ARTICLE

Public Financial Accountability:

A pre-requisite to the management of Development Assistance in Mozambique beyond 2015

MAKINA, C. | MAGO, D.

Abstract

In Sub-Saharan Africa, Mozambique remains as one of the poorest countries in the region receiving large volumes of Development Assistance (DA) from the international donor community yet the majority of its population still continue to suffer from poverty. This article places much emphasis on efficient and effective Public Financial Management (PFM) as a key ingredient for the achievement of both the national and international development goals in Mozambique. Through a literature based study, the article acknowledges progress that has been recorded in the Millennium Development Goals. However, the paper considers the strengthening of PFM systems through enhanced accountability and transparency as essential elements in face of the recent global development commitment to the Sustainable Development Goals. A review of challenges experienced in the era of MDGs in the country points to a need for greater transparency and accountability in the management of DA if the country is to achieve the SDGs. Thus, arguing on the basis of the Agency theory, the article proposes the adoption of a stringent governance mechanism for Public Financial Management measures to shape government and donor financial accountability frameworks with the view of creating an enabling environment aimed at ensuring the achievement of Agenda 2025 and the 2030 Sustainable Development Goal (SDG) targets.

Keywords: public financial management, accountability, transparency; SDGs, MDGs, Development Assistance, Agency theory.

Introduction

Aid, whether Official Development Assistance (ODA) or humanitarian assistance, constitutes one of the major sources of Africa's development finance. This is particularly true for Mozambique where donor funding contributes almost fifty percent of the country's budget (AFRODAD1. 2013: 7). Official Development Assistance is a major source of development financing especially for developing countries (Saungweme, 2013: 14). However, because of high volatility of official development aid, management of donor funds has become an area of concern for development. The use of donor funds and their effectiveness in development has been questioned over the years. This concern has been reflected in recent High Level Forums (HLF) discussions on development from Rome (2003), Paris (2005), Accra (2008) and Busan (2011) which began examining the effectiveness and quality of development aid.

From the Paris Declaration of 2005 to the most recent Busan Partnership Agreement for Effective Development Cooperation (BPEDC) (2011), discussions have since shifted their attention towards an outcomes based approach in the use of DA. The BPEDC (2011) clearly spells out the need for this shift. The focus is now far removed from just monitoring aid input to an emphasis on improving outcomes derived from DA. To this effect, among other key issues, transparency and accountability have taken precedence in the management of DA (AFRODAD, 2013: 7).

This article draws lessons from Public Financial Management (PFM) challenges experienced by Mozambique in managing donor funds in the Millennium Development Goals (MDGs) era to inform the post 2015 development agenda. Lessons learnt from the MDG period in Mozambique give compelling ground and impetus to enhance reform efforts towards improving Mozambique's PFM systems. A functional PFM system for Mozambique is critical if Mozambique is to succeed in achieving the goals of the new global development agenda termed the Sustainable Development Goals (SDGs). As a low income country, Mozambique still requires Development Assistance. A number of studies have investigated PFM issues in Mozambique. For instance, a study by De Renzio, Andrews and Mills (2011) focused on investigating the effectiveness of "donor support to PFM reforms in developing countries" while UNICEF (2011) looks at... and lastly the International Monetary Fund (2014) assesses fiscal transparency in Mozambique. What all these studies have in common is their focus on public financial management but they fall short on discussing in depth, the effects of the financial management challenges in the achievement of global goals on development. Daban and Helis (2010: 1) point out that literature on PFM provides little guidance on how to address PFM challenges systematically. This paper therefore makes an attempt to give suggestions on the best approach to address PFM challenges experienced in Mozambique. The scenario in Mozambique is best described by the Agency theory which is therefore the basis of the argument in support of reforms believed to change the country's PFM outlook.

This paper is divided into five main sections. The following section gives the background of the country under review and briefly highlights the key concepts discussed in the study. A brief discussion on the main PFM challenges is also given and brings out the rationale for reforms within the country's public sector. A further discussion on MDG progress is also made and it concludes with a section which speaks on the way forward for Mozambique with regard to PFM in face of the post 2015 development agenda.

Background

In Sub-Saharan Africa, Mozambique remains as one of the poorest countries in the region receiving large volumes of DA from the international donor community yet the majority of its population still continue to suffer from poverty. Mozambique has a population of 27.98 million with a Gross Domestic Product of US$15.94 billion for the year 2014 and classified as a low income country by the Bretton Woods institutions (Word Bank, 2016: 1). Though Mozambique has experienced a rapid economic expansion in the past two decades, the impact of this growth on poverty reduction has been moderate (AFRODAD, 2013; Martini, 2012: 1). The recent Human Development Index (HDI) ranked Mozambique as the 178th country out of a total of 187 measured countries (UNDP, 2013; World Bank, 2014: 13). A myriad of challenges compounding the country have largely affected the human development side and more especially, that of the poor people in society. For instance, adult literacy rate is pegged at 56% while the country's average life expectancy at birth is pegged at 50.3 years ( ). Further, the country is facing increased levels of malnutrition, malaria and high HIV/AIDS prevalence at 11.5% with much of these problems arising in rural areas and the urban poor communities. As a result of these challenges, the country's budget has prioritised key social sectors that ensure improvement of the country's HDI and pull the majority of the population from abject poverty.

It is against this background that UNICEF Mozambique (2011: 1) claims that "If national PFM are functional, social sectors also tend to perform well. If PFM systems fail, repercussions will be visible everywhere." This argument heightens the importance of having highly functional PMF systems. It suggests that the success or failure of a government is contingent upon the strength of its PFM system. Failure to develop sound PFM systems "may not only delay the achievement of results but makes them unsustainable in the long term" (UNICEF, 2011: 1). This argument is supported by findings from a study by De Renzio, Andrews and Mills (2011) assessing whether or not the support given by donors in effecting public financial management reforms work. De Renzio et al. (2011) established a positive correlation between donor support and improvements in public financial management which suggests that donor involvement in country efforts progressively improves PFM systems in developing countries.

Public Financial Management

Given such a background, it is necessary to venture into an inquiry of what can be done in order to improve the effectiveness of DA in Mozambique. Reliance on DA or aid is a reflection of a deficiency which must be corrected and this reliance is argued to distort domestic political accountability which has proved to be correct for Mozambique (Bhushan & Samy, 2014: 3). These realities make it imperative to have an understanding of the key concepts making up this study. This compels us to have an understanding of what financial management entails.

The term financial management has been defined differently by different authors. In itself, financial management is seen as an integral part of the overall management of organisations. Thus Solomon (in Paramasivan & Subramanian, 2009: 3) views it as, "concerned with the efficient use of an important economic resource namely, capital funds". In the same vein, Kuchal proposed one of the most popular and perhaps the most acceptable definition which states that "financial management deals with procurement of funds and their effective utilisation in the business." From these two definitions, it is apparent that financial management is an activity which involves the processes of securing financial resources to serve a specific function. With regard to public financial management, these resources are aimed at providing publicly consumed goods and services which therefore makes public financial management a crucial function of government which merits attention.

Public financial accountability

Many would agree with the claim that "accountability is the cornerstone of good governance. Unless public officials can be held accountable, development, social justice and poverty reduction remain elusive" (Malena &McNeil, 2010: 1). Africa is often the continent where the impacts of unaccountable and non-responsive governance are most harshly felt. Corruption and bad governance have been broadly acknowledged as major stumbling blocks to poverty reduction. These challenges place a great responsibility on African governments to improve their public financial accountability through making information available and ensuring public participation in the budgeting processes at national and sectoral levels.

Fiscal transparency

Fiscal transparency responds to the increased demand for data that is of better quality, improved budget information and the setting up of quality budget institutions. Today, fiscal information has become more standardised and can be easily accessed from up-to-date reports. Transparency therefore deals with the availability of information to the public, more especially budget documents, openness of the budget process and the availability of useful decision-making budget information (Guess, 2013: 406). These key aspects are lacking in Mozambique's PFM which also made it compelling to make an inquiry into the PFM challenges in the country. Motivation for this inquiry was also given impetus by the Paris Declaration of 2005 in which issues of accountability and transparency took shape and made recommendations to make reforms towards ensuring PFM accountability and transparency as means of ensuring aid effectiveness. Thus, the strengthening of internal and external audit institutions is critical in order to ensure the achievement of the objects of the Paris Declaration (2005) and the BPEDC (2011).

Financial management challenges in Mozambique

Following the onset of the MDGs in 2000, the World Bank undertook a financial accountability assessment in 2001 as a means to consider the strength of Mozambique's financial accountability processes (World Bank, 2001: 1). The 2001 assessment is of great significance in view of the country's PFM, for it highlighted the major issues which have partly worked against the achievement of MDGs in Mozambique. The 2015 UNECA Report in fact acknowledges that "initial conditions matter" with regard to progress in the achievement of these goals (UNECA, 2015: 62). The 2001 country financial accountability assessment for Mozambique concluded that the country's PFM systems were very weak and thus required substantial improvement and strengthening. As noted in the report, this was not going to be an easy task but one that would take several years (World Bank, 2001: 1). The significance of the allusion to this assessment lies in the events that ensued from recommendations made by the Bretton Woods Institutions over the state of PFM systems in Mozambique.

Rampant corruption in Mozambique's public sector

From 2001, a series of public sector reforms were initiated (World Bank, 2001). Of particular importance in the early years of the MDGs were reforms that were aimed at improving public financial management. Though the World Bank highlighted areas that required attention as early as 2001, follow up studies by various scholars and independent organisations seem to indicate the presence of the same challenges. For instance, a USAID (2005: iv) Corruption Assessment report on Mozambique indicates that:

> *The scale and scope of corruption in Mozambique are cause for alarm. This corruption is a symptom of democratic and governance weaknesses in the country and these structural weaknesses amplify a threat that has potential to undermine Mozambique's future development progress. As a consequence, Mozambique's nascent democratic government and the significant success of the country's development efforts are at risk*

Grand corruption in the country has led to the proliferation of substantial sums of public funds from government to the extent of the USAID (2005: 3) report stating that:

> *What is clear is that donor funds intended for development often have unintended effects on enriching a small elite of wealthy and politically powerful individuals, thus diminishing the overall impact of development assistance. Even when donor funds are audited and well managed, they can serve to free up other government funds for misuse by public officials.*

However it should be borne in mind that this problem is not uniquely Mozambican but is also a challenge that many developing countries receiving donor funding are contending with. In fact, corruption is a global challenge that is threatening development and the proper functioning of governments. What only varies amongst countries are the levels and extent to which this corruption has become an embedded activity within government functions. Perhaps in Mozambique corruption thrives because the government does not sufficiently account to its citizens nor does it to the law (USAID, 2005: iv). While laws and regulations exist to provide for an enabling framework for good governance, there is a lack of control mechanisms that actually operate in reality. In Mozambique, both the government and donors are concerned with the high prevalence of corruption in the country because corruption has undoubtedly impacted on Mozambique's efforts to reduce poverty (Martini, 2012: 1). In many respects, it is the poor that suffer the most yet they are the ones targeted by DA and project initiatives aimed at reducing poverty. A number of studies point to the country as heavily encumbered with corruption challenges. The following studies corroborate the above statement:

- Mo Ibrahim Index on African Governance (2015)
- Corruption perception Index (2011)
- Global Competitiveness Report (2010)

The above arguments reflect the state within which the PFM system of Mozambique is in. As a result of these weaknesses, foreign donor assistance is often abused and misused and the intended beneficiaries never get to benefit from donor assistance.

Fragmented aid modalities

Because of a presence of many donor agencies both multi-lateral and bi lateral, there has been uncoordinated DA which has often bypassed government reporting system thereby creating parallel systems. UNICEF (2011: 1; De Renzio & Hanlon, 2007: 2)) note that these parallel systems are created through large amounts of foreign assistance often bypassing government. De Renzio and Hanlon (2007: 3) claim the existence of a lot of inefficiencies in government spending yet much of the country's capital expenditure that supports projects in the health, education and transport sectors is financed by foreign aid. Fragmentation of aid has allowed for parallel programmes to run with non-alignment to government priorities. Ideally, in such a situation, development and pursuit of goals by donor agencies is not coordinated which in part has been attributed to the non-attainment of MDGs in the country. This disjuncture in coordination undermines the overall coherence of government policies and promotes "a piecemeal approach to addressing development problems" (De Renzio & Hanlon, 2007: 4).The 2011 Busan Agreement highlights these challenges and sought to address them through the creation of partnerships. However, the implementation of decisions reached at HLF is often slow and often meets resistance from within government departments.

Weak accountability systems: weak checks and balances

Control regimes, though noted and recommended in a number of studies have been reluctantly implemented and enforced. Martini (2012: 1) observes that the internal systems of checks and balances in the government are weak and often overshadowed by undue political influence over legislative and judiciary functions. The country's executive exercises strong influence over the legislature and the judiciary. A study by Tibana and Hodges (2004:8) observes that accountability to parliament is non-existent in Mozambique. Their study revealed that:

> *...high aid dependence means that the budget process essentially involves only two actors, the executive and foreign donors. Accountability to donors is much stronger than it is to Mozambican society...The strong influence of donors contrasts with the weakness of internal pressure on the government from the Mozambican society.*

In the scenario painted above, parliament is often "bypassed by the aid process" which means that large volumes of aid do not go through the government's reporting system. The government does not show any political will to effect change but rather maintain the status quo yet it is believed that no real change can ever happen in the absence of strong leadership that is both committed and highly motivated to effect change. Systems for managing the country's public finances are argued to be rather weak and fragmented and this has allowed for parallel donor systems to operate outside the main framework of the government (USAID, 2005: 9). Fiscal discipline is highly dependent on things like reporting standards, PFM accounting and the effectiveness of internal control systems. Hemming, (2013: 19) argues that often times, fiscal policies, no matter how sophisticated they may be, are usually compromised by a lack of capacity and inadequate arrangements that inform PFM. Reforms in Mozambique's PFM systems have had little impact on modernising and strengthening the country's accountability systems. For Mozambique, the presence of parallel donor financial systems have further weakened and complicated PFM in the country. Allan (2013: 548) in fact argues that the existence of disjointed systems of foreign and domestic financing perpetuates institutional weaknesses of PFM. These weaknesses have been exploited by an elite class where large portions of aid are channelled through projects in which a large number of elites and leading government officials and individuals from key sectors are having direct dealings with donors and thus personally benefitting from huge projects which in fact are running parallel to government systems (De Renzio & Hanlon, 2007: 9).

Weak institutional capacity

Institutions, particularly in the public sector have failed in Africa. In many instances, these institutions have been captured by the elite to serve narrow personal interests. The effect of such interferences has been a weakened ability of the state to perform its mandated duties. In short, institutions in Africa are in a bad state. In order for one to fully understand this assertion, it is essential to first have an appreciation of what an institution is. As such, a sociological conception of the term 'institution' is often used to describe "formal organisations" (Gelderblom, 2003: 8). In that regard, formal organisations thus include for instance, government departments, ministries, private corporations, municipalities and hospitals. In the same vein, Brinkerhoff (1994: 137) brings an interesting twist in trying to define what an institution is. The argument posed is that there are a range of meanings for the term in general. In one hand, an institution is viewed in the confines of clearly set rules and arrangements guiding human behaviour which are mostly underpinned by common societal norms and values (Brinkerhoff, 1994: 137). In other words, institutions are seen as a set of instructions or guidelines meant to direct human behaviour towards achieving predetermined goals.

In another turn, institutions are beheld as:

> *systematised patterns of roles, in short, as organisations, that is, formal collectives that coordinate the actions of groups if individuals to achieve specific goals... this definition is frequently narrowed to those organisations located in the public sector, ministries, parastatals, agencies and commissions* (Brinkerhoff, 1994: 137)

Both the former and latter conceptions of an institution speak closely to the current study in that, they highlight the presence of formal organisations guided by a set of rules and regulations informed by societal norms and values. Their purpose is to achieve certain predetermined goals through the coordination of individual efforts. Ideally, functional institutions will gravitate human effort towards successful achievement of goals. Thus, institutions are mechanisms through which collective actions are executed in pursuit of certain goals. With an understanding of what an institution is, it behoves us to consider the meaning of 'capacity' in the context of this study. Scheepers and Schwella (2015: 102) are quick to note that the concept 'capacity' like most concepts in the social sciences does not lend itself to a generally agreed upon definition. In many instances, the definition used often reflects disciplinary orientation within which the user is schooled like political science, sociology or economics.

Notwithstanding, there are certain key elements that stand out in most definitions. For instance, 'ability' "cannot be faulted as capacity, in real terms, has to do with the execution of tasks, functions, powers or other actions". In other words, being able to do what is required is a key part of having the capacity to do what is required. Scheepers and Schwella (2015: 102) also make a critical observation of a lack existing in the literature on the definition of capacity and 'commitment'. In their argument, this commitment is clearly defined as political commitment. Thus, the element of 'commitment' is often influenced by either collective commitment or lack of it thereof. In relation to Mozambique, political commitment towards ensuring a strong and firmly established PFM is lacking.

The above claim is supported by documented executive influence over the legislative and judiciary functions in Mozambique. There is undue political influence in key functions of the government to the extent that even when corruption charges are laid against government officials, the cases are hardly investigated further (Martini, 2012: 1). Corruption has affected and weakened a number of sectors in Mozambique. Key sectors like the judiciary, public finance management and public administration have been significantly compromised (Martini, 2012: 1). Such scenarios directly impact the PFM system of Mozambique and opens up channels of corruption and maladministration. There is therefore an urgent need to establish mechanisms that ensure that transparency and accountability measures are put in place and at par with international standards. The Busan Agreement of 2011 sought to fill these gaps and addresses these challenges.

The impact of public sector reforms in Mozambique

Since 2001, a number of reforms in PFM have been successfully implemented but there is still need for government to build on this progress. Of significance in this study are the reforms implemented with a focus on improving PFM system in Mozambique. UNICEF

(2011: 1) states that in 2002, PFM reform law brought more clarity, transparency and improvement to PFM. However, as highlighted in a number of studies on PFM in Mozambique (See World Bank, 2001; De Renzio, Andrews & Mills, 2011; USAID, 2005) the country's PFM system still remains weak. From the 2001 World Bank Assessment of PFM in Mozambique, a series of recommendations were proposed to which the government responded positively. A follow up study by the World Bank in the 2014 Public Expenditure Review reveals that the government has made encouraging progress in reforming its PFM system (World Bank, 2014).

Sach (2012: 2206) however argues that the shortfall in the achievement of MDGs in low income countries is attributed to operational failures implicating many stakeholders. With results of the MDGs hardly encouraging especially for poor countries, the question raised by Madeley (2015: 33) is that "Will the SDGs fare better?" Under such circumstances governments bear the greatest responsibility in the achievement of SDGs and Madeley (2015: 33) further argues that "unless governments act with urgency... the SDGs could be fatally undermined." For Mozambique, addressing PFM challenges is a matter of urgency. Although PFM reforms have been argued to be encouraging, DA mismanagement, corruption and a lack of coordination in aid have been highlighted as key challenges which require urgent attention. For Mozambique, arresting the decline in the flow of ODA is important because the greater majority of its population still requires this assistance. Thus, appropriate action must be taken in order to consolidate development gains made so far while at the same time improving the capacity for further development. Positive impacts of DA are likely to be more significant if there is an improvement in the management and coordination of DA.

Progress with MGDs in Mozambique

The United Nations Millennium Declaration of the year 2000 committed the signatories to efforts towards global poverty eradication over a fifteen year timeline from the time of signing guided by eight goals which became popularly known as the Millennium Development Goals (MDGs) These goals provide "a clear comprehensive and quantitative approach toward poverty reduction" (Mathews & Ohadi, 2008: 751). Great emphasis was placed on improving access to health and education systems in the poorer regions of the world. Achieving this feat also required a commitment from the global community with regard to improving and strengthening economic cooperation and environmental protection. In terms of globalisation, economic integration and environmental awareness, there is no other time in the history of the world than the past decade and half has these concerns been highly regarded and voiced out by global leaders in a bid to move the world into action.

For Mozambique, achieving the MDGs has been a mammoth task. Although there is notable achievement in reducing poverty, the greater majority of the population is still living below the national poverty line. Statistics from various sources confirm this reality. For instance, in pursuit of goal 1 of the United Nations' MDGs, the Instituto Nacional de Estatistica: Mozambique records that by 2009 Mozambique's national poverty line indicated that the country had managed to reduce poverty from 69% in 1997 to 54% of the population in 2003. Available data by 2012 indicates that 55% of the population was still below the poverty line (Instituto de Estatistica, 2012: 1). These figures indicate that though the country has made progress, much is still required. Three main social sectors show that Mozambique requires assistance from the global development community. This living reality heightens the country's need to strengthen the use of DA to ensure effective use of scarce resources. Agenda 21 makes huge financial demands which developing countries could not meet with their internal revenue sources, hence the need for ODA.

Key social sectors: Water and sanitation, Education and Health

In Mozambique, coverage levels for clean water supply and sanitation remain among the lowest in the sub-Saharan region. Official data for 2008 states that 50% of the country's urban population and 51.8% of the rural population has access to safe drinking water (WaterAid, 2010: 2). As for education, which fell under the second goal of the MDGs, attention was given to two aspects which are enrolment and attendance. By 2011, data shows that almost 75% of children in Mozambique were enrolled or attended primary school (Instituto de Estatistica, 2012: 1). In terms of health, Malaria is still considered a huge public health challenge in the country with an estimated 40% walk in cases in hospitals attributed to Malaria. With regard to reducing child mortality of the "under five mortality rate, immunisation is the generally recommended method to achieve this goal." The country has made great strides in this area increasing the level of immunisation from 58% in 1997 to 82% by 2011 (Instituto de Estatistica, 2012: 3). Over lly, Mozambique can be argued to be struggling in achieving the MDGs. However, in the face of post 2015 agenda, the government must show commitment to attend to these challenges and Public Financial prudence plays an important role.

The transition from MDGs to SDGs

As the MDGs unfinished business is carried over by a new set of goals, proper planning informed by lessons from the past fifteen years is of essence. Transition to the post 2015 global development agenda is no easy task especially for the developing countries. UNECA (2015: vii) acknowledges that sustaining and advancing the gains made in the past decade and half requires new approaches which embrace all three dimensions of sustainability which are environmental, economic and social. The thought advanced in this paper is that improvement of financial accountability and transparency in Mozambique's PFM has a very significant role to play in ensuring that the goals of Agenda 2025 and the SDG targets of 2030 will be met. As argued by Sachs (2012: 2210) low income countries will continue to need ODA during the 2015-2030 period. However, the role of ODA will decline as low-income countries are propelled to the status of middle-income. Lessons of the past must inform future engagements. Taking inventory of operations in Mozambique's PFM leaves much to be desired and thus efforts must be channelled towards building a 21st century PFM system that closes the gaps that allow for leakages in resources meant for development.

Mozambique has slowly tapered off its dependence on donor support and grants from 44% to 15% of the budget in 2013 (World Bank, 2014: 18). This decline has been attributed to an increase in revenues generated internally through tax reforms. Furthermore, recent coal discoveries are expected to impact significantly on the country's fiscal resources. By 2014, gas exploration activities are believed to have contributed to annual revenues ranging between 3 to 4% of the country's GDP. Planned developments in the gas and coal sectors are expected to generate revenues as high as US$ 9 billion by the year 2032 (World Bank, 2014: 19).

Way forward for Public Financial Management in Mozambique

The specific contribution of this paper is with regard to the means through which Mozambique's PFM systems can be strengthened. Although reforms have been initiated in order to transform public expenditure governance systems, gaps still exist in the architecture of the country's PFM systems. Considerable effort should therefore be put towards ensuring the strengthening of the country's PFM system. As noted above, transparency and accountability are elements that are still lacking in Mozambique with minimal accountability to citizens or parliament yet democratic governments owe the people an account of what they have done with available resources (Bhushan & Samy, 2014: 2; De Renzio & Hanlon, 2007:). These challenges are best described through the Agency theory which attempts to summarise problems that arise in the principal-agent relationship and at the same time provide solutions to such challenges. It is within this frame of mind that a way forward to Mozambique's financial management challenges is proposed.

Defining Mozambique's PFM reforms through the Agency theory

This article notes a few areas which are believed to have the potential of transforming the country's PFM outlook. Firstly, the availability of information in readable and user-friendly formats is one step towards creating a transparent environment where citizens are able to hold the government to account (UNICEF, 2011: 6). In this respect, the Agency theory is essential in attempting to explain the challenges experienced in PFM. As argued by Dion (2016: 574), the Agency theory like the Transaction Cost theory holds the belief that "there is a significant threat that people could behave in an opportunistic way." In the Mozambican case, the government is the "agent" while the citizens are the "principals". That considered, there is an urgent need to establish governance structures and control systems that ensure the avoidance of opportunism (Dion, 2016: 574). For Mozambique, low remuneration received by civil servants is one of the major driving forces towards opportunistic behaviour which often leads to corruption and embezzlement of public resources by those in power charged with the responsibility of delivering public services. However, studies by Fehr and Gachter (2000: 177) recommend the use of conditional bonus payments which can work as incentives that motivate agents to align their interests to those of the principals they serve. This paper proposes a PFM reform path that seeks to drive Mozambique's PFM system to match international standards.

Mozambique stands as a country in good favour of the international donors but this relationship is likely not to remain favourable if poor financial management persists. The fact that corruption is rife and the government is struggling to attend to this challenge are causes for concern which the government must hasten to address. With the recent discoveries of gas and oil fields, the country's revenues are expected to receive a boost. Management of proceeds from these resources is key in ensuring that gains from natural resources are distributed evenly to the citizens of Mozambique rather than merely benefiting a handful of powerful elites and politicians. Exertion of control over the operations and resources of a firm or organisation is considered as one of the main managerial functions (Namazi, 2013: 38). Anthony further states that management control refers to "the process by which managers assure that resources are obtained and used effectively in the accomplishment of the organisation's objectives." For Mozambique, obtaining resources has not been as challenging as it continues to enjoy the presence of eighteen donors providing General Budget Support (GBS) to the country. However, management of these resources has been challenging which therefore calls for effective reforms aimed at improving PFM system in the country.

Citizens' accountability

Achieving an accountable state is a great milestone for development; for accountability enables both the government and the people to measure progress and enforce corrective measures if results are not achieved as envisaged. Thus, this study recommends the use of citizen accountability mechanisms that put pressure on government to be accountable to its citizens on the use of public funds for development. UNICEF Mozambique (2011: 2) seeks to increase transparency through civil participation and applied budget work. In that light, social accountability measures should be strengthened in order to bring the government to account to its people. Social accountability is an approach that is argued to have the potential to enhance government accountability and transparency (Malena & McNeils, 2010: xi).

Transparency framework for curbing corruption

Ensuring that citizens are able to hold government and public officials accountable will also mean that corruption will be lessened and every opportunity for leakages in public funds is plugged. This is only possible if citizens are empowered through access to information. The Agency theory plays a critical role in ensuring that the government of Mozambique prioritises its PFM reform agenda. As argued by Leruth and Paul (2006: 4), the agency theory views bad governance and corruption "as stemming from asymmetrical information and interest divergence between those who perform tasks (the agents) and those on whose behalf tasks are performed (principals)." In this instance, the Mozambican government has limited disclosure of important information unto its citizens especially budget information (UNICEF, 2011: 6). Dissemination of this critical information is very limited which is a weakness that has often been exploited by corrupt officials. Hope (2005: 285) states that institutional reforms have been recognised as a necessity in order to drive the process of addressing capacity limitations in African governments.

The New Economic Partnership for Africa's Development (NEPAD) framework document details the purpose of institutional reforms as focusing on:

- "Administration and civil services
- Strengthening parliamentary oversight
- Promotion of participatory decision making
- Adoption of effective measures to combat corruption and embezzlement and
- Undertaking of judicial reforms" (Hope, 2005: 285).

The UNECA report of 2002 exhaustively discusses these five focus areas. Though legal frameworks to curb corruption have been put in place, these institutions remain weak and highly influenced by one-party politics.

Combating Inequality

In order to close the inequality gap in the country especially between provinces and the urban-rural inequality, the SDGs present another opportunity for countries with the desire to achieve progress. Encouraging results from Vietnam indicate a dramatic reduction of poverty with a fall of the share of the population living below $1.25 a day line from 63% in 1993 down to 2% by 2012 (Lucci & Lally, 2016: 16). The Sustainable Development Goals' emphasis on "leaving no one behind" means that public expenditure in the key sectors like health education and social protection in developing countries should focus on reaching the most marginalised. Thus Mozambique should also ensure that its budgeting process targets these sectors as means of providing social nets to the most vulnerable groups.

Conclusion

A functional PFM system is a critical pillar in ensuring the efficiency of the Mozambican government. Unfortunately, there is little existing research on how to design better functioning PFM systems more especially in theory (Leruth & Paul, 2006: 3). Though progress has been made since initial efforts to reform the PFM system, substantial upgrades are still required. Particular attention must be given to the strengthening of audit reports and overall internal controls. As suggested, building an understanding of the

Agency theory can be of significant help in shaping PFM reforms in the country in which the country's Ministry of Finance takes the role of 'principal' and all line ministries will be 'agents' driven to fulfil the expectations of the Ministry of Finance which in fact represents the interests of the public. Actively involving citizens is also viewed as a way through which transparency in public expenditure can also be enhanced. In this vein, empowering of Civil Society Organisation is advocated. For Mozambique, strengthening the oversight role of parliament over government activities is an issue that requires urgent attention. Thus, one can conclusively state that strengthening public financial management in Mozambique is amongst the key determinants for the success of the post-2015 agenda.

List of References

- AFRODAD, 2013: *The Effectiveness of Foreign Aid beyond Busan. Case studies: Zambia, Ghana & Mozambique*
- Allen, R., Hemming, R., & Potter, B.H. 2013. *The International Handbook of Public Financial Management.*
- Bhushan, A., Samy, Y. 2014. *Fiscal Capacity and Aid Allocation: domestic Resource Mobilisation and Foreign Aid in Developing Countries*. United Nations Research Institute for Social Development. Working Paper. 2014-7 May
- Brinkerhoff, D.W. 1994. *Institutional development in World Bank Projects: analytical approaches and intervention designs:* Public administration and development. 14 (2) 135-151
- Daban, T., & Helis, J.L. 2010. *A Public Financial Management Framework for Resource-producing Countries.* International Monetary Fund Working Paper. Fiscal Affairs Department. WP/10/72
- Daban, T., & Helis, J.L., 2010. *A Public Financial Management Framework for Resource-Producing countries.* IMF Working Paper: Fiscal Affairs Department. WP/10/72
- De Renzio, P., & Hanlon, J. 2007. *Contested Sovereignty in Mozambique: the dilemmas of Aid dependence.* Managing Aid Dependency Project: *GEG Working Paper 2007/25*

- De Renzio, P., Andrews, M., & Mills, Z. 2011. *Does donor support to Public Financial Management reforms in developing countries work? An analytical study of quantitative cross-country evidence.* Overseas Development Institute. Working Paper 329
- Dion, M. 2016. *"Agency Theory and Financial Crime: the paradox of the opportunistic executive.* Journal of Finance and Crime. 23 (3) 574-587.
- Gelderblom, D. 2003. *Social Institutions*. Cape Town. Oxford University Press, Southern Africa
- Government of Mozambique, Instituto Nacional de Estatistica. 2012. *National Data for monitoring the Millennium Development Goals.*
- Guess, G.M. 2013. *The International Handbook of Public Financial Management.* Book Review: Public Administration & Development. 33 (5) 404-407.
- Gumende, A. 2012. Statement to the United Nations Plenary meeting of the 67th Session of the UN General Assembly: At the Joint Debate on Agenda Items 63 (A) and (B). NEPAD: *Progress in implementation and international support and Item 13. Decade Roll Back Malaria in Developing countries particularly Africa. New York. 18th of October 2012.*
- Hope, K.R. 2005. *Towards Good Governance and Sustainable Development: The African Peer Review Mechanism. Governance:* An International Journal of Policy, Administration and Institutions. 8 (2) 283-311
- Lucci, P., Lally, S., 2016. *Starting strong: The first 1000 days of the SDGs. Informing a set of regional dialogues on SDG early implementation*. Overseas Development Institute. London
- Madeley, J. 2015. *Sustainable Development Goals. Broadbrush*. Appropriate Technology: 42 (4) 32-33
- Malena, C., & McNeil, M. (Eds) 2010. *Demanding good governance. Lessons from Social Accountability Initiatives in Africa.* Social accountability in Africa: Washington DC. World Bank
- Martini, M., 2012. *U4 Expert Answers: Overview of Corruption and anti-corruption in Mozambique.* No 322: 1-13
- Mathews, S., & Ohadi, N. 2008. *Transformative role of local government to achieve the United Nations Millennium Development Goals. Journal of Public Administration. 43 (Special Issue 4)*: 749-766
- Namazi, M. 2013. Role of the Agency theory in implementing management's control. Journal of Accounting and taxation. 5 (2) 38-47.

- Paramasivan, C & Subramanian, T. 2009. *Financial Management.* New Delhi: New Age Publishers
- Sach, J.D. 2012. *From Millennium Development Goals to Sustainable Development Goals.* Lancet: Volume 379. 2206-2211
- Saungweme, T., 2013. *Trends in Official Development Assistance to Developing Countries and Possibilities of alternative financing mechanisms.* Russian Journal of Agricultural and Socio-Economic Science: 9 (21) 14-17
- Scheepers, L., & Schwella, E. 2015. *The Municipal Institutional Capacity Model (MICM). A framework for improved municipal performance in South Africa*. *Administratio Publica*. 23 (4) 95-115
- UNDP. 2013. *Human Development Report 2013: The rise of the South: Human Progress in a diverse world.* Explanatory note on 2013 HDR Composite Indices: Mozambique
- UNECA. 2002. *Guidelines for enhancing Good Economic Cooperation and Corporate Governance In Africa*. Addis Ababa
- UNECA. 2015. *MDG Report 2015: Lessons learned in implementing the MDGs*
- UNICEF. 2011. *Engaging in Public Finance Management- A system-wide approach to sustainable*
- USAID. 2005. *Corruption Assessment: Mozambique Final Report.* Washington DC
- WaterAid. 2010. *Mozambique 2010-2015 country strategy.* July 2010.
- World Bank. 2001. *Mozambique: Country Financial Accountability Assessment.* Report No 25731-MOZ
- World Bank. 2014. *Mozambique Public Expenditure Review. Addressing the Challenges of Today, Seizing the opportunities of tomorrow*. Report No 91153-MZ
- World Bank. 2016. *Mozambique Economic Update: Navigating Low Prices*

AUTHORS' CONTACT:

MAKINA, Clive
School of Government and Public Administration
University of Fort Hare
Email: cmakina@ufh.ac.za

MAGO, David
Dept. of Development Studies
Great Zimbabwe University
Masvingo, Zimbabwe
Email: magodavidd@gmail.com