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DEBUDGETISATION IN MOZAMBIQUE: SHORTAGE OF RESOURCES AND OF BUDGETARY RESPONSIBILITY

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This text warns of the dangers of denying the trap of debudgetisation, a worrying phenomenon in the Mozambican public accounts, largely ignored in the audits and assessments of the General State Account (CGE), which involves multiple ways of removing significant amounts from public knowledge and monitoring, through varied and sometimes subtle and labyrinthine mechanisms. The text continues IESE research which seeks to identify opportunities in the fiscal space for a policy of rationalisation in favour of the priority sectors. This reflection resumes and deepens the presentation given on 28 August 2018, at the MASC International Conference, on the theme "What Alternatives for Financing and Managing Public Resources for the Health Sector in Mozambique?"

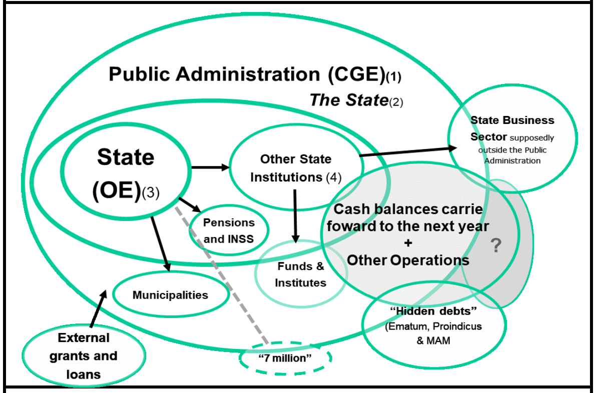
While the consequences of debudgetisation go beyond their immediate impacts, this phenomenon is directly linked to the budgetary cuts in recent years in public sectors such as Agriculture, Health and Social Security among others. The narrative expressed in public opinion is that these budgetary restrictions derive from the financial crisis into which Mozambique was plunged following the revelation in 2016 of the "illegal debts" contracted by the Mozambican government. This narrative is contradicted by a range of no less damaging options of reallocating the available financial resources, in favour of sectors such as Defence and Security and Order, as if the financial crisis was being exaggerated to force fiscal austerity and unnecessary financial reforms.

In a highly speculative market environment, and currently in selective default, in the assessment of international ratings agencies, worsened by a controversial political context such as the one Mozambique has experienced, the ideal conditions are met for suspicion and distrust to supplant trust and understanding. On the one hand, it is suspected that those who blame the financial crisis for the reduction in budgetary resources for the priority sectors, have a dual intention: to divert attentions away from the internal causes of the Mozambican financial crisis and to make themselves victims of the suspension of budget support. On the other hand, since few people know that grants have been gradually declining over the past decade (their weight in the CGE dropped from 33% in 2008 to 9% in 2015), it is easy to exaggerate the impact of the declaration of the suspension of budget support.

That is why, in some circles of domestic opinion, the message has been transmitted that the break in the long partnership with the donors around the state budget, is part of an agenda with second intentions – to weaken the negotiating power of Mozambique towards international capital attracted by the country's valuable natural resources.

It will be difficult to overcome the environment of high levels of distrust through one-off charm initiatives and marketing campaigns, seeking to restore the trust of creditors and international investors that was broken by the discovery of the hidden debts. Trust, as Arrow has written, "is an important lubricant in a social system"; very efficient in the way it makes it possible to avoid various problems. Unfortunately, from what has been observed, those who directly or indirectly abused the trust which Mozambique had won, seem to be betting more on concealing the scale and relevance of the illegalities committed than in minimising the damage in a responsible manner. It should be recalled that the two billion US dollars of illegal foreign debt represents about 50% of the total resources of the CGE, 39% of exports and 19% of the 2016 gross domestic product.

Figure 1: Structure of the Public Administration (AP) and General State Account (CGE) – Budgeting, off-budget and debudgetisation



Source: Adapted from Figure 3 of Pereira (2012, p. 44)

While it is true that such heavy indebtedness precipitated and accelerated the unsustainability of the public debt, it is no less true that the effective re-establishment of Mozambican debt sustainability will depend on substantive and wide-ranging reforms in the management of the public accounts. This is something that has not been happening, at least in the light of principles of the State Financial Management System (SISTAFE) and at the necessary pace, for the effective reversal of the economic cycle. This brings us to the core of the content of this text, dealt with in two separate IDeIAS. This IDeIAS 106 centres on the meaning and scope of *debudgetisation* vis-à-vis *on-budget* and *off-budget* expenditure, and on the question of scarcity of resources versus scarcity of budget responsibility. The next IDeIAS will try to draw lessons from this analysis and answers the four questions anticipated at the end of this text.

1. What debudgetisation is and what it is not

It is useful to start with a clarification of the scope of the State Budget (OE) and its articulation with the CGE (*on-budget*) and with other extra-budgetary resources (*off-budget*). The OE is not a consolidated budget but merely the sum of all the budgets of all the services and bodies envisaged in the law. This means that the OE, as Figure 1 shows, does not cover all the financial activity of the Public Administration (1) or of "the State" (2), in the broad sense. Such full scope is attributed to the CGE which includes two sub-sectors: The State Budget – OE - (3), concerning the State in the narrow sense, and the "Other State Accounts", concerning the "Other State Institutions" (4), established by law, such as Institutes, Funds, Municipalities, and Public Companies, among others. Thus the State (OE) (3), in the narrow sense, only covers part of the Public Administration, consisting of the ministries, state secretariats, provincial and district budgets and a series of deconcentrated services.

Inevitably, this complex institutional framework is permeable and vulnerable to eventual gaps in the legal and administrative instruments; to gaps and uncertainties which allow non-consensual readings and interpretations, including on operational concepts and indicators such as: "cash balance" and "available balance"; or "stock" and budgetary flows. The absence of consensual positions allows the entry of labyrinthine operations and mechanisms in the use of the financial resources mobilised from various sources.

It should be recalled that the structure of the State, in the broad or narrow sense, has been changed and should continue to be changed in the future, in order to rationalise the scope and inclusiveness of the public sector. Thus there

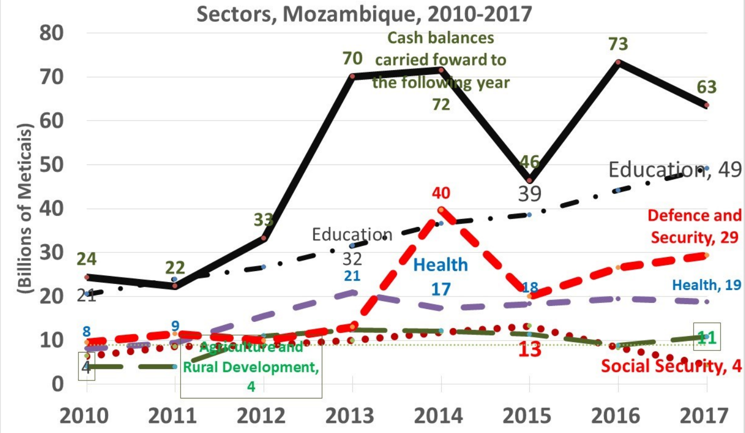
[1] see pdf and debat on Facebook, Fundação MASC; for a version with bibliographical references, contact the author.

exists a range of public entities financed, in whole or in part, with public financial resources, arising from their status of administrative and financial autonomy or even in private law (off-budget). On the other hand, the financing of institutions outside of the OE, through the Other State Accounts, should not be interpreted as a situation of debudgetisation. If that were to happen, it would mean that the bodies included under Other State Institutions would be in a situation of debudgetisation. This would end up contradicting the efforts to rationalise the state around its essential functions.

That said, what then is debudgetisation (and not off-budget, as is seen frequently in the literature) and how should it be typified? *It is the process through which part of the expenditure and revenue that was previously shown in the budget is shifted to the sphere of bodies beyond the scope of the Public Administration, and thus not subject to the financial control of the execution of the OE.*

In practice, this phenomenon is expressed in at least the five following situations: 1)The creation of bodies governed by the regime of administrative and financial autonomy without the requirements for this demanded by law; 2) The creation of limited companies the capital of which is exclusively public (State Business Sector); 3) The creation of bodies governed by private law, such as foundations, funds, institutes, among others, which from the financial and fiscal point of view, are equivalent to bodies of the administrative public sector; 4) The transfer of large budgetary resources to beyond the perimeter of the OE, supposedly to finance Other State Institutions, but, in practice, to "escape" or deceive the principles of prudent macro-economic management and good regulation of the economy and of competition; 5) The consequence of the kind of functional diarchy (or duality of resource management) arising from the donors' option for off-budget procedures.

Figure 2: Cash Balances vs Budget of Some Priority Sectors, Mozambique, 2010-2017



Source: Geral State Accont (CGE), various years

It is not possible to characterise extensively the previous typology, but it is worth giving a summary illustration of each of the five situations. The first type has no more illustrative example than the three companies set up in 2013-14 by the State Information and Security Service (SISE), with foreign loans amounting to over two billion US dollars – EMATUM ($850 million), Proindicus ($622 million) and MAM ($535 million) – debts anchored in Government guarantees that violated the ceiling on guarantees fixed by the Budget Law. Some months after the controversy had been triggered, the Administrative Tribunal recognised that that the law had been broken in two consecutive years, but it refrained from mentioning any possible sanctions against those responsible. Nor did it comment on the retroactive revision of the CGE and untrustworthy information, in sharp contrast to the positions it had taken regarding violations involving smaller sums and of lesser importance.

Falling into the second type are various public companies and companies in which the state owns shares (e.g. LAM, MCel, CFM, TDM), as well as public-private partnerships (PPPs), beneficiaries of funds to cover their liabilities, who behave in an obscure way, now as executors of projects, now as agents of line ministries. On this matter, the TA reports have listed several bodies which do not repay the loans they have received, but it does not analyse the degree of compliance of the contracts between the Treasury and the companies or other bodies.

As for the third type, while some institutes and foundations were set up in accordance with the law, there is vast obscurity about many other bodies, created by undocumented political guidelines. In a recent IMF document, we read: "The public sector is large, complex and vulnerable to corruption and mismanagement. Formally, it consists of 13 public companies (EPs) and 109 companies in which the State is the majority shareholder. In addition, the State has holdings in at least 116 private companies through joint ventures or subsidiary agreements ... The ownership structure of some of these companies is not clear, which increases the risk of conflicts of interest and corruption" (IMF, 2018b, p. 24).

The fourth type covers the cash balances, or what was referred to in previous articles as the "rolling balances". But no less important are other obscure items on the CGE, such as the so-called "Other Operations". In the 2015 and 2016 CGEs, the Other Operations accounted for 23% and 8% of total expenditure, respectively. In previous reports, the TA ignores the Other Operations, in the audit reports for the CGE. Further examples of debudgetisation range from the so-called "7 million" transferred to the districts, and cases such as: LAM/Embraer, the Agricultural Development Fund (FDA) and INSS.

The fifth type is associated with part of the significant portion of foreign aid which continues to be managed through special mechanisms, "outside the Treasury" and the public accounts. As far as can be understood, because of the controversy over the hidden debts, this amount should increase.

Figure 1 highlights one area with a question mark, signposting something undocumented, as can be deduced from the TA reports on the CGE . For example, the TA report on the 2016 CGE states: "As this Tribunal has mentioned in previous reports, the revenues received, both internal and external, should be centralised in the CUT (Single Treasury Account), as well as the payment of public expenditure, regardless of its nature, in strict observance of the principle of the unity of the treasury... However, the Executive has said nothing about the large sums which remain in the 'Other State Accounts' and 'Other Treasury Accounts' respectively, which together amount to about half the balances".

2. Shortage of Resources or of Budgetary Responsibility?

To what extent does the available data confirm the conjecture that the recent budgetary reductions in priority sectors are due to constraints arising from the general financial crisis in the country? Or do these restrictions result from selective options of questionable technical support, but which are consistent with a political culture of idolising state intervention beyond the essential limits?

To answer the previous questions, there is nothing better than letting the numbers speak for themselves. Figure 2 shows the evolution of the budgetary allocation to four priority sectors vis-à-vis the Cash Balances. Between 2010 and 2017, the Education budget more than doubled (from 21 to 49 billion MTs). Up to 2014, Agriculture tripled its budget, but since then it has been oscillating between reduction and stagnation. From 2010 to 2013 the Health budget almost tripled, but in the following years, it fell back to the level of 2011. Social Security reached 13 billion MTs, in 2015, but in the last two years it fell radically to four billion (less than half the level of 2011).

Figure 2 also shows the aggregate budgets for Defence and Security and Order. These sectors have absorbed substantial budgetary resources, in sharp contrast with the official image that the recent politico-military conflict was no more than isolated hostilities. Their budget quadrupled between 2010 and 2014 and in 2017 was almost equal to the budgets for Health and for Agriculture and Rural Development taken together.

But what does the evolution of the cash balances show? By 2014 they tripled to 72 billion meticais (1.2 billion USD, at the annual average exchange rate for 2017 – 58.44 Mts/$US). In 2015 they fell by 35%, but in 2016 reached their highest peak ever (73 billion meticais, or 1.3 billion USD). This year, 2018, the balance carried forward was about 64 billion MTs (1.1 billion USD). Among the Cash Balances, between 2010 and 2017 the proportion of the Other State Accounts averaged 44% a year.

In the next IDeIAS we attempt to draw lessons from the critical analysis of the phenomenon of debudgetisation, around four questions: 1) Why is debudgetisation a dangerous trap? 2) What are the specific dangers of debudgetisation? 3) Does debudgetisation have positive aspects? 4) Has the time come for a new phase of budgetary consolidation?

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