



Budget support lessons from post-conflict support to Mozambique

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This brief revisits lessons learned from support to Mozambique, where Denmark gathered concrete experience with post-conflict reconstruction and budget-like support. Instead of presenting ideas about aid modalities – where budget support evolves as the last step in a long chain of aid in accordance with the ‘functional maturity’ of the country involved – it is rather about experiences from Mozambique, which suggest that the use of budget-like support during post-conflict reconstruction not only plays a constructive role but can be a fundamental necessity. This challenges both Danish and EU thinking about how budget support can be used during post-conflict reconstruction.

INTRODUCTION

Mirroring an international trend, the new Danish development strategy has support to fragile states as one of its five priority areas. In line with this commitment, and as a relative novelty, the development strategy emphasizes the need to take risks and operate in risky environments. This is clearly important, not only for fragile state engagement and post-conflict reconstruction efforts, but for aid delivery more generally. Nonetheless, this also potentially creates a double-bind situation when risk-taking clashes with the consequences of risk-taking, particularly when tax payers’ hard-earned revenue is at stake and politicians become nervous about negative media coverage and bureaucrats fear for their careers. In such a situation, risk-taking is politically and bureaucratically fraught. Development aid in general, and aid to fragile states in particular, is indeed a risky business, circumscribed by processes of rent-seeking, corruption, primitive accumulation and political favouritism; besides the more mundane – but no less risky – policy, planning and implementation failures where “white elephants” can easily be nurtured. Fragile states come in many shapes and supporting them requires considerable flexibility, independence, responsiveness, and local and political knowledge in order to seize the moment of golden opportunity.

RECOMMENDATIONS

- Consider sector and general budget support from the beginning in post-conflict situations.
- Do not expect a significant impact of peace-dividends on the state budget, since such dividends seldom translate into increased economic capabilities. This makes sector/ budget support a necessity.
- Make government and state legitimacy a key criterion for how and what to support.
- Use aid for staff, input and recurrent costs in sectors that have the most rapid and significant positive impact on people’s lives, which are usually to be found in the health, education, agriculture and security sectors.

Denmark has little experience to draw on when it comes to the continuum from war through post-conflict reconstruction to democratic stabilization. One notable exception is the support provided to Mozambique over the past decades, which besides its focus on providing key state services



also contributed to creating political legitimacy in the form of popular acceptance of a contested regime, thereby bolstering its authority. This policy brief revisits the main lessons from support to Mozambique during its post-conflict reconstruction phase, when Danish aid in many ways broke new ground and, importantly, helped prepare the ground for the present emphasis on public sector reform, and sector and general budget support. In important ways, lessons from Mozambique suggest that sector and general budget support should not be only for relatively functional states, as present Danish and EU-thinking about budget support suggests, but rather that some kind of budget-like support is a *sine non qua* during post-conflict reconstruction.

PROBLEMS AND LESSONS

What speaks against budget and sector support in post-conflict societies? First, post-conflict countries often undergo multiple transitions and reforms simultaneously, which makes management of post-conflict reconstruction extremely complex for both the recipient government and aid providers, divided as they are between too many projects, sectors and processes. In Mozambique, a triple transition was embarked upon: from war to peace; from one-party state rule to multi-party democracy; and from a state-managed command economy to a liberal market economy. This entailed at least a quadruple package involving reforms in the security sector as well as political, governance and economic reforms.

Second, to expect that a state system (administration and political rule) exists that can function as a direct counterpart for aid providers is often unrealistic. But pockets of efficiency and political will can often be identified and that is usually sufficient. Third, aid providers usually provide support for long-term reforms. In Mozambique, some of the sectors, two decades on, are still under reform! Nonetheless, other less prestigious and more pressing concerns also require attention. The most important are financing post-conflict social service expectations and supporting production and the disarmament, demobilization and reintegration (DDR) programme; and here there can be problems accessing funding for immediate but important regime-legitimising concerns. As a matter of fact, revenues are often lacking where they are most needed, and here budget-like support can be of crucial importance right from the outset for several reasons.

Lesson one: War to peace dividends cannot be taken for granted

As Mozambique was emerging from a devastating, sixteen-year destabilization war with neighbouring Rhodesia and apartheid South Africa that over time resembled a civil war, it was expected that after the General Peace Accord of 1992, a peace dividend on the state budget would release funds not only for the DDR programme, but for the state budget more generally. But this was over-optimistic for at least four reasons.

First, it is well known that demobilizing armies tend to swell their numbers as part of DDR processes. In Mozambique, this was less possible for the regular government army than for the rebel army Renamo, which was allowed to include more personnel in the name of keeping the peace process running. Besides rank and file soldiers, the officer corps was massively inflated, making the DDR programme and the creation of a new joint post-war army more expensive than first expected.

Second, the regular government army was in general based on (forced) conscription, and while very badly equipped and with resources diverted for other means (embezzlement, corruption etc.), it was relatively 'cheap' with maintenance often catered for through local extraction.

Third, as the destabilization/civil war formed part of the bipolar Cold War world order, equipment and training was largely paid for by third parties, often as part of credit schemes or exchange deals (fish for weapons and so on).

Fourth, it is generally a bad idea to starve the military for funds from day one of a delicate peace process. In Mozambique, very limited funds were available since the country in general was bankrupt. 'Pensions' for members of the two officer corps consequently often took the form of payment in 'kind', such as transfers of land or other property, and in some cases preferential access to privatized state enterprises.

A lesson from the Mozambican case is that while war-to-peace dividends should theoretically be released into the general state budget, this cannot be taken for granted. Rather, it can be expected the security sector will require substantial additional funding as the DDR process drags out, pensions are catered for, and the process of forging a new army gets off the ground. Add to this that the police force – which in Mozambique was not included in the security reform – requires additional funds for territorial re-establishment when the former armies are withdrawn and demobilized. As it is clear from all post-conflict scenarios to date, crime is a major preoccupation for post-conflict populations, and managing crime and social deviance associated with crime in a popular and responsive manner becomes a prime marker of legitimacy for post-conflict governments.

Lesson two: Catch-22 situations

In Mozambique it was estimated that roughly one-third of the population was either internally or externally displaced by the end of the war in 1992. Luisa Diogo, in charge of the Mozambican state budget from 1994 to 1999 and later Finance Minister before becoming Prime Minister, made it clear that while provision of social services was expected by returnees, the funding of these services created serious problems for the government since its revenue base was depleted and the country in general was operating on a "survival budget muddling through" (Interview June 2010).

Whereas the United Nations Refugee Agency (UNHCR) had provided for social services during the war, it became the task of the Mozambican government to pay for such services afterwards. The important Consultative Group

Refugee camps and settlements, where millions of Mozambicans ended up during the war as they provided some protection, created new needs. People became accustomed to certain services like running water, education and health. We had to think about how we could provide this after the war when people returned. The cities could not absorb more people so we had to get the rural areas developed. We analysed many sectors for their potential to create job opportunities and provide services. (Interview, Member of Parliament and State Council Luisa Diogo, June 2010)

Meeting for Moçambique, held in Paris from 1992 onwards with the process culminating in 1994, dealt with funding for reconstruction of infrastructure (water, education, health, transport and communication). However, recurrent costs such as salaries, training of staff for the new facilities and running costs were not included, as they were expected to be covered by the war to peace dividend.

The second lesson is that when no such dividend was released at the end of the war, the government found itself in a Catch-22 situation: on the one hand, services had to be provided and there were funds for rehabilitating social service facilities, as this was part of the social contract the regime forged with the population, thus bolstering its legitimacy and authority; but on the other, the government had neither the trained staff for the social service facilities nor the funds to pay their salaries. As Danish experiences from Tete province in Mozambique suggest, sector and general budget-like support can successfully mitigate the Catch-22 effects.

Lesson three: Risk taking and budget-like support

In Mozambique from the end of the 1980s, structural adjustment packages and privatization reforms put further strains on state expenditures, and the reality was that no resources were available with which to pay for the state. Furthermore, as no audit had been made of the national accounts since 1977 and the state bureaucracy was at best rudimentary, there was little confidence in the governance system. Add to this a newly elected parliament after 1994 that was split in two opposing and hostile political camps, and elected parliamentarians on both sides who still had to learn how to engage with democratic organisation and institution building. Consequently, many donors opted for service provision to the poorest sectors of society through foreign non-governmental organisations (NGOs) even before the end of the war.

This created a trend where not only humanitarian relief support was provided through NGOs of all moulds but expansion into traditional state service domains followed, undermining state legitimacy and popular acceptance of the regime. A characteristic for support during the early phases of post-conflict stabilization and reconstruction is that risks are associated with all forms of support, even the most benign such as food provision, as over time it tends to compete with and potentially undermine the far more

difficult processes of stimulating local production and marketing food and commodities.

But Catch-22 situations were also dealt with in what at that time was an unorthodox manner: provision of what later became mainstreamed as sector and general budget support. As illustrated by the independent evaluation of Danish development aid from that time, despite the many problems with the state bureaucracy and the political system, support was provided to the government before the GPA in an attempt to mitigate the recurrent cost trap. This was done in various ways that either resemble budget-like support or prop up such support. Importantly, the ways in which support was provided each had multiplier effects, many of which could not be planned for or predicted. Some even set trends whose traces are still visible today.

First, cancelling of foreign debt, making sure that the 'release' is used on the social sector, is important, as the grotesque situation of in-flow of aid and out-flows of foreign currency can be stopped. But since post-conflict scenarios involve multiple and complicated transformations and reforms of political and governance systems, there is no guarantee that debt cancelling necessarily benefits the most vulnerable sections of society. Slush funds for stipulating privatization and production drives, mitigation of structural adjustment effects, elite pact formation, consolidation of the political settlement and so forth can all be politically more important than provision of social services to the poorest section of a society. Foreign debt cancelling with proviso for social service provision therefore often requires tight state accountancy work, catered for through embedded technical advisory support in order to kick-start budget support-like processes. This can be very conflictual and contested, but often sets the trend for later processes of public account reviews and acceptance of budgetary control mechanisms.

Second, while foreign debt cancelling is important for national credit ratings and macro-economic reasons, the most important forms of state debt in post-conflict societies, with implications for sector and budget support for service delivery and multiplier effects, is commonly internal debt, which tends to be forgotten. The experience from Mozambique suggests that parastatals, nationalized and state administrated/intervened-in companies, ministries and government institutions at all levels had incurred massive debt. As there was no money in circulation for debt payment and all key service-providing institutions owed each other money and operated run-down equipment, it created systemic debt. The question became: How to break the deadlock?

A few simple, but equally risky options were used that resemble present-day sector and budget support:

- To 'buy' old debt in order to break the bad-debt circle, releasing revenue to buy spare parts so that service delivery units could begin providing services when revenue/aid came in.
- To pay for recurrent costs, for example in health and education, so that nurses, teachers and doctors could be



trained and remunerated, medicine bought on a regular basis and on demand, and services like electricity, water, garbage collection and so forth could be paid for, creating a payment momentum within and between state institutions and parastatals.

Where this could be carried out at national level and sector level in Mozambique, it was by a group of donors, and support at provincial level to sectors was very effective as experiences from Danish aid to Tete suggest. Over time, buying up old debt and payment for recurrent costs created what former Prime Minister Luisa Diogo termed an “internal demand for reform in the public sector” where accountancy practices and skills were demanded by state and government personnel instead of first of all being demanded by donors, since state units, departments and institutions wanted to manage funds and provide services. It is a painstaking and slow process where many mistakes are made and risks are abundant: embezzlement happens and money disappears, not only because of corruption but also through ordinary

According to former Prime Minister Luisa Diogo, many of the present and more successful processes of reform in Mozambique involving aid have their foundation in the forms of coordination that budget-like support in post-conflict reconstruction efforts created between donor groups and government, and the demands these created in the government system at sector levels at both national and provincial level:

- They prepared the ground for later budget support modalities in Mozambique.
- They prepared the ground for the Public Sector Reform and the Public Financial Management Reform (SISTAFE).
- They drove the strong performance of the health and education sectors in poverty reduction.

incapacity to handle money and carry out planning and implementation. When such incapacity is acknowledged by those in the service systems, it creates a demand for training and skills development. With increased capacity to administer funds and plan and implement, access to funding is triggered, creating what resembles pockets of effectiveness that in turn spur other units and interested public servants to replicate their efforts.

CONCLUSION

The creation of positive moments like those described above cannot take place solely by providing support in kind or by catering for (re)construction of new infrastructure, school, health, and water facilities. There is a need to address the main problems during post-conflict reconstruction: how to break internal debt circulation and how to pay for recurrent costs, both of which require the use of budget-like support. An important by-consequence is that recurrent cost payment in key service provision areas addresses three fundamental legitimacy and authority problems that all post-conflict societies encounter: first, it creates formal jobs in the state in important state sectors like health and education, which despite being the biggest formal employer in poor developing countries, still has a relatively low ratio to the populations they have to service; second, it gets soldiers and the younger generations activated and drawn towards education and, where possible, agriculture, thus creating the possibility of a better future; third, if allowed to be used for policing, it creates formal employment and training in an area where most demobilized soldiers will try to get a job and where local perceptions of legitimacy and authority count the most – local crime management and security provision.

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FURTHER READING

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