



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

REPUBLIC OF MOZAMBIQUE

Public Investment Management Assessment –
PIMA and Climate PIMA

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Republic of Mozambique: Public Investment Management Assessment – PIMA and Climate PIMA
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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: An IMF team conducted a Public Investment Management Assessment including the module on Climate Change in Mozambique. The team identified strengths related to the recent reforms in the national public investment system and several weaknesses along the investment cycle that affect its efficiency. It identified eight high-priority and more immediate reforms that could improve PIM processes.

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Background

At the request of the Ministry of Economy and Finance of Mozambique (MEF), a team from the IMF's Fiscal Affairs Department (FAD) conducted a Public Investment Management Assessment (PIMA) and Climate-PIMA during February 27-March 8, 2024, in Maputo. There were several preparatory virtual meetings prior to the mission.

Summary of Findings

This PIMA and C-PIMA evaluation update the 2015 evaluation and is based on a revamped methodology. The new assessment identifies opportunities to improve the public investment management (PIM) system in terms of strength and effectiveness of the institutional framework which, if implemented, can increase spending efficiency and therefore economic growth.

Mozambique's legal and institutional design is in general stronger than its effectiveness. The country has established a modern framework that needs time for implementation. Mozambique has made important strides to improve PIM institutions with the reform of the Public Financial Management (PFM) system since 2020 (SISTAFE Law) including the public investment module that is at implementation stage.

Mozambique's PIM system include the following main strengths: The medium-term fiscal framework (Cenário Fiscal de Médio Prazo, CFMP) is published ahead of budget preparation. The planning framework is well established focusing on long-term strategies at national and sectoral level. Methodologies for project appraisal have been established since 2019 and a budget selection process guided by MEF based on the new SISTAFE law. A coordination framework with subnational governments is under development since 2021. The Institute for Management of State Holdings (IGEPE) is mandated to oversee public corporations. The State budget (PESOE) includes external funding; while new major investment projects are driven by development partners and domestic financing is mainly dedicated to rehabilitation of infrastructure and buildings. Sectoral ministries and MEF conduct monitoring of capital projects. Finally, an electronic assets' register is under preparation.

The assessment, however, highlights the following weaknesses that will require capacity building, time, and resources. There are no fiscal rules to guide fiscal policy, thus, establishing a debt limit would be relevant to anchor expectations and guide the fiscal strategy that includes sustainable investment expenditure. National plans and the budget do not include information about major projects nor multiyear costing estimates. Although the information on projects is collected annually through the CFMP, it is not used nor reviewed. This information could be effectively used as part of the strategic planning cycle and incorporated into the investment project information system module and budget documents with a new multiyear project plan (including multiannual estimated costs of new and ongoing projects). Also, transparency of the project selection process could improve and off-budget external funding should be avoided. Municipalities do not have sufficient ex-ante information on capital transfers to prepare their own budgets; this predictability is particularly important if the transfers are to increase in the future. A consolidated plan of public corporations' investment projects is absent and would enable a better understanding of the synergies with the State's investments. The public procurement framework is fragmented, regulated by decree and sectoral laws, providing avenues for restricted competition. Treasury management is well regulated in SISTAFE legislation, but its implementation could be improved regarding cash planning and commitment controls. Monitoring can improve with a greater focus on analyzing cost overruns and project reallocations. Finally, today's almost absent ex-post reviews and performance audits will require more time to be developed.

Climate risks and natural disasters represent a growing threat to the physical infrastructure of Mozambique. The C-PIMA highlights the need to integrate climate considerations into PIM. Mozambique shows good practices such as requiring climate-sensitive project appraisal for capital projects. Draft methodologies and manuals for this purpose are being developed. Local climate-change planning is

coordinated with the central government, and disaster risk management is in line with good practice. Climate-responsive budgeting related to infrastructure expenditure is at a concept stage and can benefit from lessons learned from gender and Sustainable Development Goals (SDGs) budgeting already in place.

Areas that require further attention include i) strengthening the integration of climate considerations into national and sectoral investment planning; ii) establishing an effective institutional framework for managing climate change; iii) developing vulnerability and hazards maps to inform infrastructure planning, construction, and asset management policies; and iv) revising the project selection process to incorporate climate-sensitive appraised projects into the priorities. A quantitative analysis of natural disasters related fiscal risk is another area that could be advanced.

Summary of Recommendations

Looking ahead, to achieve further infrastructure development and improve its efficiency, also considering climate change, continuous effort is needed. The team has identified a medium-term action plan to help implement the priority recommendations that could improve PIM processes. Its main priorities are summarized below:

- Strengthen published project level information including costing, in National and Sectoral Plans and the Budget (PESOE), to better align strategies with multiyear and annual budgets; include in the budget documents comprehensive information about internal and external funding, subnational governments and PPPs.
- Introduce climate considerations into the major projects in the forthcoming national planning cycle, improve climate-related information in project appraisal and building codes, and ensure effective institutional coordination at the level of the Presidency.
- Improve the use of bottom-up information already collected, to be reviewed, updated, and included in the publication of the multiyear investment plan for new and ongoing major projects with the budget documents. Ensure that ongoing investment projects are pursued during budget implementation.
- Continue implementing the reforms of the public investment module including the information system and ex-ante evaluation processes to strengthen project quality.
- Improve public procurement processes by implementing open competition approach, introducing a complaints' mechanism, and disclosing procurement analytical information.
- Strengthen cash management and commitment controls to ensure projects' expenditures are within budget and invoices are paid in due time to prevent arrears.
- Improve the fiscal framework for sustainable public investment expenditure, consider implementing fiscal rules, and continue enhancing the fiscal risks report.