5. BUDGET REFORMS IN MOZAMBIQUE: TOWARDS A POLITICAL ECONOMY APPROACH

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Introduction

Public Financial Management (PFM) is the process by which governments raise revenues and allocate, spend and account for public resources. The quality of PFM systems, therefore, is a key determinant of government effectiveness. The capacity to direct, manage and track public spending allows governments to pursue their national objectives, including economic growth and poverty reduction. Moreover, the quality of PFM systems affects governments' capacity to deliver services effectively in important ways, and hence have potentially strong implications for their efforts to reach the Millennium Development Goals (MDGs).

Recent debates on aid effectiveness have led to a shift in views on how aid can work better. Principles for enhancing aid effectiveness have been agreed by donor and recipient countries in the Paris Declaration on Aid Effectiveness (OECD 2005), along with a series of indicators and targets for tracking progress. Following such principles, evolving aid relationships in many recipient countries with a better performance record and stronger institutions are increasingly relying on programmatic delivery modalities, such as sectoral or General Budget Support (GBS). This is intended to increase government ownership of aid-funded development policies and programmes, reduce the transaction costs associated with fragmented aid delivery, and strengthen domestic accountability.

As more resources are channelled to poor countries, and increasingly through modalities that rely on, or at least are compatible with, country systems and procedures, budget processes assume new importance, as the main mechanism not only for allocating and spending aid resources, but also for delivering on development outcomes. PFM systems have therefore been an increasing focus of donor attention, their strength and adequacy being assessed for fiduciary purposes before aid is channelled via national budgets. Over the past few years, various methodologies have been developed to track PFM system performance over time. The joint IMF-World Bank HIPC assessment framework, used in 2001 and 2004 to gauge the capacity of countries benefiting from debt relief to track poverty-reducing expenditure was the first such attempt in low income countries[53], highlighting the opportunities and challenges in using indicator-based assessment instruments. In 2005, a much more detailed framework was developed after extensive consultations by a group of donor agencies called the Public Expenditure and Financial Accountability (PEFA) partnership, which has now become the standard tool in assessing PFM systems[54]. Mozambique, having received both debt relief and increasing amounts of budget support over the past few years, has been subjected to both assessments. In 2001 and 2004, HIPC assessments were carried out, while in 2005 an assessment using the new PEFA methodology took place. A follow up assessment is planned for 2007.

Early experience with PFM reforms has highlighted the many difficulties encountered in the implementation of PFM reform programmes in many countries, pointing to the need to understand better some of the underlying forces (social, economic and, above all, political) which influence the budget process and drive reform efforts. Dorotinsky and Floyd (2004) have summarised some findings on PFM developments in heavily indebted poor countries (HIPCs) since the mid-1990s. They conclude that, while budget formulation has improved in a number of countries, budget execution and accountability are still very weak in the majority. Thus, fewer than a third of the 20 countries surveyed had budget outturns which were close to the budget as adopted, and 90% of the African countries surveyed failed to produce final audited accounts within 12 months of the end of the fiscal year, rendering meaningful parliamentary oversight impossible. The authors also argue that paying more attention to institutional and governance arrangements is essential for designing and implementing PFM reforms. They note that:

> Apart from tepid political commitment in some countries, the complexity of numerous initiatives (for example, an integrated financial management infor-

mation system, an MTEF, activity-based budgeting, and performance management) quickly drains available capacity and slows all reforms. (ibid., p. 207)

A more recent review of progress in 26 HIPCs (IDA/IMF, 2005) using the IMF-World Bank assessment methodology based on 16 different indicators of the quality of PFM systems, found that PFM performance had shown a slight improvement overall between 2001 and 2004, although the extent of progress had been mixed across countries and indicators. These mixed results happened despite substantial donor support, with an average of 7 donor agencies involved in PFM reforms in each country.[55]

A recent World Bank evaluation, *Capacity Building in Africa* (World Bank, 2005), concludes that 'while there have been successes, Bank support for capacity building has encountered considerable difficulty in the area of public financial management'. The report criticises the frequent focus on reorganising government units and on sweeping, unfamiliar techniques such as performance budgeting which have been 'transplanted from outside the country' and 'depend on consultants for implementation'.

These critiques point to certain flaws in the design of many donor-supported PFM reform programmes, which tend to pay too much attention to complex technical solutions and too little to existing constraints in terms of capacity, incentives and political-economy factors. Similar views were also expressed by a group of African senior budget officials, who stressed how 'incentives are important when reforms are implemented. Only rules that can be enforced and institutions that will matter should be introduced', while 'a sophisticated system that gets it right on paper is often destined to fail in implementation' (CABRI, 2005, p. 16).

Existing evidence therefore seems to support the claim that the main reasons for slow progress in PFM reform could belong to three different but interrelated categories. First, there is limited *capacity* within recipient governments to manage complex reform processes with highly technical components. Secondly, supporting donor agencies lay emphasis on 'big bang' *approaches* which aim at introducing a number of reforms at the same time, without giving due attention to sequencing matters or to political and technical feasibility. Finally, the *underlying factors* determining government willingness to embark on different reforms have clearly not been fully understood or taken into account in the design of donor interventions.

This paper is a preliminary attempt to look at ways in which the third of these factors, related to political economy issues which are more difficult to observe and therefore to interpret, can be usefully incorporated in policy-oriented research on budget reforms in low income countries.

The paper is organized as follows: section 2 gives a brief outline of recent PFM reforms in Mozambique. Section 3 summarises the methodology used to assess the progress in budget reforms, using data and information from both the HIPC and PEFA assessments, and analyses the results. Section 4 provides some the basic elements of a political economy approach, suggesting lines of enquiry and working hypotheses for a more in-depth study of the political economy of budget reforms in Mozambique. Section 5 concludes.

Recent PFM reforms in Mozambique

Since the first structural adjustment program in 1987, Mozambique has become a showcase of the growth and poverty reduction benefits of programs based on the 'Washington Consensus', with the implementation of a series of market-based reforms under the guidance of the World Bank and the IMF, which have transformed the role of government in economic policy-making. It has also been one of the first countries to benefit from debt relief under the HIPC initiative, supported by a PRSP (in Portuguese, *Plano de Acção para a Redução da Pobreza Absoluta*, herein PARPA) which was approved in 2001. The Government's medium-term strategy, reflected in the first PARPA, is based on maintaining macroeconomic stability, encouraging the private sector, promoting investment, rehabilitating infrastructure and developing human capital. The priority areas identified for public expenditure were education, health, agriculture and rural development, infrastructure and good governance. The second PARPA, which covers the period 2006-2009, puts more emphasis on economic growth and its importance for poverty reduction than the first one, and was formulated with the help of a series of sector working groups.

Since the late 1990s, Mozambique has also embarked on a series of so-called 'second generation reforms', focusing on a comprehensive public sector reform program designed to increase the capacity and effectiveness of the public sector in delivering services and promoting growth and development. Decentralization, improved Public Financial Management (PFM), pay reform, legal and judiciary reforms, and anti-corruption initiatives all fall under this agenda, which is progressing at a slower rate than expected. These reforms include the strengthening of planning and budgeting systems, from the introduction of a Medium Term Fiscal Framework (*Cenário Fiscal de Médio Prazo, CFMP*) and of an Integrated Financial Management Information System (IFMIS, or in its Mozambican incarnation, *Sistema da Administração Financeira do Estado*, SISTAFE) to a clearer definition of the budget calendar, and of the roles and responsibilities of the different institutions involved.

These reforms are the result of two key pieces of legislation: the Budget Framework Law of 1997 and the SISTAFE Law of 2003. The objectives of such efforts were to: (a) improve the coverage and transparency of the management process of public finances (revenues and expenditures); (b) gradually assure effectiveness and efficiency of public spending according to policy objectives; and (c) enhance and assure long-term sustainability of fiscal policy and processes (Sulemane 2005).

Donor support for these processes has been substantial. As can be seen from Table 1, over the past 10 years Mozambique has received US$39m in technical assistance for PFM reforms from bilateral donors alone[56], a level which is higher than most other similar Sub-Saharan African countries, excluding Tanzania. This is linked to the increasing amount of aid flows being channelled directly through the country's budget. General Budget Support increased from about 2.7% of net official development assistance (ODA) in 2000 to about 14.1% in 2003 and 18.6% in 2004 (Batley et *al.* 2006), with overall resources that now top US$300m per year.

TABLE 1: Donor support for PFM reforms

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Mozambique	2.6	3.6	1	0.1	0.3	1	4.1	5	9	5.1	7.4	39
Tanzania	1.4	1.9	1.5	2.7	3.6	1.8	3	3.3	9.1	7.9	13.3	49.5
Zambia		0.1	0.2	0.2	0.2	0	0.3	0.8	2.5	6.1	10.9	21.3
Burkina Faso		9.8			0.8	0.6	0.5	0.7	1.3	1.9	1.8	17.3
Malawi		0	0.1	0.1	0.2	0.8	1.7	1.3	1.3	1.2	2.1	8.9

Source: www.oecd.org/dac/stats

Despite high levels of donor support, the quality of budget systems in Mozambique is still deemed to be quite low. A recent evaluation of budget support (Batley et al. 2006) stated that:

> The budget, planning and accounting systems on which donors are aligning are weak. Mozambique is a country with a high level of fiduciary risk, owing

> more to the weakness of its public finance management (PFM) system than to deliberate corruption or gross misuse of funds. There are serious and justified concerns over the effectiveness of un-earmarked aid flows entering a budget that is incremental in nature, is de-linked from costed outcomes, exhibits little improvement in operational efficiency over time, depends on vulnerable and non-transparent procurement practices, and remains an ineffectual indicator of how money is spent and allocated. (p.8)

A fiduciary risk assessment carried out in 2004 on behalf of the GBS donors (Scanteam 2004) also stressed that, despite an overall positive trend and a structured and comprehensive PFM reform programme, 'comprehensiveness and transparency of the budget is poor, medium-term planning and budgeting is weak, while budget execution and accounting and reporting present quite serious weaknesses' (p.1). Even the 2007 Joint Review, the annual meeting where donors and government discuss progress on their reciprocal performance, noted that:

> The risks associated with the PFM system decreased, but they continue to be considerable. Notably, the control framework is still weak, both in terms of compliance with legal and control mechanisms, and in terms of follow-up to internal and external audit processes. There's a need to ensure rapid implementation of PFM reforms. It's also important to note that the strategic allocation of resources to achieve better regional equity, and a closer link to the results foreseen in the PARPA II, together with efficient service delivery, are two fundamental objectives that deserve more attention.
>
> (Aide Memoire, April 2007. Translated from Portuguese)

Many of the opinions and assessments presented above, however, are often not based on a hard evidence base of the actual progress in PFM system reforms over the past years, but rather rely on a snapshot of the situation at a particular point in time. Looking at the actual results of the various assessments which have taken place, especially those that allow for inter-temporal comparisons, is therefore particularly useful in this respect. The next section does exactly that, in order to come to a clearer picture of how much improvement (or lack thereof) there has been in the quality of PFM systems in Mozambique since 2001.

Methodology, Results and Analysis

The HIPC assessment methodology was designed as an element of the strategy linked to international debt relief initiatives to ensure that the additional resources generated by debt cancellation were going to be used for poverty reduction purposes. In particular, the Boards of the World Bank and the IMF wanted to assess the capacity and strength of country PFM systems to track public spending, especially in areas that are crucial for poverty reduction, such as the delivery of basic services. The methodology revolved around 15 indicators, ranked from A (best) to C (worst), focusing on the primary dimensions of PFM performance: (a) *budget formulation*, covering the design of basic budgetary institutions and aspects of the process to prepare the annual budget; (b) *budget execution*, covering core aspects required to implement the budget; and (c) *budget reporting*, covering in-year, and end-of-year financial statements[57]. The basic idea is that the stronger the budget institutions are, the more governments will be able to use public resources (including debt relief) effectively in poverty reduction. In 2001, the methodology was applied in 24 HIPC countries. A slightly revised one, with an additional indicator on procurement systems, was used again in 2004 in 26 countries. In both cases, Mozambique was included in the sample, having been among the first countries to become eligible for the HIPC initiative[58].

In 2005, the PEFA framework was finalised. While it clearly draws on and is inspired by the HIPC methodology, it covers a much broader range of areas. It is based on a set of 28 high-level indicators, often composite in nature, which measure PFM system performance along six critical dimensions: (a) *credibility* of the budget; (b) *comprehensiveness* and *transparency*; (c) *policy-based budgeting*; (d) *predictability* and *control* in budget execution; (e) *accounting, recording and reporting*; and (f) *external scrutiny* and *audit*. Three additional indicators on donor performance are also included. The methodology is also based on much more detailed guidance on how to score each indicator, based on actual evidence gathered from government documents or other sources. The PEFA methodology has been used twice in Mozambique already, in 2005 (Lawson *et al.* 2006) and in 2007 (Lawson *et al.* 2008).

Important differences between the HIPC and PEFA approaches need to be recognized. HIPC expenditure tracking assessment followed a systems-approach, looking at critical elements of the over-all PFM system. The HIPC approach focused on the capacity of country PFM systems to track and report on spending on poverty reduction, including both a country's own resources and resources freed-up through debt relief. For this purpose, for each indicator, a 'benchmark' performance level was identified. Taken in total, if a country were able to meet the benchmark for all indicators, it would be deemed able to track and report reliably on spending on poverty reduction. The PEFA approach also follows a systems approach, but includes a broader set of indicators covering more of the PFM system. The PEFA framework is meant to provide an overall assessment of the quality of PFM systems, without defining any specific benchmarks. While the HIPC assessment was targeted towards low-income country PFM systems, the PEFA framework is developed to be broadly applicable to all countries, regardless of level of development, embedding international good practice standards.

Despite these differences, it is often possible to use the information contained in the PEFA reports and 'map it back' onto some of the original HIPC indicators in order to update them. In this way, a small dataset containing scores for 11 indicators is available for Mozambique covering 2001, 2004, 2005 and 2007[59]. The overall results are summarised in Table 2 below.

TABLE 2: HIPC Assessment Scores, Mozambique 2001-7

	HIPC Indicator	2001	2004	2005	2007	Var.
Formulation	1. Budget coverage	B	A	A	A	↑
	2. Unreported extra-budgetary sources	C	C	B	B	↑
	3. Budget reliability	B	B	A	B	↑ ↓
	4. Inclusion of donor funds	B	B	B	B	=
	5. Budget classification	B	C	C	C	↓
	7. Integration of medium-term forecasts	B	B	B	B	=
Execution	8. Evidence of arrears	A	A	A	A	=
	9. Effectiveness of internal control system	A	B	B	B	↓
	10. Tracking surveys are in use	C	C	C	C	=
	11. Quality of fiscal information	B	C	C	C	↓
Reporting	15. Timeliness of audited financial information	C	C	B	B	↑
No. of benchmarks met		**4**	**3**	**4**	**4**	↓ ↑

Source: IDA/IMF (2001), IDA/IMF (2004), Lawson et al. (2006), Lawson et al. (2008).
The number of each indicator corresponds to that in the original HIPC methodology.

The results show that in terms of benchmarks met, Mozambique's overall performance has been stagnant, with a small but temporary decline in 2004. They also show that performance has been better (and improving) in the area of budget formulation, while budget execution saw some deterioration, and budget reporting improved, albeit from a low base. Some of the 2001 scores seem to deserve a certain degree of doubt, especially the ones on budget classification and on internal control systems[60]. In both cases, it can be argued that the situation did not worsen over the period 2001-2004, and that therefore this skews the overall picture. Also, while the PEFA Assessments record some clear improvements in the quality of internal controls between 2005 and 2007, these do not translate in a better score on the HIPC indicators, given the definition of the benchmark.

There are some limitations to the analysis based on the HIPC assessment framework, however, which calls for the use of a slightly modified methodology (de Renzio and Dorotinsky 2007). Using the reduced number of original HIPC indicators for which information is available means that the three categories used to summarize the results – budget formulation, execution, and reporting – are less meaningful for this update. For budget reporting, only one original indicator is included, making it less significant. As a consequence, it might make sense to replace the sub-division along the different phases of the budget process with another one based on three basic dimensions of budgeting:

a) *the quality of budget information* (based on HIPC indicators 1, 2, 4 and 5), to assess the coverage, comprehensiveness and clarity of the budget documents;

b) looking at *the budget as a reliable policy instrument* (based on HIPC indicators 3, 7 and 10), in order to check the extent to which budgets are implemented as approved, contain a medium-term perspective and allow for tracking of resources to service delivery points; and

c) the *effectiveness of control and oversight functions* (based on HIPC indicators 8, 9, 11 and 15), to ensure that adequate mechanisms are in place to guarantee respect for existing rules and procedures, and to promote transparency and accountability.

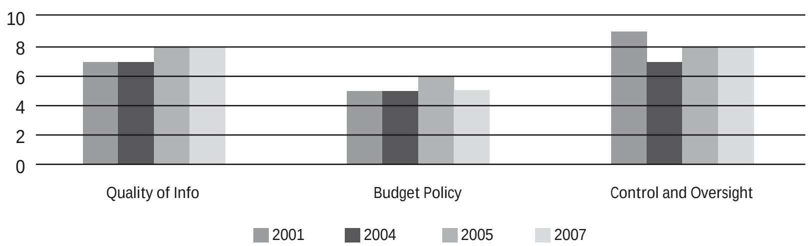
Secondly, using 'benchmarks met' as a measure of performance could hide changes above or below the threshold. In this sense, it might be preferable to use raw scores instead which assign a numerical value to each possible score[61], regardless of whether it meets the benchmark or not. Reporting on raw scores rather than benchmarks met will reveal more variation in performance. The benchmark approach, as a fixed standard, can be expected to show less over-all variation over time. While useful for assessing progress towards expected standards, it can mask performance changes more generally. Countries might improve or decline in performance on raw scores, but still meet or fail to meet a benchmark. Table 3 shows the results using the modified methodology.

TABLE 3: Raw scores by area, Mozambique 2001-7

	HIPC Indicator	2001	2004	2005	2007	Var.
Quality of Info	1. Budget coverage	2	3	3	3	↑
	2. Unreported extra-budgetary sources	1	1	2	2	↑
	4. Inclusion of donor funds	2	2	2	2	=
	5. Budget classification	2	1	1	1	↓
	Sub-total	**7**	**7**	**8**	**8**	↑
Budget Policy	3. Budget reliability	2	2	3	2	↑ ↓
	7. Integration of medium-term forecasts	2	2	2	2	=
	10. Tracking surveys are in use	1	1	1	1	=
	Sub-total	**5**	**5**	**6**	**5**	↑ ↓
Control & Oversight	8. Evidence of arrears	3	3	3	3	=
	9. Effectiveness of internal control system	3	2	2	2	↓
	11. Quality of fiscal information	2	1	1	1	↓
	15. Timeliness of audited financial information	1	1	2	2	↑
	Sub-total	**9**	**7**	**8**	**8**	↓ ↑
	TOTAL	**21**	**19**	**22**	**21**	↓ ↑

The modified methodology paints a similar but slightly more detailed picture of Mozambique's performance in improving its PFM system, with at least partial or more recent improvements in all three main areas (see also Figure 1). Improvements in the quality of budget information were driven by better coverage of overall government operations, and a reduction in extra-budgetary funding (although this is, by its very nature, very difficult to gauge). Budget reliability (in terms of keeping outturn close to original budget projections) has been quite good although variable, rendering the budget a useful policy instrument despite the lack of clear progress on medium-term frameworks and expenditure tracking. And finally, improvements in oversight have been only partly offset by a continued problem with internal controls.

FIGURE 1. Total socre by area, Mozambique 2001-07



Source: Author

What are some of the more general conclusions that can be drawn from the above analysis? First of all, despite some of the mentioned methodological issues, relying on indicators-based assessments which are comparable over time allows a clearer picture to emerge of actual progress in the quality of the various basic elements of a PFM system. The repetition of PEFA assessments in Mozambique, in this respect, is likely to generate a wealth of information which will allow for a much more detailed analysis of progress in different areas.

Secondly, the analysis of the results over the period 2001-2007 shows that there have been improvements in the PFM system in Mozambique, especially with regard to budget coverage and transparency, and to the role played by the *Tribunal Administrativo* and Parliament in external oversight. Important weaknesses seem to persist, however, in the area of internal controls, despite the more positive trend noted in the most recent PEFA assessment.

Systems related to payroll control and procurement, which cover the great majority of public expenditure, have improved significantly, but other areas have performed less well. Expenditure tracking, for example, is done only at a very aggregate level, preventing a clear assessment of the impact of budget resources on service delivery. Overall budget credibility has also not improved. Moreover, the integrated financial management information systems (e-SISTAFE) component of the ongoing reforms, which is meant to improve the transparency and speed of execution and reporting, has been repeatedly delayed, as can be seen from the successive Joint Reviews. These elements, while showing an overall positive trend, are still undermining the quality of budget management, and raise questions about the extent to which other improvements can actually have a positive impact on the effectiveness of public expenditure.

Finally, an analysis of the positive, but slow and uneven, progress shown in PFM reforms can be used to look at the effectiveness of donor support for PFM reforms, and more generally of aid policies in Mozambique, and at the factors influencing the pace of progress in improving budget systems. The GBS evaluation mentioned above states that 'GBS has been influential in planning and budgeting, not only through its funding but also through the focus of dialogue on the national budget and shared policy objectives. It supports changes in the relationship and reporting lines between core government and line ministries, and between line ministries and donors […] The budgetary process is beginning to be adjusted to support a more coordinated and directive government strategy' (Batley et *al.* 2006, p. S5).

While the Government clearly sees (and has repeatedly stated) the benefits of moving towards GBS and other programmatic forms of donor support, in order to reduce aid fragmentation and increase the volume of resources which flow through the national budget, there are some contradictions which need to be highlighted[62]. First of all, as long as different aid modalities coexist in Mozambique, the administrative burden of aid coordination is probably increasing rather than decreasing, as government officials need to devote attention both to the large number of projects that still exist, while at the same time attending a large number of meetings created as part of the GBS machinery. Secondly, as Richard Batley notes in a recent study on *The costs of "owning" aid*, 'the demands on government for improved financial management and reporting, however valid, are certainly heavier' (2005:422).

Coming to a more comprehensive and exhaustive explanation of progress in PFM reforms, however, is no easy task. Looking at experiences from different countries, Andrews and Turkewitz note how 'the typical suspects of budget and financial management reform failure are poor political will and weak budgeting and financial management capacity' (2005:205). Quite often, however, these general factors are not unpacked and problematised, leaving both donors and recipient governments frustrated by a lack of understanding of the real reasons for lack of progress in PFM reforms.

On politics, their case studies show, unsurprisingly, that political support for reform is important, and that such support needs to be followed through with more specific bureaucratic and technical support, and sustained through periods of political change. On capacity issues, Andrews and Turkewitz claim that

> capacity building has supply and demand facets, with constraints on both sides hindering necessary capacity development […] Major factors influencing capacity building included politics, resource access, bureaucratic politics, unsympathetic and unwavering organizational structures, entrenched and "accepted" practices that ran contrary to the reform, the involvement of external agencies, and internal culture (2005, p.207-8).

A World Bank evaluation of capacity building (World Bank 2005) also notes that capacity-building efforts can be undermined by difficult governance issues, including the non-implementation of agreed reforms, particularly in areas such as procurement and parliamentary oversight.

Political economy factors, therefore, seem to be crucial in shaping the success or failure of PFM reforms, both directly and indirectly by influencing capacity building efforts. The crucial issue of how to interpret and expand such findings in the case of Mozambique is addressed in the following section, which aims to draw the basic elements of a political economy approach for the analysis of budget reform processes.

Towards a political economy approach

The term 'political economy' is most often used to refer to interdisciplinary studies that draw on different social science disciplines to explain the interaction and reciprocal influence between political institutions, the socio-cultural environment, and the economic system prevalent in a country. In other words, a political economy approach seeks to interpret phenomena at the interface between the economic and political spheres (as is typical of public policy issues, including budgets) by looking at the various actors involved, their capacities and interests, the formal and informal institutions that shape the environment in which they act, and the incentives which they face[63].

Budget processes and budget reforms are often approached from a more technocratic angle, looking at rules, regulations and practices. This, however, denies the fact that the budget is first and foremost an arena of political confrontation between competing interests, where each actor is motivated by a different set of interests and capabilities, and faces different incentives and constraints. A political economy approach is therefore the most adequate for going beyond simplistic explanations of capacity constraints and 'lack of political will', and taking a closer look at the underlying dynamics of budget processes and reforms. A recent DFID briefing paper on this matter puts it well:

> Lack of 'political will' is often identified as a major cause of reform failure. However, this recognition often reflects an insufficient appreciation of the political economy of policy reform, both its design and its implementation. Dysfunctions in PFM systems are often the result of political failures, as much as technical weaknesses. Technical capacities and political incentives interact to explain the functioning of budgetary systems. (DFID 2007, p.7)

A brief look at the list of actors normally involved in the budget process immediately reveals its complexity. Politicians and bureaucrats, central, sector and local government agencies, parliaments and audit institutions, political parties, the media and civil society, not to mention donor agencies in poor countries all participate in different ways in the budget process, and have different interests, incentives and commitment to improving its process and the related outcomes. Table 4 lists some of these actors in Mozambique (limited to the budget formulation phase), highlighting some of the issues and contradictions involved.

All of these actors are embedded in a system of formal institutions, such as constitutions, laws and regulations, and of informal norms, linked to political bargaining, patronage, party allegiances or other influence networks, and links with business interests or other lobby groups. The questions that are then most likely to be key in determining whether reforms are adopted and achieve their objectives are:

Who sets the agenda? Who gets what, when and how? Who knows whom, why and how?

The limited literature that exists on these matters[64] points to two important common issues. Firstly, there can be a significant gap between formal processes and informal practices, between the formal rules of the budget process and the informal institutions shaping budget outcomes. In this sense, power and politics help explain why studies in different countries have described the budget as a "theatre" (Rakner et al. 2004), as a "façade" (Killick 2004) or a "deceptive mirage" (Pradhan 1996). What matters, however, is the interaction between formal and informal institutions, whether they support each other or neutralise one another. In Malawi, for example, sound formal rules and procedures are in place, but are distorted by informal practices which determine the actual distribution of budget resources. The budget provides the illusion of rationality, partly to please foreign donors. Moreover, the incentives of the main stakeholders (the bureaucracy, the government, the legislature, civil society as well as donors) undermine, intentionally or unintentionally, formal institutions at each stage of the process (Rakner *et al.* 2004).

Secondly, looking at the broader political environment, many African countries are characterised by a particular institutional configuration that is based on the coexistence of a formal democratic state with its bureaucracy, and an extensive informal system based on patronage and clientelism. Such regimes have been termed 'neopatrimonial' (see van de Walle 2001 and 2005, Chabal and Daloz 1999, Cammack 2007).

Table 4. Actors in the budget formulation process in Mozambique

<table>
<tr><th>Actor</th><th>Main Role</th><th>Issues</th></tr>
<tr><td>Parliament</td><td>Parliament comments and approves PQG, PES and OE, and reports on plan and budget implementation.</td><td>• Parliamentary Committee is quite active, but has limited means and capacity.
• Nature of political system prevents constructive dialogue in Parliament, with block voting guaranteeing approval of government plans and budgets.
• Opposition offers little constructive criticism.</td></tr>
<tr><td>Council of Ministers</td><td>The Council of Ministers approves all government policies and documents before they are submitted to the Parliament for consideration.</td><td rowspan="2">• CoM does not seem to play a large role in strategic decision-making.
• CoM has not approved CFMP until 2006, but only budget when ready to be submitted to Parliament.
• Lack of clarity in division of roles between MF and MPD
• Limited ‘challenge function’ vis-à-vis sector proposals.
• Separation between detailed budget information and results information between OE and PES.</td></tr>
<tr><td>Government Central Agencies</td><td>MF and MPD are the two main agencies tasked with planning and budgeting. They collect information and proposals from the sectors, coordinate efforts and compile main documents (PARPA, CFMP, PES, OE)</td></tr>
<tr><td>Government Sector Agencies</td><td>Sector ministries provide all detailed inputs for central plans and budgets, but at the same time undertake sector-specific planning and budgeting exercises.</td><td rowspan="2">• Often sector strategic plans and annual operational plans have not been fully consistent with PARPA and PES.
• Sector incentives are not aligned with the objectives of integrated strategic planning and budgeting, mostly because of fragmented and specific funding sources.
• Existing legislation gives little autonomy to Provinces and Districts, although this is gradually changing.
• Full autonomy given to Municipalities prevents better integration of planning and budgeting processes.
• Legal framework for local government finances is incomplete.</td></tr>
<tr><td>Government Local Governments</td><td>Limited role played by LGs, mostly limited to inputs into central sectoral planning and budget processes. Municipalities have full autonomy, but limited capacity for strategic planning.</td></tr>
<tr><td>Civil society</td><td>Until recently, the role of civil society in planning and budgeting processes has been extremely limited. The recent creation of the Poverty Observatory has increased its involvement, but the content of its contribution is still limited.</td><td>• Variety of actors involved (trade unions, private sector associations, NGOS, media) means that there are many different interests at play, not necessarily compatible.
• Scarce capacity and interest in general policy and public finance issues.</td></tr>
<tr><td>Donors</td><td>Group of 18 donors providing budget support play a very important role in the planning and budget process, through policy dialogue, financial support, technical assistance and conditionality frameworks (PAF).</td><td>• Despite heavy influence of GBS donors, the co-existence of different aid modalities undermines coherence and skews incentives.
• Donor influence might undermine domestic accountability.</td></tr>
</table>

Source: de Renzio and Sulemane (2006)

Neopartimonial regimes are characterised by the use of state resources for private gain as a reward for political loyalty, by the distribution of favours at all levels of society to ensure regime stability, and by the centralisation of power around a ‘big man’, usually the president. In the words of Cammack (2007), in neo patrimonial regimes

> real power and real decision-making lie outside formal institutions. Instead, decisions about resources are made by 'big men' and their cronies, who are linked by 'informal' networks that exist outside (before, beyond and despite) the state structure, and who follow a logic of personal and particularist interest rather than national betterment. […] Though there are differences between regimes, their overarching logic is to gain and retain power at all costs. In such circumstances, policy decisions about development and governance are subordinated to that single, overriding goal. (p.600)

In such environments, access to public resources and rents are clearly functional to the regime's maintenance, and therefore budget processes become central power struggles. Budget reforms will be implemented only to the extent to which they do not threaten the capacity of the incumbent regime to remain in power. Cammack (2006), looking at the case of Malawi, shows how reforms in budget formulation were implemented because they encountered little resistance, while budgetary execution measures failed because they threatened patronage, and therefore attracted much greater resistance. At the same time, the lack of clear sanctions meant that although funds were regularly misused, no one was held accountable. Donors chose to support the easier reforms rather than recognise and tackle the more difficult execution issues. Even then, he notes how 'many of the formal [PFM] structures (including the MTEF) were donor-devised constructs developed without regard for political/patrimonial imperatives, and too often were poorly designed, improperly sequenced, or overly complex' (Cammack 2006, p.18).

Do these more general points apply in the case of Mozambique? In a study on the political economy of the budget, Hodges and Tibana (2005) draw an interesting picture of the functioning of the budget process, looking at the different actors involved and at their incentives. They find that high levels of aid dependency are one of the main determining forces shaping budget policies and processes, given the weaknesses of internal demand for accountability. In their words:

> The almost complete absence of a domestic "demand function" outside government for improvements in the budget is a manifestation of deep-rooted structural features of the Mozambican situation that will change only gradually as the country achieves higher levels of economic and social development […] More fundamentally, however, if internal pressure on the government remains

> weak, capacity development will not be enough, as commitment to pro-poor priorities is likely to be tempered by the more narrow "predatory" interests of the leading families that constitute the politico-business elite. To some extent donors can act as a "proxy" restraint on the elite in the absence of strong internal checks and balances. Nonetheless, there are limitations to this – and some inherent contradictions. Much more important in the long run will be the development of internal demand for improved budget policy and performance. (Hodges and Tibana 2004, p.13)

This seems to strengthen the impression that neopatrimonial forces are at work in Mozambique just as much as in many other African countries. In a way, the slow progress that the data show in control mechanisms for budget execution could also stem from a mechanism similar to the one that prevented budget execution reforms from being successful in Malawi.

The important role that donors play, however, can have some negative aspects as well. Hanlon (2004) and de Renzio and Hanlon (2007) argue two points. Firstly, that as a result of the complex GBS machinery, and of the weakness of the government system, donors are in fact increasingly involved in all stages of the policy process, having priority access to key documents and information, and influencing government policy by putting pressure 'from within'. The flip-side of this arrangement is that their joint responsibility and stake for Mozambique's success are higher than ever. Secondly, and as a consequence of this, Mozambique's fame as an African 'success story' led to the establishment of a 'pathological equilibrium' in which donors accept a certain level of corruption in exchange for political stability and overall compliance with a number of policy conditionalities. Governance reforms, as has been repeatedly noted in annual Joint Reviews, are allowed to slip, as long as other areas make enough progress. This seems to be more true for judicial reforms, for example, as they more directly threaten the interests of parts of the elite, than for PFM reforms, which have been making some, albeit slow, progress, especially in areas that more directly impinge on the government's capacity for maintaining the patronage system.

The discussion above suggests that it would be very useful to take a better look at the recent history of budget reforms using a political economy lens, in order to assess whether lack of significant progress in certain areas has its roots in the constellation of actors, interests, institutions and incentives that are prevalent in Mozambique, and whether the reform package supported by donors has adequately addressed the factors shaping political commitment to reforms. Below a series of questions and working hypotheses are formulated, which could constitute the core of such a research approach.

- Who are the key actors and what are their interests and incentives for each major area of the PFM reform package (planning and MTEF, e-SISTAFE, tax reform, audit, local government, etc.)? Is it the case, as in Malawi, that certain areas of reform (e.g. budget formulation) are more likely to succeed because of their 'harmlessness' to key interests?

- How were reform priorities defined? Did donors pay enough attention to the issue of government ownership and careful sequencing? What was the role of key government players, and can the main supporters and detractors of the various reform components be identified?

- Have the potential winners and losers from reform outcomes been identified? Do they both have similar capacities to influence reform progress? Was there a strategy to compensate potential losers?
- What are the key formal and informal institutions affecting each of the reform areas? What are the incentives faced by different actors (i.e. in ensuring credible and binding medium-term projections, in following up on audit results, in creating a transparent and effective expenditure control system? Do the informal institutions weaken or strengthen the formal ones?

- What was the role played by 'accountability agents' (Parliament, *Tribunal Administrativo*, media, civil society, donors) in pushing for and sustaining momentum for reforms? Is a system that is almost exclusively based on donor pressure and support sustainable? What are the events and factors that could reverse the progress so far?

These are just some of the issues that a political economy approach would have to address. Of course, there are clear methodological difficulties in accessing the sort of information that could help shed light on some of the questions above. Informal institutions are, by their very nature, difficult to observe, and it might be in the interest of many individuals not to reveal their true workings. Nevertheless, a carefully designed research approach should allow for enough useful evidence to be gathered in order to at least partially test some of the hypotheses presented above.

Conclusions

This paper has looked at the progress achieved by Public Finance Management reforms in Mozambique in the period 2001-7. This has emerged as a key area of governance, especially in the wake of donor efforts to channel increasing resources through recipient countries' budget systems. Data from HIPC and PEFA assessments show that there has been some positive but slow and uneven progress, despite significant donor support, to the tune of US$39m over the past decade. How can this be explained? Traditionally, capacity constraints and a generally conceived 'lack of political will' have been blamed for reform failures. Taking politics seriously, however, implies a much more careful approach to the political economy dynamics shaping reform initiatives and efforts. Some basic questions and hypotheses have been put forward to outline what a political economy approach could look like.

The role that donors can play in strengthening government ownership, budget systems and domestic accountability is more complex than many are willing to admit. Different actors and interests play different roles in shaping government policies and priorities. In aid-dependent countries, accountability mechanisms are shaped both by external factors, such as the influence of donors on budget choices, and by domestic factors, including clientelist practices and the role played by parliamentary committees and civil society organisations. Formal processes and procedures can be in contradiction with informal forces, and institutional incentives defined by existing rules and regulations may not be mirrored by individual ones driven by personal interest and patronage.

The purpose of this paper was merely to suggest future avenues for interesting research based on existing knowledge of progress made by PFM reforms in Mozambique, and on insights gained by political economy approaches in different countries. It is therefore meant to be a preliminary sketch for future research, which will have to take into consideration methodological difficulties and data constraints.

Notes

[53] See all related material at http://go.worldbank.org/6NCYI7K2V0.

[54] See www.pefa.org.

[55] The total spending of donor agencies on public-sector financial management jumped from $9.4m in 1995 to $150m in 2000, and $245m in 2005 (OECD, Creditor Reporting System database, www.oecd.org/dac/stats/idsonline, in 2004 prices). This database does not include the World Bank, the IMF and regional development banks, which have also invested heavily in PFM reform programmes.

[56] Including the European Commission. The DAC database does not include funding from the World Bank, the IMF and other multilateral institutions, therefore underestimating the total amount of resources invested.

[57] More than just give a score for each country, the methodology defines minimum benchmarks that each country is expected to reach for each indicator.

[58] See IDA/IMF 2001 and IDA/IMF 2004.

[59] For ease of reference, these dates refer to the years in which the main data collection and scoring effort was undertaken. The 11 indicators exclude those on pro-poor spending, which are not covered by the PEFA methodology, and the one on procurement, which looks at different issues. For specific guidance on the various indicators, see WB/IMF (2003). For a table specifying how the scores for 2005 and 2007 were obtained, see the table in Appendix 1.

[60] A careful look at the material and information available in the reports supports this view. Some changes were introduced in the methodology between 2001 and 2004, which might also help justify some of the inconsistencies in the scoring.

[61] For the purposes of this paper, A=3, B=2 and C=1.

[62] For a discussion of some of these issues, related to the inherent costs of GBS, see Batley (2005).

[63] Reviews of theories of political economy are provided by Caporaso and Levine (1994), and by Persson and Tabellini (2000); broad political economy approaches to developing countries are provided by van de Walle (2001), and by Grindle (1996 and 2004).

[64] Usefully summarised and presented in DFID (2007).

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