity and exemption from the rigour of prudent macro-economic management. In various countries, debudgetisation has been associated with what Pereira euphemistically calls "creative" accounting to "escape" from the budgetary rules. However, limiting debudgetisation to tricks to deceive supervisors and reduce the deficit and the debt seems excessively naive and partial. From what has been publicly reported about cases and trials of malicious actions and State Capture, in countries such as Portugal, Brazil and South Africa, they indicated the ruinous use of credit in supposed "investments" of questionable public utility.

Debudgetisation derives more from political than technical decisions. It is also not a problem of just one political party, or of any person in particular. It is something rooted in a culture prone to lack of rigour and of holding people responsible in the management of the public accounts, in which the actors involved do not suffer the consequences of their choices and decisions. In other words, a significant part of debudgetisation is closely linked with what Taleb calls lack of "skin in the game", when political and technical decisions are taken in the name of citizens without their authors having to bear the consequences of their decisions.

### 4. Does Debudgetisation have Positive Aspects?

In principle, debudgetisation is not necessarily negative and should be a socially and economically advantageous and virtuous mechanism. Just as with decentralisation, there is a need to adopt modern, flexible, autonomous rational and effective forms of economic and financial management. The concern to take advantage of legal regimes that are simpler than permitted by the conventional bureaucratic systems should be sufficient reason to make debudgetisation a posi-

tive rather than a negative process.

Unfortunately, in practice debudgetisation has generally been converted into a means to contradict and subvert fiscal consolidation, to neutralise financial supervision (e.g. TA and the parliament, the Assembly of the Republic), to distort and neutralise transparency, and to convert well-intentioned or benign practices into pathologies that are malign for the balance of the public accounts.

### 5. What are the Specific Dangers of Debudgetisation?

It is worth listing, in summary form, the specific expressions of the danger of denying the trap of debudgetisation, around the Cash Balance and the Other Operations of the CGE and the OE:

1. Perversion of the design, execution and evaluation of the OE – The lack of careful reference points for fixing realistic levels of expenditure and revenue envisaged allows the former to be set deliberately higher than the latter. Unrealistic primary budget deficits are established (in the current decade, they reached an annual average of almost 30% and 14%, before and after grants, respectively). Thus the budget deficit is converted into a motive for raising resources in a speculative way.

2. Careless and lax budgetary monitoring and supervision – Once they have been expunged from the OE, how the funds are used becomes a secondary issue for the supervisory authorities. This is shown by the flippant way in which the Other State Accounts are treated in the TA audits, and the nonchalance shown by the Government when it is called on to explain undocumented expenditure.

3. Window of opportunity to expand credit limits without justified criteria – With such a large discrepancy between budgeted expenditure and revenue, at the start of each financial year, a window is thrown open of opportunities to increase or violate credit limits. What is the opportunity cost of the cash balances when it is not known where they come from, how they vary, or where they are used?

4. Incentive for speculative finances and Ponzi schemes – In principle, the funds for paying interest and dividends obtained by means of loans (Treasury debt titles) are not necessarily fraudulent, like Ponzi schemes. But for this it is necessary that the discount on the securities occurs within the law, in a short period, and that the principal and the interest are not converted into means to roll the debt over from year to year.

5. The excessive politicisation of the public finance – The public reputation of the Mozambican parliament leaves a great deal to be desired, as shown by the famous names it has earned, such as "a noisy crèche", or the belief that it just rubber-stamps what has been previously decided in other bodies. For the deputies of all political parties, debudgetisation is not a matter under discussion, and this does nothing to curb the excessive politicisation of the public finances and, worse still, the abusive way they are used to sustain the ruling party.

### 6. Time for a New Phase of Budgetary Consolidation?

In a context of high levels of debudgetisation, a monetary policy, explicitly or implicitly oriented towards budgetary expansion without backup, could generate a short term recovery. Only from this perspective can we understand the recent statements by the IMF resident representative, Ari Aisen: "The Mozambican economy is gradually recovering thanks to the measures the government has been taking for macro-economic stability, in line with the monetary policies of the Bank of Mozambique".

Both theory and Mozambique's own experience show that what is most probable is that the temporary stability emerging will collapse again and give way to a new cycle of financial imbalances. Much of what has been said about the impact of the recent financial crisis in Mozambique is generally wrapped in skilful exercises of denying the opportunities to take advantage of the crisis to undertake substantive reforms.

Unfortunately, Mozambique is on the path of once again throwing away an opportunity to free its economic and financial system of practices which justify the decision of international ratings agencies to classify it as in "selective default" or as "highly speculative". Speculative and fraudulent practices are contrary to the indispensable alignments with the principles of prudent macroeconomic management and good regulation of the economy and competition.

However, if the question of debudgetisation begins to be recognised as a serious problem, perhaps it will be possible to pass to a new phase of fiscal and budgetary consolidation – a phase more aligned with sustainable and structural growth at three levels: 1) Redefinition of the functions of the State and modernisation of the Public Administration; 2) Clarification of the reference points in the forecast of expenditure and revenue and fixing justified criteria for limits to the deficit and to credit; 3) Fiscal reform that stimulates productive and inclusive growth, recognising in a genuine and not merely rhetorical form, the role of citizens and enterprises in wealth creation that guarantees the tax revenues to sustain State expenditure.

Obviously, if a new phase of budgetary consolidation is to become a reality, it is indispensable that the national bodies constitutionally responsible for fiscal and budgetary monitoring and supervision take a more professional and pro-active stance. The IMF, after falling asleep at the wheel during the EMATUM case, in 2013-14, has tried to redeem itself by defending the national interest in ways that no Mozambican body (including civil society) has dared to defend it. But it too will have to improve its approach to budgetary consolidation. To limit the obstacles to budgetary consolidation to a question of greater transparency and fighting corruption is excessively short-sighted and inadequate for the challenges faced by Mozambique. Something more effective and daring needs to be done to counter the prevalent bad management practices and lack of accountability. Otherwise the private Mozambican economy will be incapable of taking Mozambique out of the hole that the public economy is continuing to dig. In this case, we would not be surprised if episodes similar to that of the hidden debts bubble to the surface.