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RESEARCH ARTICLE

NEW INSTITUTIONAL ECONOMY: QUALITY OF CONTRACTING FOR PUBLIC WORKS, SUPPLY OF GOODS AND PROVISION OF SERVICES TO THIRD PARTIES IN THE MOZAMBICAN PUBLIC ADMINISTRATION IN MAPUTO

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ABSTRACT

This scientific article, entitled “New Institutional Economics: Quality of Contracting for Public Works, Supply of Goods and Provision of Services to Third Parties in the Mozambican Public Administration in Maputo Public Institutions”, developed within the scope of the activities of the Procurement Management Unit (UGEA), aims to highlight the relevance of public procurement for the development of infrastructure and the provision of essential services, contributing to social well-being and sustainable economic growth. Methodologically, the research adopts a qualitative and applied approach, suitable for understanding the institutional dynamics, administrative practices, organizational constraints and political-legal factors that influence public procurement processes in Mozambique. This approach allows for the interpretation of the perceptions, experiences and practices of the different actors involved in public procurement processes. The results demonstrate that the efficiency of public procurement processes depends on the correct allocation of fixed and variable, direct and indirect costs associated with the contracted goods, works and services. The absence of rigorous mechanisms for monitoring and controlling these costs can compromise the financial sustainability of organizations and create an institutional environment unfavorable to business development. From this perspective, Furubotn and Richter (2005) argue that the New Institutional Economics is based on the existence of positive transaction costs and the principle of methodological individualism. They conclude that institutional limitations persist that can compromise transparency, efficiency, and administrative rationality, highlighting the need to strengthen public governance and institutional control mechanisms.

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INTRODUCTION

This scientific article, entitled "New Institutional Economics: The Quality of Public Procurement of Public Works, the Supply of Goods, and the Provision of Services to Third Parties in the Mozambican Public Administration: Evidence from Public Institutions in Maputo"**,** is situated within the operational context of the Procurement Management and Implementation Unit (Unidade Gestora Executora das Aquisições – UGEA)**.** The study seeks to examine the contribution of New Institutional Economics (NIE) to improving the quality, efficiency, transparency, and accountability of public procurement processes in Mozambique. In particular, it explores how institutional arrangements influence the procurement of public works, the acquisition of goods, and the contracting of services, recognising public procurement as a strategic instrument for promoting socio-economic development, strengthening public service delivery, and fostering sustainable economic growth.

Public procurement constitutes one of the most significant areas of public financial management, accounting for a substantial proportion of government expenditure and playing a decisive role in infrastructure development and the delivery of essential public services. Within the theoretical framework of New Institutional Economics, procurement systems are understood as governance mechanisms designed to minimise transaction costs, reduce information asymmetries, mitigate opportunistic behaviour, and enhance institutional performance (North, 1990; Williamson, 1985). Consequently, the quality of procurement processes depends not only on the existence of an adequate legal framework but also on the effectiveness of formal and informal institutions responsible for ensuring compliance, accountability, and transparency. Despite substantial legislative reforms in Mozambique, persistent concerns remain regarding the integrity and effectiveness of procurement practices across public institutions. Empirical evidence and reports produced by oversight bodies continue to reveal recurrent procedural irregularities, including contract under-invoicing, illicit commission payments, manipulation of competitive tendering procedures, preferential treatment of selected contractors, and unjustified price inflation. Such practices undermine competition, distort market incentives, increase transaction costs, weaken public trust in government institutions, and reduce value for money in the utilisation of public resources. From the perspective of New Institutional Economics, these governance failures reflect institutional weaknesses that create incentives for rent-seeking behaviour and principal-agent problems within procurement systems. Weak monitoring mechanisms, limited enforcement capacity, information asymmetries, and inadequate accountability structures facilitate opportunistic conduct among both public officials and private contractors, thereby compromising procurement efficiency and institutional credibility.

General Objective

To analyse the contribution of **New Institutional Economics** to the quality of public procurement of public works, the supply of goods, and the provision of services to third parties within the Mozambican Public Administration, with particular reference to public institutions in Maputo.

Specific Objectives

- To examine the contribution of New Institutional Economics to the growth and competitiveness of enterprises participating in public procurement markets.
- To assess the effectiveness of procurement procedures relating to public works, the supply of goods, and the provision of services within Mozambican public institutions.
- To evaluate the quality of service delivery as a strategic determinant of supplier performance and long-term contractual relationships within public procurement.
- To analyse the institutional and economic benefits associated with the application of New Institutional Economics to public procurement in the Mozambican Public Administration.

Justification of the Study: Public institutions operating in Maputo rely extensively on the procurement of goods, public works, and outsourced services from private suppliers, particularly Small and Medium-sized Enterprises (SMEs)**,** in order to ensure the continuous delivery of essential public services, including healthcare, education, infrastructure maintenance, and administrative support. Consequently, the effectiveness of public procurement directly influences both institutional performance and the quality of services provided to citizens. The procurement of public contracts in Mozambique is governed by Decree No. 79/2022, which approved the Regulation on the Procurement of Public Works, the Supply of Goods, and the Provision of Services to the State**,** replacing Decrees No. 5/2016, No. 71/2020, No. 53/2021, and No. 89/2021. This regulatory framework seeks to strengthen transparency, integrity, competition, efficiency, and accountability in public procurement, in accordance with Article 204(1)(f) of the Constitution of the Republic of Mozambique. Nevertheless, legislative reform alone cannot guarantee procurement efficiency. From an institutional economics perspective, effective procurement depends upon robust governance structures capable of enforcing contractual obligations, reducing transaction costs, constraining opportunistic behaviour, and ensuring that public officials and private contractors act in accordance with principles of integrity and public value. This study is therefore justified by the need to investigate whether existing institutional arrangements adequately fulfil these objectives within the Mozambican procurement system.

Research Problem: Although Mozambique has established a comprehensive legal and regulatory framework governing public procurement, including the mandatory incorporation of anti-corruption clauses into public contracts, practical experience suggests that these measures have not been sufficient to ensure consistently high standards of transparency, accountability, and institutional integrity. Reports published by the Procurement Functional Supervisory Unit (Unidade Funcional de Supervisão das Aquisições – UFSA) and disseminated through official government publications continue to identify significant procedural deficiencies in procurement processes. These include irregular tender evaluation procedures, insufficient competition, inadequate contract management, non-compliance with procurement regulations, and weaknesses in oversight mechanisms. Such shortcomings raise important concerns regarding the effectiveness of institutional governance and regulatory enforcement.

Furthermore, these institutional deficiencies extend beyond operational procurement units, affecting multiple administrative levels, including UGEA personnel, Directorates of Administration and Finance, internal audit units, and external supervisory authorities. The persistence of these governance challenges indicates that strengthening the legal framework alone is insufficient; meaningful improvements require sustained political commitment, enhanced institutional capacity, effective oversight, and the promotion of an organisational culture grounded in ethical conduct, transparency, and accountability. Within this institutional context, allegations of contract under-invoicing, illicit commission payments, and informal rent-extraction practices involving certain procurement officials and financial administrators have reportedly encouraged some SME owners to participate in corrupt procurement networks. Such practices substantially increase both explicit and implicit transaction costs associated with public contracts, reducing profitability, discouraging fair competition, and creating barriers to sustainable enterprise development. From the standpoint of New Institutional Economics, these governance failures illustrate how weak institutional arrangements generate incentives for opportunistic behaviour, increase contractual uncertainty, and undermine the efficient allocation of public resources. Accordingly, this study seeks to address the following research question: To what extent does New Institutional Economics explain the institutional factors influencing the quality of public procurement of public works, the supply of goods, and the provision of services within the Mozambican Public Administration, particularly in public institutions located in Maputo?

Theoretical Framework: This study is anchored in the theoretical foundations of New Institutional Economics (NIE)**,** drawing upon the seminal contributions of Ronald Coase, Douglass C. North, Oliver E. Williamson, and Oliver Hart**,** whose work provides an analytical framework for understanding contractual governance, institutional performance, transaction costs, and public procurement. Their theoretical perspectives are particularly relevant for explaining how institutional arrangements shape economic incentives, contractual relationships, and organisational efficiency within the public sector.

The intellectual origins of Transaction Cost Economics (TCE) are found in Ronald Coase's seminal article The Nature of the Firm (1937). In this pioneering work, Coase challenged the assumptions of neoclassical economics by demonstrating that market exchanges are not costless. Every economic transaction entails costs associated with searching for information, negotiating agreements, coordinating activities, monitoring contractual obligations, and enforcing contractual rights. Firms therefore emerge because, under certain institutional conditions, internal organisation can perform these functions more efficiently than market exchange alone (Coase, 1937).

Seeking to bridge economic theory and organisational practice, Coase (1937) conceptualised transaction costs as the costs incurred in negotiating, coordinating, executing, monitoring, and enforcing economic exchanges. The existence of these costs explains why different governance structures including markets, firms, and hybrid contractual arrangements develop as alternative mechanisms for organising economic activity. Within public procurement, transaction costs are particularly significant because procurement processes involve multiple stakeholders, complex contractual relationships, legal compliance requirements, and considerable information asymmetries. Building upon Coase's contribution, Furubotn and Richter (2005) argue that New Institutional Economics rests upon two fundamental principles: first, the recognition that transaction costs are positive rather than negligible; and secondly, the principle of methodological individualism, according to which institutional outcomes emerge from the decisions and interactions of individual actors operating within formal and informal institutional constraints.

Douglass North (1990) extends this analytical framework by defining institutions as the "rules of the game" that structure political, economic, and social interactions. According to North, institutions reduce uncertainty by establishing predictable rules governing contractual exchange, thereby lowering transaction costs and facilitating economic development. Consequently, institutional quality depends not merely upon the existence of legal rules but also upon their effective enforcement, legitimacy, and acceptance by economic actors. Oliver Williamson (1979; 1985) further develops Transaction Cost Economics by demonstrating that governance structures are designed to minimise the costs arising from bounded rationality, opportunism, uncertainty, and asset specificity. Because contracts cannot anticipate every possible future contingency, governance mechanisms become essential instruments for reducing contractual hazards and safeguarding economic exchange. Williamson's theoretical framework is particularly applicable to public procurement, where contractual complexity, asymmetric information, and monitoring difficulties frequently create opportunities for opportunistic behaviour and institutional inefficiency.

Complementing this perspective**,** Oliver Hart's theory of incomplete contracts argues that contractual agreements are necessarily incomplete because parties cannot foresee or specify every possible future circumstance. Consequently, the allocation of residual decision rights and the design of governance mechanisms become fundamental determinants of contractual performance. Hart's contribution is particularly relevant to public procurement, where long-term contractual relationships frequently require adaptation, renegotiation, and effective institutional oversight.

Quality and Service Delivery

Quality constitutes a central concept in the present study. According **to** Kotler and Keller (2021)**,** quality refers to the ability of a product or service consistently to satisfy customers' needs and expectations while creating value, fostering trust, and enhancing customer satisfaction in increasingly competitive markets. Accordingly, quality extends beyond compliance with technical specifications to encompass reliability, effectiveness, responsiveness, and continuous improvement. In relation to service delivery, Kotler and Keller (2021) argue that service quality reflects an organisation's ability to deliver reliable, consistent, and customer-oriented services capable of meeting or exceeding users' expectations. High-quality service provision contributes to organisational performance, stakeholder satisfaction, and the attainment of sustainable competitive advantage. Within the public sector, service quality is intrinsically linked to transparency, accountability, efficiency, and value for money in the management of public resources. Similarly, Costa, Correia, Maia and Resende (2025) contend that transaction costs constitute a central determinant of organisational governance. They directly influence decisions concerning production, contracting, outsourcing, and service delivery, particularly within public administration, where procurement systems must reconcile economic efficiency with legal compliance and public accountability.

Contractual Governance: This study also adopts Williamson's (1979) typology of contractual governance, complemented by the more recent contributions **of** Vithoft and Toporoski (2024) concerning relational contracts, consumer protection, and legal safeguards against unfair contractual terms. Together, these perspectives provide an appropriate framework for analysing contractual relationships within contemporary public procurement systems. Williamson (1979) distinguishes three principal contractual forms: classical contracts**,** neoclassical contracts**, and** relational contracts**,** each corresponding to different governance structures determined by transaction frequency, uncertainty, and asset specificity.

The classical contract**,** historically associated with industrial production during the late nineteenth and early twentieth centuries, assumes complete contractual specification and stable market conditions. This contractual model remains appropriate where transactions are standardised, assets exhibit low specificity, and contractual enforcement can be achieved through formal legal mechanisms. Within the Mozambican context, Castel-Branco (2022) argues that productive specialisation, capital accumulation, and financialisation have significantly influenced the evolution of domestic markets, demonstrating that contractual relationships are closely associated with broader processes of economic transformation, structural reform, and financial integration.

The neoclassical contract is characterised by a trilateral governance structure**,** involving the intervention of independent third parties, such as arbitrators or mediators, to facilitate contractual adaptation and dispute resolution. According to Williamson (1979), this governance arrangement is particularly appropriate where transactions occur infrequently but involve assets of moderate or high specificity. Under such conditions, preserving contractual relationships is economically preferable to terminating them because replacing suppliers and re-evaluating specialised assets generate substantial transaction costs. By contrast, the relational contract governs repeated transactions extending over prolonged periods and is sustained by trust, cooperation, and mutual dependence rather than solely by formal contractual provisions. Williamson (1979) identifies two principal governance forms associated with relational contracts: bilateral governance and vertical integration. Bilateral governance generally involves assets of moderate specificity, whereas vertical integration becomes preferable when transactions depend upon highly idiosyncratic assets whose specialised nature creates significant interdependence between contracting parties.

Public Procurement Governance in Mozambique: In Mozambique, the procurement of public works, goods, and services is regulated by Decree No. 79/2022, which establishes the legal procedures governing public procurement. The Regulation defines the principles, procedures, and eligibility requirements applicable to procurement processes and provides that failure to comply with these legal provisions may result in the annulment of procurement proceedings. Within this regulatory framework, the Procurement Functional Supervisory Unit (UFSA) plays a central role in supervising and monitoring procurement procedures pursuant to Article 19(a) of Decree No. 79/2022. UFSA is responsible for promoting transparency, ensuring regulatory compliance, strengthening institutional capacity, and improving governance throughout the public procurement system.

One of the principal challenges associated with Decree No. 79/2022 concerns the requirement for bid security guarantees. Under Articles 69 and 102, bidders must submit a provisional guarantee as a mandatory condition for participation in public tenders. This requirement applies to contracts for the supply of goods and services exceeding MZN 3,500,000 and to public works contracts exceeding MZN 5,000,000. Although intended to discourage non-serious bidders and safeguard contractual performance, these financial requirements may constitute significant barriers to market entry, particularly for small and medium-sized enterprises (SMEs), thereby potentially reducing competition and limiting supplier diversity. The Regulation further establishes, under Articles 224 and 225, that contracting authorities are required to settle invoices within 30 days following their submission. Nevertheless, practical experience indicates that public institutions frequently fail to comply with these statutory payment deadlines. Delayed payments increase suppliers' financing costs, generate liquidity constraints, discourage participation in public procurement, and ultimately raise transaction costs throughout the procurement system. Despite these operational challenges, Decree No. 79/2022 also represents an important opportunity for SMEs by promoting equal treatment and competitive participation in procurement procedures, provided that suppliers satisfy the applicable legal and technical requirements. Furthermore, the Regulation introduces several procurement modalities, including pre-qualified tendering, restricted tendering, two-stage tendering, auction procedures, simplified procurement, quotation-based procurement, and direct contracting. These mechanisms provide procedural flexibility while enabling participation by enterprises of different sizes according to the characteristics of each procurement project.

Legal and Ethical Dimensions of Public Procurement: Mozambican criminal law establishes sanctions against unlawful conduct affecting public procurement and public administration. Article 318 of the Mozambican Penal Code criminalises unlawful conduct involving public officials, prescribing custodial sentences ranging from two to eight years, together with financial penalties where the offence has been consummated. Attempted offences may also attract criminal sanctions, including suspension from public office.

Similarly, Law No. 1/79 of 11 January establishes criminal liability for public officials responsible for the misappropriation of public assets or funds entrusted to their administration. These legal provisions reinforce the State's commitment to protecting public resources and promoting integrity within public administration. From an institutional perspective, however, legal sanctions alone are insufficient to ensure effective governance. North (1990) argues that a broader conception of rationality is required to explain both the motivations of economic actors and the uncertainty arising from imperfect information. Formal institutions operate alongside informal institutions including ethical norms, moral values, cultural conventions, and shared beliefs which constrain opportunistic behaviour and facilitate economic cooperation. North (1981) further argues that ideologies perform an important disciplinary function by reducing transaction costs through the establishment of common beliefs, behavioural norms, and socially accepted standards of conduct. Ethical and moral codes therefore constitute fundamental institutional mechanisms that reinforce social stability, enhance institutional legitimacy, and promote voluntary compliance with legal rules. In this perspective, legal systems achieve long-term effectiveness only when they are perceived as legitimate by the societies they govern.

Within the Mozambican public sector, limited awareness of the Code of Ethics for Public Servants has contributed to the inadequate implementation of the Public Probity Law (Law No. 16/2012 of 14 August), particularly the ethical principles established in Article 5. Weak ethical culture, together with excessive personal ambition, rent-seeking behaviour, and the prioritisation of private interests over the public interest, continues to undermine institutional integrity and the effectiveness of procurement governance.

Institutional Behaviour and Entrepreneurship: Uncertainty occupies a central position within North's institutional framework because imperfect information significantly constrains rational decision-making and increases the costs of economic exchange. This perspective has been further developed by Geoffrey Hodgson (2004), whose work seeks to integrate the principal insights of Old Institutional Economics (OIE) and New Institutional Economics (NIE). Hodgson defines institutions as durable systems of rules, norms, and social practices that are sustained and reproduced through habitual patterns of behaviour. Habits, in turn, constitute stable dispositions that shape individual decision-making and reinforce institutional continuity. Hodgson's analysis establishes an important theoretical bridge between Thorstein Veblen's emphasis on habitual behaviour and North's focus on institutional constraints, highlighting the complementary roles of institutions and habits in shaping economic performance and organisational behaviour.

Within this institutional context, entrepreneurship assumes strategic importance for economic development. Ramos and Quintella (2023) argue that entrepreneurs are fundamental agents of sustainable development because they generate value through knowledge, innovation, creativity, and continuous adaptation to changing market conditions. Similarly, Santos and Santos (2024) contend that the contemporary entrepreneur performs both economic and social functions by creating new businesses, promoting innovation, and generating employment opportunities. Taken together, these theoretical perspectives provide a comprehensive conceptual foundation for analysing the quality of public procurement in Mozambique. By integrating the analytical insights of New Institutional Economics, Transaction Cost Economics, incomplete contract theory, institutional governance, and service quality theory, this study seeks to explain how formal institutions, informal norms, contractual governance mechanisms, and entrepreneurial behaviour collectively influence transparency, efficiency, accountability, and value creation within the Mozambican public procurement system.

METHODOLOGY

This study is situated within the theoretical domain of New Institutional Economics (NIE) and examines the quality of public procurement involving public works, the supply of goods, and the provision of services to third parties within the Mozambican Public Administration, using public institutions located in the City of Maputo as its empirical setting. Methodology constitutes a fundamental component of scientific inquiry, as it provides the systematic procedures through which research questions are addressed, objectives are achieved, and findings are generated and interpreted with rigour and academic credibility. Given the institutional complexity of public procurement and the multidimensional nature of governance processes, the study adopts a qualitative research approach**.** This methodological orientation is particularly appropriate because it facilitates an in-depth understanding of institutional arrangements, organisational practices, governance mechanisms, administrative constraints, and political-legal factors that influence procurement performance within the Mozambican public sector. Rather than seeking statistical generalisation, the study aims to generate analytical insights into the institutional dynamics that shape procurement quality, transparency, accountability, and efficiency. The qualitative approach is also consistent with the theoretical assumptions of New Institutional Economics, which emphasise the influence of institutions, transaction costs, bounded rationality, opportunistic behaviour, and information asymmetry on organisational performance and contractual governance.

Research Design: In terms of its nature, this research is applied**,** as it seeks to generate knowledge capable of informing policy and improving the quality of public procurement processes within the Mozambican Public Administration. The study is intended not only to contribute to academic debate but also to provide practical recommendations for strengthening institutional governance and enhancing procurement performance. With regard to its objectives, the research combines descriptive and exploratory characteristics. It is descriptive because it examines the institutional, legal, and administrative mechanisms governing the procurement of public works, goods, and services. Simultaneously, it is exploratory insofar as it seeks to deepen understanding of the institutional challenges, governance structures, transaction costs, and organisational factors that influence procurement efficiency, transparency, and accountability.

Methodologically, the investigation is predominantly qualitative, focusing on the critical interpretation of institutional processes, organisational behaviour, and governance practices observed within the Mozambican public procurement system.

Qualitative Research Approach

A qualitative research strategy is particularly suitable for investigating complex institutional phenomena because it enables the exploration of participants' experiences, perceptions, interpretations, and decision-making processes. Public procurement involves intricate interactions between legal frameworks, administrative procedures, organisational cultures, and institutional incentives, which cannot be adequately captured through purely quantitative techniques.

Within the analytical framework of New Institutional Economics, the qualitative approach allows for the examination of issues relating to transaction costs, bounded rationality, opportunism, contractual governance, institutional legitimacy, and administrative efficiency. Consequently, the research prioritises contextual understanding over statistical measurement, providing a comprehensive interpretation of the institutional factors affecting procurement quality in Maputo.

The study therefore seeks to identify and critically analyse the institutional conditions that influence service quality, procedural transparency, contractual performance, and the efficient utilisation of public resources.

Research Method: The research adopts the inductive method**,** whereby broader theoretical interpretations are developed from the systematic observation and analysis of particular empirical situations. The inductive approach is especially appropriate because the study aims to understand how the experiences and practices of institutional actors engaged in public procurement contribute to explaining broader patterns of governance within the Mozambican Public Administration. By examining specific procurement practices, organisational behaviours, and contractual relationships, the research develops theoretically informed conclusions concerning the institutional determinants of procurement quality, thereby linking empirical evidence with the conceptual framework of New Institutional Economics.

Study Area: The empirical research was conducted in the City of Maputo**,** the political, administrative, and economic capital of Mozambique. Maputo was selected because it hosts the country's principal public institutions responsible for procurement management, including ministries, national directorates, public hospitals, state-owned enterprises, regulatory bodies, and other government agencies. The city also accommodates a substantial concentration of private suppliers, contractors, and service providers that maintain contractual relationships with the State. Consequently, Maputo provides an appropriate institutional environment for examining the governance structures, contractual arrangements, and organisational practices that characterise public procurement in Mozambique.

Study Population and Sampling: The study population comprises institutional actors directly or indirectly involved in public procurement within public institutions located in Maputo. Participants include public managers, procurement specialists employed within the Procurement Management and Implementation Units (UGEA)**,** financial managers, legal advisers, representatives of supplier firms, contractors, and service providers engaged in contractual relationships with the Mozambican Government. These participants possess substantial knowledge of procurement procedures, institutional governance, contractual implementation, and regulatory compliance. Their professional experience provides valuable insights into the administrative, legal, and organisational factors influencing the quality of procurement involving public works, goods, and services within the Mozambican Public Administration. Given the qualitative nature of the research, participants were selected through purposive sampling, enabling the inclusion of respondents with relevant expertise and direct experience of procurement processes.

Data Collection Methods: Data were collected through complementary qualitative techniques designed to ensure the comprehensive examination of the research problem.

LITERATURE REVIEW

The literature review involved the systematic examination of academic books, peer-reviewed journal articles, doctoral theses, master's dissertations, legislative instruments, institutional reports, policy documents, and official publications relating to New Institutional Economics, transaction cost economics, public governance, public procurement, corruption, transparency, institutional quality, and public administration. This review provided the theoretical and conceptual foundation for the study and informed the development of the analytical framework adopted throughout the research.

Documentary Analysis

Documentary analysis involved the systematic examination of institutional documents, procurement regulations, financial reports, public contracts, legal opinions, audit reports, administrative guidelines, and other official records relating to public procurement in Mozambique.

The principal documentary sources included

- The Constitution of the Republic of Mozambique**;**
- Decree No. 79/2022**,** approving the Regulation governing the Procurement of Public Works, the Supply of Goods, and the Provision of Services to the State;
- The Public Probity Law (Law No. 16/2012)**;**
- Reports issued by the Administrative Tribunal**;**
- Government audit reports; and
- Internal procurement procedures and administrative guidelines.

These documentary sources enabled the analysis of the legal, institutional, and governance frameworks regulating public procurement.

Data Analysis

The empirical material was analysed using qualitative content analysis, a systematic analytical technique that facilitates the interpretation of textual information obtained from documentary evidence and other qualitative sources. Content analysis enabled the identification of recurring themes, institutional patterns, governance challenges, and conceptual relationships relevant to the research objectives. The analytical process followed three interrelated stages.

Preliminary Analysis: The first stage involved organising the collected material, conducting repeated readings of the documentary evidence, and establishing the principal analytical categories derived from both the theoretical framework and the empirical material.

Coding and Categorisation: The second stage consisted of coding the empirical material and grouping the data into thematic categories reflecting the principal dimensions of New Institutional Economics, including transaction costs, institutional governance, bounded rationality, opportunistic behaviour, information asymmetry, contractual relationships, and procurement quality. This stage facilitated the identification of recurrent patterns, institutional regularities, and governance deficiencies affecting procurement performance.

Interpretation of Findings: The final stage involved interpreting the findings within the theoretical framework of New Institutional Economics, particularly drawing upon the contributions of Coase, North, Williamson, and Hart. The analysis examined how institutional arrangements, governance mechanisms, transaction costs, and contractual structures influence procurement quality, organisational performance, transparency, and accountability within the Mozambican Public Administration.

Scientific Rigour: To ensure methodological robustness and the trustworthiness of the research findings, the study adopted the qualitative quality criteria proposed by Lincoln and Guba (1985), namely credibility, transferability, dependability, and confirmability**.** Credibility was strengthened through the triangulation of multiple sources of evidence, including documentary analysis, institutional records, and relevant academic literature, thereby enhancing the consistency and validity of the research findings. Transferability was supported by providing a detailed description of the institutional, legal, and organisational context within which public procurement operates in Mozambique, enabling readers to assess the potential applicability of the findings to comparable administrative settings.

Dependability was ensured through the adoption of transparent and systematic research procedures, allowing the methodological process to be clearly documented and replicated. Confirmability was achieved by grounding the study's interpretations in empirical evidence and theoretical analysis rather than personal assumptions or subjective judgements, thereby reducing researcher bias and enhancing analytical objectivity.

Research Limitations: Several limitations should be acknowledged. Access to certain institutional documents was restricted because of administrative confidentiality and legal constraints governing procurement information. In addition, some institutional actors demonstrated reluctance to discuss sensitive issues relating to procurement governance, corruption, or contractual irregularities. Time constraints and limited financial resources also restricted the scope of fieldwork and documentary collection. Despite these limitations, appropriate methodological strategies were adopted to minimise their impact on the research. The triangulation of documentary evidence, rigorous analytical procedures, and the application of an established theoretical framework contributed to ensuring the reliability, credibility, and academic validity of the study's findings. Consequently, the research provides a robust and theoretically informed analysis of the institutional determinants of procurement quality within the Mozambican Public Administration.

RESULTS AND DISCUSSION

The findings of this study are interpreted within the analytical framework of New Institutional Economics (NIE), drawing upon the theoretical contributions of Ronald Coase, Douglass C. North, Oliver E. Williamson, and Oliver Hart. These scholars provide a coherent theoretical foundation for understanding the institutional logic underpinning contractual governance, transaction costs, and the economic dynamics that characterise public procurement and the provision of public services. Their contributions are particularly valuable for explaining how institutional arrangements influence organisational behaviour, contractual performance, and the efficient allocation of public resources within the Mozambican Public Administration. The theoretical origins of Transaction Cost Economics (TCE) can be traced to Ronald Coase's seminal article The Nature of the Firm (1937), in which he challenged the neoclassical assumption that market transactions occur without cost. Coase argues that every market exchange involves transaction costs arising from the processes of searching for information, negotiating contractual terms, coordinating economic activities, monitoring contractual performance, and enforcing contractual obligations. Consequently, organisations emerge because, under certain institutional conditions, they are capable of reducing these costs more efficiently than market mechanisms alone.

Consistent with Coase's theoretical proposition, the findings indicate that transaction costs constitute a critical determinant of procurement efficiency within the Mozambican public sector. Procurement procedures involve multiple administrative stages, legal requirements, institutional controls, and contractual negotiations, each generating additional costs that extend beyond the direct value of the contract itself. Consequently, procurement quality depends not only upon the price of goods or services but also upon the effectiveness of the institutional mechanisms designed to minimise transaction costs throughout the procurement cycle. Within this context, the empirical evidence suggests that opportunity cost represents a particularly significant consideration for Small and Medium-sized Enterprises (SMEs) participating in public procurement. Business managers are responsible for allocating scarce financial resources in a manner that maximises organisational value and ensures long-term sustainability. Investment decisions should therefore be evaluated not only according to expected contractual revenues but also with reference to the returns that could have been obtained through alternative investment opportunities. This analytical perspective is closely associated with the concept of Economic Value Added (EVA), which measures whether an investment generates returns exceeding its cost of capital. The study demonstrates that SMEs participating in public tenders for public works, the supply of goods, and the provision of services must adopt comprehensive costing systems capable of accurately identifying and allocating transaction costs. Such systems should incorporate fixed and variable costs, direct and indirect costs, administrative expenses, financing costs, and contractual risks associated with procurement activities. Failure to monitor these costs systematically may compromise organisational profitability, weaken financial sustainability, and reduce firms' competitiveness within public procurement markets. These findings support the arguments advanced by Furubotn and Richter (2005), who contend that New Institutional Economics is fundamentally based upon the recognition that transaction costs are positive and that institutional arrangements influence the behaviour of individual economic actors.

The empirical evidence further confirms that SMEs perform a strategically important function within the Mozambican economy by supplying goods and delivering outsourced services to public institutions, particularly public hospitals. Through these contractual relationships, SMEs contribute significantly to public service delivery, employment creation, entrepreneurship, and local economic development. However, participation in public procurement simultaneously exposes firms to substantial financial and institutional risks, including contractual uncertainty, delayed payments, administrative complexity, and governance deficiencies.

One of the most significant findings concerns the persistence of alleged irregular procurement practices reported by several participants. According to respondents' perceptions, some suppliers encounter requests for illicit commission payments frequently estimated at approximately ten per cent of contract values as well as other forms of improper inducement intended to influence procurement decisions or secure contract renewals. Although the prevalence of such practices cannot be established conclusively within the scope of this study, their recurrent mention by participants suggests that they remain an important governance concern requiring continued institutional attention.

From the perspective of Transaction Cost Economics, such practices substantially increase the costs associated with contractual exchange. Financial resources that would otherwise be invested in productive activities become diverted towards non-productive expenditures, thereby reducing firms' profitability, increasing contractual uncertainty, weakening market competition, and undermining confidence in public procurement institutions. Moreover, these practices distort market incentives by rewarding opportunistic behaviour rather than productive efficiency, ultimately reducing value for money in the utilisation of public resources. The findings also distinguish between explicit and implicit transaction **costs** incurred by firms participating in public procurement.

Explicit costs comprise the routine operational expenditures associated with business activities, including expenditure on water, electricity, telecommunications, raw materials, direct and indirect labour, capital equipment, salaries, statutory contributions, transport, insurance, and other operating expenses. These costs are generally recorded within firms' accounting systems and constitute the basis for financial reporting and managerial decision-making. Implicit costs, by contrast, encompass the opportunity cost of owners' capital together with institutional costs that are not directly reflected in financial statements. These include the economic consequences of prolonged procurement procedures, contractual uncertainty, delayed payments, excessive administrative requirements, repeated documentation, financing costs, and other indirect burdens imposed by the institutional environment. Where unlawful practices occur, they may create additional financial obligations that increase suppliers' pricing structures, thereby raising procurement costs for the State while simultaneously reducing firms' financial performance.

These findings reinforce the arguments advanced by Costa, Correia, Maia and Resende (2025), who maintain that transaction costs constitute fundamental determinants of organisational governance. Their analysis demonstrates that transaction costs influence production decisions, contractual arrangements, outsourcing strategies, and service delivery, particularly within public administration, where institutional efficiency depends upon the quality of governance structures and contractual mechanisms. The study further indicates that SMEs require more sophisticated managerial accounting systems capable of generating reliable cost information for strategic decision-making. Accurate cost information enables managers to determine competitive tender prices, evaluate contractual profitability, allocate organisational resources efficiently, and assess the long-term viability of procurement contracts. Ideally, these information systems should integrate financial management with procurement planning, operations management, engineering, logistics, marketing, and technical support in order to facilitate informed managerial decisions.
Nevertheless, the empirical evidence suggests that many SMEs continue to operate with limited cost management capabilities and insufficient integration between organisational functions. Weak financial planning, inadequate cost allocation procedures, and ineffective managerial control systems constrain organisational efficiency, reduce competitiveness, and hinder firms' ability to optimise contractual performance within public procurement markets.

Contractual Governance and Public Procurement: The findings also support Williamson's (1979) theory of contractual governance, which distinguishes between classical, neoclassical, and relational contracts according to transaction frequency, uncertainty, and asset specificity. Classical contracts are generally appropriate where procurement involves standardised goods or services characterised by low asset specificity and clearly defined contractual obligations. Under these conditions, contractual performance can be secured primarily through formal legal enforcement, resulting in relatively low transaction costs.

By contrast, procurement involving specialised services or public works frequently requires neoclassical contractual arrangements, characterised by trilateral governance structures involving independent third parties such as arbitrators or mediators. These governance mechanisms facilitate contractual adaptation when unforeseen circumstances arise, thereby reducing renegotiation costs and preserving economically valuable contractual relationships.

The empirical findings also indicate that many procurement relationships within the Mozambican Public Administration gradually evolve into relational contracts, particularly where repeated interactions occur between public institutions and private suppliers over extended periods. These contractual relationships increasingly rely upon mutual trust, institutional reputation, cooperation, and accumulated experience rather than exclusively upon formal contractual provisions. Although relational governance may reduce transaction costs and enhance contractual continuity, it simultaneously requires effective institutional oversight to prevent favouritism, collusion, and anti-competitive behaviour. These findings are consistent with the more recent contributions of Vithoft and Toporoski (2024), who argue that relational contracts require robust legal safeguards capable of protecting contracting parties from unequal bargaining power, unfair contractual terms, and governance failures. Although their work focuses primarily upon consumer protection, its broader theoretical principles concerning contractual fairness, institutional accountability, and legal certainty are equally applicable to contemporary public procurement systems.

Institutional Governance under Decree No. 79/2022

The findings further demonstrate that public procurement in Mozambique operates within the legal framework established by Decree No. 79/2022, which regulates the procurement of public works, the supply of goods, and the provision of services to the State. The Regulation establishes detailed procedures governing procurement planning, competitive tendering, contract award, implementation, monitoring, and enforcement, thereby promoting transparency, competition, and accountability within public administration.

The evidence indicates that procurement conducted under exceptional procedures must comply with specific statutory requirements, including the formal documentation of contractual agreements through written instruments approved by the competent public authority. The written contract constitutes the formal expression of the parties' mutual intention to establish legally binding obligations and provides the documentary basis necessary for administrative control, financial auditing, judicial review, and contractual enforcement. However, the study also demonstrates that legal formalisation alone is insufficient to guarantee procurement quality. Effective contractual governance depends equally upon institutional capacity, professional competence, ethical leadership, regulatory enforcement, and organisational accountability. From the perspective of New Institutional Economics, procurement performance is determined by the interaction between formal legal institutions and informal institutional norms that shape the incentives and behaviour of public officials and private contractors.

Overall, the findings indicate that improving procurement quality within the Mozambican Public Administration requires not only a robust regulatory framework but also stronger institutional governance capable of reducing transaction costs, discouraging opportunistic behaviour, enhancing transparency, and reinforcing accountability throughout the procurement process. Such institutional reforms are essential for promoting value for money, strengthening public confidence in procurement institutions, and improving the quality and sustainability of public service delivery.

Within Mozambique's public procurement system, several procurement procedures are provided for under the legal framework governing public contracting. These include prequalification tenders, restricted tenders, two-stage tenders, auction-based procurement, small-scale procurement, request-for-quotation procedures, and direct procurement. Collectively, these procurement methods provide opportunities for the participation of both Small and Medium-sized Enterprises (SMEs) and large corporations. Nevertheless, the empirical evidence indicates that public tenders in the City of Maputo are predominantly contested by SMEs, most of which are locally owned and managed enterprises. From the perspective of Transaction Cost Economics, this predominance reflects the strategic importance of SMEs in supporting the delivery of public goods and services while simultaneously stimulating employment creation, local entrepreneurship, and domestic economic development. However, their participation also exposes them to institutional constraints that increase transaction costs and may reduce their long-term competitiveness. The classical contract, historically associated with the expansion of industrial manufacturing during the late nineteenth century, is interpreted in light of Castel-Branco's (2022) analysis of productive specialisation, capital accumulation, and financialisation in Mozambique. Castel-Branco argues that national markets evolve through the interaction between productive structures, economic reforms, and financial integration, thereby demonstrating that contractual arrangements cannot be understood independently of the institutional and productive environment within which they operate.

By contrast, the neoclassical contract is characterised by a trilateral governance structure involving the participation of independent third parties, such as arbitrators or mediators, whose role is to facilitate contractual adaptation, reduce renegotiation costs, and preserve contractual continuity when unforeseen circumstances arise. According to Williamson (1979), this governance structure is particularly appropriate for occasional transactions involving assets with moderate or high specificity, where replacing contractual partners would generate substantial economic costs. Under such circumstances, contractual flexibility contributes to reducing uncertainty while maintaining efficient economic relationships.

The relational contract, in turn, may operate under either bilateral governance or vertical integration. Both governance structures are characterised by repeated interactions over time, fostering cooperation and mutual dependence between contracting parties. However, whereas bilateral governance generally involves assets of moderate specificity, vertical integration is associated with highly idiosyncratic assets whose specialised nature strengthens long-term contractual interdependence (Williamson, 1979). The empirical findings suggest that many contractual relationships within Mozambique's public sector increasingly display characteristics of relational governance, particularly where suppliers repeatedly contract with the same public institutions over extended periods.

Within the Mozambican institutional context, the procurement of public works, goods, and services is regulated by Decree No. 79/2022, which establishes the legal principles, procedural requirements, and administrative criteria governing public procurement. Failure to comply with these statutory provisions may result in the annulment of procurement procedures. Under Article 19(a) of the Regulation, the Functional Unit for the Supervision of Public Procurement (UFSA) is entrusted with responsibility for supervising procurement activities, promoting compliance with procurement legislation, and strengthening transparency and accountability throughout the procurement process.

Despite this comprehensive regulatory framework, the empirical evidence indicates that public procurement continues to represent one of the sectors most vulnerable to corruption in Mozambique. Institutional weaknesses, limited administrative capacity, insufficient oversight mechanisms, and opportunities for the misappropriation of public funds continue to undermine procurement integrity and reduce the effectiveness of public expenditure. These findings are consistent with the central proposition of New Institutional Economics that formal rules alone are insufficient to ensure efficient governance where informal institutions and enforcement mechanisms remain weak.

One institutional challenge identified by respondents concerns the bid security requirements established under Articles 69 and 102 of Decree No. 79/2022. Under the current legal framework, the submission of a bid security constitutes a mandatory condition for the admissibility of tender submissions. For contracts involving the supply of goods and the provision of services, this requirement applies to procurement procedures with an estimated value exceeding MZN 7,000,000, while for public works contracts the threshold is MZN 10,000,000. In practice, these guarantees are normally issued by commercial banks or insurance companies and therefore impose significant transaction costs upon SMEs. Participants reported that financial resources may remain immobilised for periods ranging from three to six months while certified bank guarantees remain outstanding. Given that many SMEs simultaneously participate in several procurement procedures, each requiring separate financial guarantees, this legal requirement creates substantial liquidity constraints without providing any assurance that contracts will ultimately be awarded.

From the perspective of Transaction Cost Economics, these financial obligations increase the opportunity cost of participation in public procurement and may discourage otherwise competitive firms from entering government tenders. Consequently, the empirical evidence suggests that the existing guarantee system may unintentionally reduce competition by creating barriers to entry for smaller enterprises with limited financial capacity. Accordingly, several participants argued that the Government should consider introducing an integrated bid security mechanism that would allow a single guarantee instrument to be used across multiple procurement procedures. Such a reform could substantially reduce transaction costs, improve market access for SMEs, increase competition, and enhance the efficiency of public procurement. Respondents further observed that the principal financial beneficiaries of the current guarantee system appear to be banking and insurance institutions rather than either the State or participating suppliers.

CONCLUSION

The findings of this study, interpreted through the analytical framework of New Institutional Economics (NIE), demonstrate that transaction costs constitute a critical determinant of the quality, efficiency, and integrity of public procurement within the Mozambican Public Administration. In an economy in which the State plays a central role in supporting private sector development, particularly that of Small and Medium-sized Enterprises (SMEs), the effectiveness of public procurement governance becomes a strategic prerequisite for sustainable economic growth and institutional development. The evidence indicates that the institutions responsible for coordinating and supervising public procurement have yet to establish sufficiently robust mechanisms to guarantee the principles of transparency, equal treatment, fair competition, procedural efficiency, administrative rationalisation, institutional integrity, sound financial management, and the effective protection of the public interest. A significant institutional challenge identified by this study concerns the legal requirement for the submission of bid securities in public procurement procedures. The obligation to provide separate financial guarantees for multiple procurement processes places a disproportionate financial burden upon SMEs. The costs associated with obtaining these guarantees, together with the temporary immobilisation of financial resources, reduce business liquidity, constrain operational capacity, and increase the overall cost of participation in government procurement. From the perspective of Transaction Cost Economics, these requirements generate unnecessary transaction costs that may discourage market participation and reduce competition. Consequently, the current guarantee system appears to benefit financial institutions issuing these guarantees more than it promotes the development and competitiveness of domestic enterprises.

With regard to the procurement of public works, the supply of goods, and the provision of services, the study argues that the fiscal constraints currently facing the Mozambican State should be regarded as an opportunity to implement comprehensive institutional reforms aimed at improving the governance of public procurement. Given that government contracts represent a substantial proportion of the turnover of many SMEs, public procurement should be recognised as a strategic instrument for economic development rather than merely an administrative function. Strengthening procurement governance would therefore contribute not only to improved public financial management but also to enhanced private sector development, investment, and employment creation.

The analysis further indicates that persistent weaknesses in institutional governance continue to undermine procurement performance. High levels of public expenditure in certain institutions, particularly within the health sector, have been associated with practices that may facilitate the misuse of public resources for private gain. While such risks vary across institutions, the findings suggest that effective procurement reform requires more than legislative amendments. Sustainable improvements depend upon stronger political commitment to institutional accountability, rigorous enforcement of procurement regulations, enhanced transparency, and the consistent application of anti-corruption measures capable of safeguarding public resources. The study also demonstrates that many public sector managers do not consistently promote compliance with the ethical standards and codes of conduct governing the Mozambican Public Administration. Weak ethical leadership, limited organisational oversight, and insufficient institutional accountability create conditions under which unethical and unlawful conduct may occur. Accordingly, strengthening organisational ethics should constitute an integral component of procurement reform, supported by the effective implementation of the Criminal Code, the Public Probity Law, and the General Statute of Public Officials and State Employees. From the perspective of institutional uncertainty, the findings confirm that SMEs operating within public procurement markets incur both explicit and implicit transaction costs arising from imperfect information, administrative complexity, contractual uncertainty, and limitations in financial management systems. Opportunity cost emerges as a particularly important consideration in managerial decision-making, reflecting the value of alternative opportunities forgone when scarce financial resources are committed to specific procurement activities. As institutional and economic uncertainty increases, firms face greater difficulty in generating sustainable returns, accumulating capital, and maintaining long-term competitiveness. Finally, the study concludes that many SMEs continue to underutilise the business plan as a strategic management instrument. This appears to reflect limited technical expertise, insufficient appreciation of its managerial value, and resource constraints affecting small enterprises. Nevertheless, an effectively designed business plan remains an essential tool for organisational development, enabling entrepreneurs to undertake strategic planning, financial forecasting, risk assessment, resource allocation, and investment evaluation. In increasingly competitive and uncertain economic environments, the preparation and systematic implementation of comprehensive business plans enhance managerial decision-making, strengthen organisational resilience, and improve firms' capacity to compete successfully in public procurement markets.

Overall, this study demonstrates that improving the quality of public procurement in Mozambique requires an integrated institutional approach combining effective legal frameworks, strong governance mechanisms, ethical leadership, enhanced institutional capacity, and continuous administrative reform. Such an approach is essential to reducing transaction costs, increasing public sector efficiency, promoting fair competition, strengthening public confidence in procurement institutions, and supporting sustainable socio-economic development. Through the lens of New Institutional Economics, the study highlights that durable improvements in procurement performance depend not only on formal legislation but also on the quality of the institutions that shape incentives, regulate behaviour, and govern contractual relationships between the State and the private sector.

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