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## Can integrated infrastructure investment plans contribute to more effective public spending? The case of Mozambique

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WIDER Working Paper 2016/162

## **Can integrated infrastructure investment plans contribute to more effective public spending?**

The case of Mozambique

Mike Muller and Horacio Zandamela\*

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**Abstract:** All countries, especially developing countries with limited financial resources, face difficult decisions in prioritizing public funds for investment projects in order to achieve strategic public goals in the face of multiple demands. Effective investment often requires coordination between different institutions and the management of political pressure to divert investment in support of private interests. It also requires the identification of appropriate sources of funds for different purposes. The preparation of an integrated infrastructure investment plan (IIIP) that uses structured approaches to review investment proposals has been suggested, and adopted in some cases, as an instrument to address these challenges and bridge the gap between national planning and sectoral budgeting. This article considers the experience of Mozambique in deploying an IIIP and concludes that the instrument may be helpful as part of a system of investment planning and allocation but that it has significant limitations.

**Keywords:** infrastructure, development planning, budgeting, Mozambique

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## 1 Introduction

How much infrastructure investment is required by a national economy; what; where; when; and by whom? The investment planning challenge is hardly new to governments but that does not mean it has been resolved. This is demonstrated by the experience of the world's two largest economies. While China (and, before it, Japan) is considered by many to have over-invested in infrastructure over the past two decades, the USA is widely acknowledged to have under-invested, with infrastructural inefficiencies having an impact on economic activity and social life.

In those countries, the level of investment is the result of more or less conscious policy decisions. However, poorer countries face the challenge of addressing far larger demands with far more limited financial resources. Countries have sought to address this challenge in a systematic way through the national development planning and associated budgeting processes.

Development planning has a chequered history. During the early postcolonial period it was considered to be almost obligatory (Lewis 1966; Waterston 1965), while subsequently it was associated with an ideology of state-led development and was opposed in many circles for that reason (Brinkerhoff 2008). Nevertheless, it is now widely accepted that some form of planning is necessary to guide the interventions of government in the wider economy (Rajaram et al. 2014). Within new approaches to planning, there are two key elements, the identification of a long-term trajectory and the promotion of the interventions that are critical to its achievement (Guerrero 2004).

The translation of a development plan from well intentioned proposals to implemented projects has thus long been a concern for practitioners. The planning process has to achieve coordination and cooperation between often 'silo-style' institutions. And there is the systemic challenge, across time and jurisdictions, of managing the impact of political pressures that go beyond objective reflections of preferences and strategies.

Politics often operates within a short-term horizon, in which an electoral cycle is seen as the 'long term'. Meanwhile, strategies and plans for economic and social development necessarily span decades. Some systematic method is needed to ensure that short-term decisions are guided by longer-term strategy. One instrument proposed as part of the toolkit to address this challenge is the integrated investment plan or, more specifically, integrated infrastructure investment plan (IIIP), which focuses primarily on the infrastructure required to achieve the goals of the development plan.

The objectives of this paper are to outline the concept of the IIIP (Section 2), to present the initial experience of Mozambique in applying the concept (Section 3), and to consider to what extent this has to date proved, and may in the future prove, to be a helpful innovation (Section 4).<sup>1</sup> Section 5 concludes.

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<sup>1</sup> That the IIIP's introduction occurred across a dramatic inflection point in Mozambique's economic fortunes is illustrative of the fact that an IIIP may play different roles in different circumstances.

## 2 Integrated infrastructure investment plans as generic instruments

### 2.1 The global context

The concept of the integrated infrastructure investment plan (IIIP) must be located in the context of broader national development planning and budgeting processes. While most plans and budgets have a capital or investment component, the IIIP emerged as a specific instrument in response to the economic and public finance management challenges of the first decade of the 21st century. The financial crisis of 2008 ended the dominance of the Washington Consensus policies (Williamson 2009) and the associated doctrines of new public management, which had constrained both economic planning and public investment (Brinkerhoff 2008). Those policy prescriptions had been a response to debt crises triggered by the oil price shocks of the late 1970s, which saw many developing countries default on their debts and become dependent on conditional bail-outs from developed countries and the multilateral development agencies.

The 2008 crisis represented a failure of economic policy in the developed countries. Their response both required and enabled a return to more aggressive, state-led policies in developing countries. This was explicitly recognized by many of the multilateral institutions that had enforced Washington Consensus policies through their structural adjustment programmes. World Bank authors now recognize that the state has a role in managing economic development; at issue is the balance between its taking a limited, facilitative role and a more dominant one. In both cases, it is acknowledged that government must undertake public investment (Rajaram et al. 2014). This position is now reflected in the advice being given to developing countries on their approaches to planning and budgetary processes.

*Evolving approaches to public finances: from visions and plans to strategies and budgets*

The state intervenes in public affairs through its powers to tax and spend, guided by a set of goals that may be implicitly or explicitly defined and are often set as part of formal planning processes. In 20th-century socialist countries, planning provided the formal mechanism to allocate capital, productive resources, and goods. Following the apparent success of central planning in the first decades of the Soviet Union, forms of national planning were adopted in Western Europe's mixed economies after the Second World War and in their former colonies in the early years of independence (Waterston 1965).

In both cases, the methodologies were adapted to address the particular challenges of their times: in Europe, the management of demand to achieve full employment and welfare objectives; in the newly independent states of Africa and Asia, as well as in Latin America, the mobilization and direction of investment to achieve 'development', economic growth, and higher standards of living.

In these mixed economies, Lewis (1966) cautioned, development plans should not be regarded as definitive; they were based on forecasts that would necessarily be influenced by external factors. He distinguished between 'indicative' and a 'controlling' plans:

The Plans made by Communist countries are documents of authorisation; they tell each industrial unit what it must produce and how much it may invest. A Development Plan, on the other hand, authorises nothing. Even public expenditure is authorised not by the Plan but only by the Annual Budget (Lewis 1966: 19).

In this he anticipated the adoption of strategic and scenario planning by the private sector (Wack 1985). These approaches recognized that it was not possible to forecast economic developments with any degree of precision and that what was more important was to identify uncertainties and possible trends and to ensure that the approach adopted was at least internally consistent and able to respond to evolving circumstances (Mintzberg 1994).

Such indicative strategic planning processes have now been adopted by many countries as instruments for the promotion and management of national development. And development planning is once again recognized as a legitimate and useful instrument that can help to align the public and private sectors to work towards the achievement of common national goals (Richard and Tommasi 2001).

This perspective was encouraged by the experience of (predominantly) East Asian countries, which had successfully applied national development planning since the 1960s and adapted it to the changing global environment. Development planning in its new, more inclusive, forms also offers a mechanism through which to encompass the social, environmental, and political dimensions of development (Midgley and Tang 2001; Nunan et al. 2012) in addition to economic issues of growth and the distribution of wealth and income.

In the new environment, rather than passively accompanying rapid social and economic change, governments seek to guide development towards more or less explicitly described goals. Their approaches often include some kind of long-term ‘envisioning’ through the development of a formal vision (Guerrero 2004) or a broad statement of intent by a political party. From such visions, which are often sufficiently general to ensure support and continuity across political cycles, more specific medium-term proposals emerge. These may be included in a formal national development plan or simply a political manifesto, which may become binding in countries where coalition politics require formal cooperation.

## **2.2 The particular importance of infrastructure investment**

The provision of infrastructure or ‘overhead capital’ (Youngson 1967) is an important focus of national development planning. Adam Smith identified ‘the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual or small number of individuals to erect and maintain’ as one of three key functions of a state, and the understanding of this role has been systematized over time (Hirschman 1958). More recently, the Washington Consensus controversially promoted the private sector’s role in providing what, for most of the 20th century, was considered to be public infrastructure (Estache 2010).

Infrastructure investment projects attract considerable attention in the planning process. Technically, they may be complex and require great effort to analyse and implement; politically, they are large and visible and often embody elements of development strategy; in practice, they offer substantial opportunities for rent-seeking by powerful interests. The planning challenge is to design programmes of public investment that help to achieve the society’s broader goals and protect them from private interests by providing a review ‘gateway’ through which proposals must pass (Rajaram et al. 2010).

Under the Washington Consensus regime, governments’ ability to do this had been constrained by policy conditionalities, leading some to complain that ‘decisions to curb public investments for a prolonged period would result in sacrificing the potential for long-term growth’ (Rajaram et al. 2014: 3). Recognizing the validity of this concern, in the wake of the 2008 financial crisis, institutions such as the World Bank began to promote a structured process of public investment

planning and management to ensure that, as capital expenditure increased, it would be effectively deployed.

### 2.3 The potential contribution of an IIIP

One instrument proposed as a tool for achieving the goal of effectively deploying investment capital was the IIIP. The two key objectives of the IIIP are, first, to promote better analysis of and decisions about investment proposals and, second, to constrain inappropriate investments. A useful generic problem statement is set out in a recent World Bank review of public investment management:

[...] public investment decisions are often seen to be wastefully managed, subject to corruption and misappropriation, and a constant source of dismay and disappointment to citizens. [...] [I]nvesting in the effort to establish effective systems for managing public investment is likely to yield high returns (Rajaram et al. 2014: 2).

The World Bank's proposed approach to the pre-investment phase (project development, appraisal, review, and selection) is clear from the questions to be asked in order to determine whether a public investment planning process is producing an effective and efficient programme. These include:

- Is there an established process for the screening of project proposals for basic consistency with government policy and strategic guidance? Is this process effective?
- What proportion of projects so screened is rejected?
- Is there a formal cost–benefit appraisal process?
- What proportion of project appraisals is rejected or sent back for amendment?
- Does the government review project appraisals undertaken by donors? Are appraisals screened by an external agency or department for quality and objectivity of appraisal? Are such reviews credible as an independent perspective?
- Are donor-funded projects ever rejected on the basis of cost–benefit analysis?
- Is final project selection undertaken as part of the budget process or prior to the budget process? Does the government maintain an inventory of appraised projects for budgetary consideration? Are public investment projects selected and funded through extra-budgetary channels?
- Is there an effective process to control the gates to the budgeted public investment programme (PIP)? Is there an established but limited process for including projects for emergency or politically imperative reasons?
- What proportion of projects enters the PIP by ‘climbing the fence’, thus avoiding the gatekeeping process?
- What proportion of projects that ‘climb the fence’ is donor-financed?

These questions address both the potential benefits of and the likely challenges to a formal investment programme approach as sectoral ministries and other interested parties push to have their projects included. They also identify the particular difficulties facing donor-dependent countries, where donor procedures and pressures may lead to poor investment decisions. And they give finance, economics, and planning ministries the difficult task of acting as ‘gatekeepers’.

## 2.4 International experience with the use of IIIPs

Many countries have implemented formal infrastructure investment planning as a link between development planning and public financial management systems, with mixed success. In Latin America, Mexico prepares a National Infrastructure Program (NIP) as part of its constitutionally prescribed National Development Plan. Its impact is reported to be limited because the National Development Plan has little force and is treated simply as a compliance measure. The NIP does not achieve adequate inter-sectoral cooperation because much of the preparatory work is undertaken by the sectoral institutions themselves and often fails to consider either political acceptability or the availability of resources. A consistent finding in three other countries reviewed (Chile, Peru, and Uruguay) is that integrated investment planning suffers from coordination failures between sectors and levels of government (Alberti 2015).

A more positive perspective comes from Mauritius, whose government prepares a Public Sector Investment Programme on the basis of the country's National Development Strategy (OECD 2015). This is not a binding document, but is 'prepared as a courtesy for reference and provides a framework that outlines the way Public Sector infrastructure investment decisions and policies are planned, financed and implemented' (Government of Mauritius 2014: i). It presents a five-year 'pipeline' of public sector investment projects and proposes how each should be financed, 'through a combination of debt raised on the local market, external debt from Development Partners, state-owned enterprises' own funds and FDI for PPP<sup>2</sup> projects' (Government of Mauritius 2014: i).

In Europe, Central and Eastern European countries joining the EU were required to prepare a national development plan, specifically including an infrastructure investment programme, in order to access Community funds. The OECD guidance for public financial management in these 'transition countries' emphasized the importance of sequencing decision-making to link project preparation with budgeting and 'to ensure that policies drive programmes; programmes fit the financial constraints; and programmes drive projects' (Richard and Tomassi 2001: 187).

Even core members of the EU recognized the value of a coherent and coordinated approach in response to the challenges of the financial crisis. The United Kingdom Treasury prepared a National Infrastructure Plan to provide a 'broad, integrated, cross-sectoral vision and plan for the substantial infrastructure investment required to underpin the UK's economic growth' (Stewart 2010). Similarly, Ireland's National Development Plan (2007–2013) included a 'Multi-annual capital investment framework', which summarized capital expenditure by ministry, distinguishing budget funds from PPPs and other development finance sources. A National Development Finance Agency is responsible for advising on PPP financing opportunities and methodologies.

These examples illustrate the variety of approaches to integrated infrastructure investment programming, driven by the common need to improve the prioritization and effective use of limited investment funds for public infrastructure development. The practical experience of Mozambique in introducing such a process is now reviewed against this background.

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<sup>2</sup> Private–public partnership.



### 3 The Mozambican case

#### 3.1 The evolution of Mozambique's planning and budgeting in context

The evolution of Mozambique's planning, development, and investment systems followed the same generic pathway as in many other countries, with some local characteristics. The country's attempt to establish a centrally planned economy ended in the late 1980s as a consequence of a conjuncture of events. While global trends, natural disasters, and the state's own mistakes contributed to failures, additional aggravating forces were:

- destabilization by South Africa
- internal armed opposition, backed by a range of external supporters including South Africa
- the collapse of the Soviet Union and the COMECON bloc, on which Mozambique had relied for economic and political support
- conditions imposed by the external Bretton Woods agencies to which Mozambique found itself obliged to turn for financial support.

As a consequence, the policy space available for Mozambique's government from the late 1980s into the first decade of the 21st century was constrained by its extreme dependence on external resources. Following the floods and related disasters of 2000, 62 per cent of the government's 2001 budget was expected to be funded from external sources (GoM 2001).

During this phase, Mozambique's public financial management was subject to the same conditionalities as in many other countries. It began with some years of extreme constraints—a comprehensive Economic Rehabilitation Programme (ERP) in 1987 followed by an Economic and Social Rehabilitation Programme (ESRP) in 1989, with funds to mitigate the 'social impact of adjustment', and later the PARPA, Mozambique's 'Poverty Reduction Strategy Paper' (Arndt et al. 2000).

There were also political reforms. A new constitution in 1990 separated the executive, legislative, and judiciary powers and mandated regular elections. In parallel, the country's planning and financial instruments were developed and formalized. A medium-term Quinquennial Plan (QP) guided the annual National Budget, which, by 2000, had to be approved and monitored by Parliament. There were tensions over whether the PARPA or the QP was the dominant instrument. However, as aid dependence reduced (to 55 per cent in 2005, 34 per cent in 2010, and 15 per cent in 2013), this process became less significant. The PARPA served to ensure that there was concurrence with donors over the use of their funds, but the QP and the budget were legally binding.

This arrangement reflected the growing trust between the Mozambican government and its development partners, which saw more external assistance as direct budget support—i.e. channelled through the domestic budgetary process, an important step in normalizing Mozambique's governance and financial management processes, rather than directed to individual projects. The institutions charged with managing the planning and budgeting process were also defined in legislation, although the specific role of provincial administrations and the administrative arrangements for decentralized, local-level planning and implementation are now contested and may change over time (Bueno et al. 2015).

Mozambique's planning and budgeting process was strengthened in 2003 by the preparation and adoption of Agenda 2025, a broad, national, long-term vision drawn up by a non-partisan committee of advisors, with extensive external support. The hope was that 'whatever political force may come to govern Mozambique, they, together with all other national actors[,] should not ignore the path set out in Agenda 2025' (Committee of Counsellors 2013). A decade later, the National Development Strategy (ENDE) 2015–2025 was produced, to take forward the strategies outlined in Agenda 2025.

Like other developing countries, Mozambique benefited from the changes in the policy environment resulting from the global financial crisis of 2008. But the country has had to rediscover the role of the state and restructure its public financial management processes to be fit for purpose in these changing circumstances. The development of the IIIP is one part of that larger process.

### 3.2 Mozambique's IIIP

As the planning and budgeting process evolved, challenges emerged, particularly in the area of public investment. There was limited capacity to undertake the social and economic analysis required. Each sector ministry took its own approach, identifying and preparing projects without the involvement of the then Ministry of Planning and Development. There was a further coordination problem: where industrial or agricultural developments needed transport, power, and water links, these needs were often not included in the relevant sector plans (Ubisse 2013).

In 2011, two committees were established to strengthen the planning and budgetary process: Public Debt Management (under the then Ministry of Finance) and Coordination and Selection of Public Projects (under the Ministry of Planning and Development). Tasked with prioritizing public projects for external financing and ensuring their effective implementation, the latter committee produced:

- criteria for the selection of public projects for external financing (published in 2011)
- a manual for the preparation of public projects
- the Integrated Infrastructure Investment Programme (published 2013; revised 2014).

The IIIP is based on the QP (2010–2014) and PARPA, which covers a similar period (MPD 2014). It also refers to preliminary drafts of documents, notably:

- the National Development Strategy 2015–2035 (ENDE)
- provincial and sector policies and strategies
- the Strategic Plan for the Promotion of Private Investment 2014–2017.

#### *IIIP 2014: selected highlights*

Mozambique's first IIIP (MPD 2014) was not intended to be the outcome of a formal evaluation of project proposals to determine whether their implementation should be approved. Rather, it was intended to:

- Help to prioritise investments in the face of limited financial resources;
- Reinforce an integrated vision of public sector projects, emphasising the synergy between projects of different sectors; and
- Provide information about possible public/private investment cooperation (MPD 2014: S7).

It identified infrastructure projects that could (i) create an environment that would attract investment and, in turn, improve the competitiveness of the Mozambican economy; (ii) create a logistics environment that supported investment and improved the circulation of goods and services; and (iii) improve the management of water resources and expand access to low-cost, environmentally friendly energy supplies.

It restated the government's focus on providing energy, transport, water, and telecommunications infrastructure in the 'Growth Poles' of the Zambezi valley and the larger Nacala Corridor, as well as on creating special economic zones in these and other areas. Other broad criteria applied to project prioritization included requirements to:

- contribute to economic activity and positively affect the balance of payments
- establish links between projects
- reduce territorial inequalities
- be economically and financially sustainable.

From extensive lists of projects in agricultural development—rail, ports, and airports; roads; energy production and distribution; and water supply and sanitation—the IIIP identified seven infrastructure projects as priorities for 2014–2017:

- construction of the Tete–Maputo electricity transmission line (CESUL)
- construction of the Mphanda Nkuwa hydroelectric project
- construction of the Moamba-Major dam to supply water to greater Maputo
- construction of the Caia–Nacala electricity transmission line
- completion of the EN1 north–south highway
- rehabilitation of the EN6 highway between Beira and Machipanda
- construction of the harbour bridge between Maputo and Catembe and road to Ponta de Ouro.

A number of these projects had already begun (Maputo harbour bridge and some roads projects) and financial agreements were already in place for the Moamba-Major dam. However, for others, intended to be developed as PPPs (e.g. CESUL and Mphanda Nkuwa), there was not yet a financial basis for implementation.

#### *Technical consistency and policy coherence*

Since this was the first attempt to produce an IIIP, the document had some significant weaknesses, which reflected the broader challenges of project preparation and appraisal. For example, some of the project data show that there is not yet a consistent approach to project evaluation that would allow the comparison of competing projects, let alone their prioritization. At a technical level, discount rates applied vary from 3 per cent (for an irrigation rehabilitation project) to 12 per cent (for new inter-provincial road links); even within the same sector, roads projects have rates of between 8 and 12 per cent.

The strategic focus is also often lost. Some project 'benefits' might better be considered as risks. A beneficial impact claimed for the Maputo harbour bridge, for example, is that new urbanization plans will be developed. However, since no details of these plans are provided, such as how transport and urbanization strategies will be integrated, there is a risk of disorderly urbanization.

In 2016, progress on four IIIP projects, including one of the priority projects, was reviewed, with a focus on local issues of social inclusion and broader issues of regional integration. This highlights

some of the strengths and weaknesses of the current approach. For the Nacala Corridor railway, the potential social contribution of reducing general freight costs in both Mozambique and Malawi is not mentioned; the only social impact mentioned is the potential danger to pedestrians! The Nacala Port development mentions benefits to neighbouring countries of more efficient logistics, but its social impact concerns are limited to issues regarding the relocation of fishermen and HIV/aids risks amongst temporary construction workers. The Moamba-Major dam will provide additional bulk water to Maputo, but the information provided is only about the (limited) number of people who will be displaced rather than on the far larger number who will have access to safe water. The potential for employment from the rehabilitation of the Chokwe irrigation system is only briefly mentioned; the primary focus is on mechanization, improved productivity, and greater profitability.

The overall impression is that project evaluation approaches have been determined primarily by individual sectors and their funders rather than established on a consistent basis by Mozambique's public finance authorities, illustrating the need for a more coherent and coordinated approach.

#### *Funding options for the IIP and their challenges*

The IIP's discussion of 'Implementation Mechanisms' highlights Mozambique's continued dependence on external funding and the related challenges. Since different sources of finance present different opportunities, constraints, and risks, the appropriate source of finance for each project has to be decided. Five financing options are identified:

- highly concessional, long-term, low-risk finance from multilateral sources
- bilateral concessional finance, often long-term but with a variety of currency and interest rate conditions that need to be assessed
- commercial non-concessional funding (only for projects that will generate sufficient operational revenue to repay loans)
- local public debt—an emerging source whose short terms will present refinancing risks for long-term projects
- sovereign guarantees, which may be used to support PPPs, particularly those involving public enterprises (MPD 2014: S126).

It is evident that the structuring of the national investment programme is complicated by the conditionalities around concessional funding. Similarly, while PPPs appear attractive, they are invariably complex. Producing a coherent programme making optimal use of such diverse funding sources is not easy.

#### *Three cases: Nacala coal corridor, hydropower generation, and agricultural development*

A discussion of the progress made in 2016 on three projects included in the IIP helps to highlight the strengths and weaknesses of the current approach.

The Nacala coal corridor is arguably a success. A 910 km railway (230 km new and 680 km rehabilitated) now links the Tete coal mines to the Nacala Port coal terminal. The provision for general cargo has already increased traffic, helping to reduce Malawi's cost of transport to the sea and reinforcing regional integration. However, this is not attributable to the IIP, since the work had already started when the plan was produced. Much of the progress is due to the inherent incentives for the Brazilian Vale company, which operates the Tete mines and led the financing and construction of the railway and port facilities, since these were essential to its mining business. Performance elsewhere in the corridor has been less impressive (Nhamire and Matine 2015).

*Hydropower development on the Zambezi* is perhaps the most egregious failure. Although a new Zambezi hydropower project was first identified as a regional priority in 1980 (SADCC 1980), it has still not progressed to implementation. The Mphanda Nkuwa dam was to be a PPP, with a Brazilian company as development partner (SADC 2013). However, the project has stalled because no power purchase agreement (necessary for PPP financing) has been reached with South Africa's ESKOM utility. There has also been opposition to the project from civil society on social and environmental grounds (IRN 2006). New Chinese partners may be able to fund the project and sell electricity 'at risk' into the Southern African Power Pool, but such a deal has not yet been finalized.

*The PROSAVANA agricultural development programme in Northern Mozambique* was included in the IIIP because of the extensive infrastructure that it needed. Seen variously as an attempt to replicate the big farm model of Brazil's *cerrado* or, alternatively, to improve small-farm productivity by establishing commercial 'nuclei' farms that would provide technical and marketing support, it has become highly contentious (Classen 2013; MAJOL 2016; Okada 2015; Shankland and Goncalves 2016; UNAC 2012). The different visions reflect the respective perspectives of Mozambique's development partners, Japan and Brazil, and implementation has been slow. While there has been some technical extension activity, commercial farming development has been limited, largely because few large tracts of land are unoccupied, as originally believed. A planning-related problem that has arisen has been the lack of funds to allow local and provincial agencies, which were not fully involved in the planning, to respond to local infrastructure needs.

#### **4 Mozambique's development challenges and responses 2011–2016: a rollercoaster ride**

When the IIIP was initiated in 2011, there was a strong sense that Mozambique might be that theoretical, once struggling country described by a World Bank author, whose finance minister

has received news of a large new resource discovery and is anticipating significant new fiscal revenues on the order of hundreds of millions, possibly even billions, of dollars [but ...] recognizes that there is no institutional capacity to make the necessary decisions on sound economic principles and there is a high risk of ad hoc and politically motivated investments that will not contribute to the development goals of the country (Rajaram et al. 2014: 1).

This optimistic perspective was reinforced by external partners and the media. The IMF's *Mozambique rising: building a new tomorrow* (IMF 2014) cited Mozambique as one of the fastest growing countries in Africa for the past two decades. Although challenges were acknowledged, sound policy and a supportive international environment were highlighted, and the book concluded that 'Mozambique has a unique opportunity to build on the discovery of ample natural resource endowments that, if managed well, will allow it to achieve its social development goals and overcome its reliance on foreign aid' (IMF 2014: 1).

These sentiments were echoed by other commentators impressed by evidence of rapid growth in cities such as Maputo and Nampula, accompanied by a commercial building boom; and they were reinforced by apparently credible private financial institutions that gave assurances that the boom was sustainable:

The forecast increase in investment in transport and energy infrastructure necessary for the country's development should be compatible with macroeconomic stability and debt sustainability, focusing on integrated projects

with proven economic returns within the terms of the recently presented Integrated Investment Plan. The temporary recourse to non-concessional loans is seen being replaced, in the long term, by the availability of revenue associated with the development of natural resources, which should create the necessary fiscal base required to meet investment commitments and other social priorities (Banco Espirito Santo 2012).

The IIP may have been a late contributor to this enthusiasm. However, evidence was mounting of both micro and macro constraints. While millions of tons of coal was being exported from the Nacala Corridor, PROSAVANA's problems highlighted the need for coordination and consultation, as well as for more focus on technical detail. The continued delay in the Zambezi hydropower development project showed that the inclusion of a project in a plan does not in itself mobilize funding.

As commodity prices continued to decline into 2013, some of the IIP cheerleaders rather belatedly began to warn about new economic risks. Financing options that were not available before the discovery of natural resources were opening up, but the country lacked the debt and fiscal risk management capacity to assess the liabilities that came with them.

Countries that may have been financially constrained, as is the case with Mozambique, will also seek to address longstanding development needs (e.g. in infrastructure) by frontloading investments in the expectation of a surge in government revenues in the near future. These rapid increases in spending, if financed by debt, could lead to higher risks of debt distress if the investments do not have the expected returns or if the natural resource revenues fall below expectations (World Bank 2014: 50).

Concerns intensified when, in 2013, Mozambique raised large loans for EMATUM, a fishing enterprise not included in the IIP, whose viability was immediately questioned. The situation became critical when it transpired in 2016 that the government had entered into secret loans, arranged outside formal financial management structures. By 2014, it was becoming clear that Mozambique's ambitions, or at least those of some of its leaders, had run ahead of its resources. The World Bank warned that

the current fiscal stance does not appear sustainable. Public spending is projected at almost 42 percent of GDP in 2014, and the deficit after grants is expected to widen to over 9 percent of GDP. Maintaining this trend will quickly lead to an unsustainable debt burden [...] [T]o reinforce macroeconomic stability, public spending and debt levels need to be reduced. [...] Most likely this will involve reprioritizing spending on the wage bill and public investments (World Bank 2014: 19).

The 'loans scandal' damaged Mozambique's relationships with its traditional development partners. Some aid transfers were halted and stringent oversight controls were imposed on the remainder. Economic performance suffered as the value of the currency fell and inflation rose, aggravating the effects of the 2014–2016 El Niño drought. In the interest of making peace with development partners, an independent enquiry into the 'illegal' loans is currently under way and a number of policy reforms are being implemented, but it remains necessary to prepare for the future.

[S]ubstantial resource revenues expected toward the end of the decade present an unprecedented opportunity but this will need to be well managed. If the

developments in the coal and gas sectors proceed as planned[,] resource revenues could be as high as US\$9 billion by 2032, representing 7 percent of GDP and 21 percent of total government revenues. However, these figures are subject to considerable volatility [...] To ensure that the government can efficiently spend a much larger resource envelope, it will be important to continue strengthening public financial management systems (World Bank 2014: 20).

This experience shows how a failure of political discipline, bypassing planning and budgetary systems, can militate against the achievement of development goals and undermine the long process of internal institutional strengthening and trust-building with external partners. One narrative is that this is ‘just another’ example of a corrupt African government; it is also portrayed as a consequence of Washington Consensus policies that weakened the state while promoting private sector interests (Bertucci and Alberti 2005; Hanlon 2016).

Mozambique’s experience does highlight the complexities of using an IIP in a poor or developing country that is heavily dependent on external financial support, making it difficult to achieve coordinated oversight over negotiations. More practically, public authorities in less developed countries often have to evaluate a more complex set of financial conditionalities from different donor sources than their colleagues in richer countries. Identifying and assessing contingent liabilities such as the risks inherent in, for instance, revenue assumptions in PPPs is a particular challenge.

Another generic factor contributing to the current crisis has been the entry onto the policy and financing stage of the BRICS countries as development partners. In the 1990s, the reduced role of the state prescribed by the Washington Consensus limited countries’ access to funds. But at the start of the 21st century, the acceptability of alternatives grew in response to the rapid growth achieved by China, India, Brazil, and other middle-income countries. This sustained the commodities boom and saw the emergence of new financial options for countries like Mozambique.

Specifically, the rise of the BRICS countries as sources of finance for development transformed the decision-making space. It broke the funding monopoly of the Bretton Woods institutions and saw increasing competition on financial terms as well as on the nature and extent of conditionality (Estache 2010).

These two transitions—the weakening of the Washington Consensus and the rise of the BRICS—have added complexity to the political economy of development, particularly when it comes to decision-making about the management of public finances and, more specifically, about large investment projects in the public domain. They perhaps contributed to the hubris that led elements of the Mozambican government to disregard the carefully constructed systems that had been established over the previous decade.

## **5 Conclusions**

The experience of Mozambique shows how the preparation of an IIP might strengthen national investment performance, but also reveals its limitations. As one instrument in a larger suite of planning and budgetary systems, it can play a useful role in identifying weaknesses in project proposals, encouraging better preparation and coordination, and guiding investment in support of strategic development objectives. Initially promoted as an instrument to deal with a proliferation of opportunities as new resources became available, it may be just as useful to help prioritize

investments in a period of constraint, occasioned by the very threat of capture by private interests that it was designed to curtail.

Mozambique certainly demonstrates the dangers of allowing investments to ‘escape’ analytical scrutiny and formal approval procedures. However, without further development of analytical capabilities internally and political discipline in the broader system, the IIP is unlikely to function as a gateway to budgetary approvals. It may help officials to screen out obviously weak proposals, but even this process will be complicated by the return to greater operational involvement by development partners in the use of their resources. What the IIP has already demonstrated is the complexity of promoting a prioritized, strategic programme in a context where bilateral sectoral negotiations that may lead to financial commitments are conducted in other fora.

Given these constraints, it was arguably appropriate in this initial stage to give the IIP only a limited role, as a complement to other planning and budgetary processes. Its limited role became obvious as the economic and political context changed between 2013 and 2016. The IIP’s potential value as a tool for communication of the government’s investment intentions had not been properly developed and will be undermined, in the short term, by recent developments.

However, while the IIP will not be able to achieve its objectives until a greater degree of discipline has been instilled in government, the experience of the period from 2013 to 2016 may yet prove to be an incentive to enforce such discipline in the future.

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