Report Number : ICRR0021165

1. Project Data

Country
Mozambique

Practice Area(Lead)
Macroeconomics, Trade and Investment

Programmatic DPL

Planned Operations: 3

Approved Operations: 3

Operation ID
P131212

Operation Name
MZ PRSC IX

L/C/TF Number(s)
IDA-52990

Closing Date (Original)
31-Mar-2014

Total Financing (USD)
110,000,000.00

Bank Approval Date
16-Jul-2013

Closing Date (Actual)
31-Mar-2014

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	110,000,000.00	0.00
Revised Commitment	110,000,000.00	0.00
Actual	113,036,000.00	0.00

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Operation ID
P146537

Operation Name
MZ PRSC X (P146537)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-52990,IDA-55600,IDA-D0050	31-Mar-2015	110,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
05-Dec-2014	31-Mar-2015	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	110,000,000.00	0.00
Revised Commitment	110,000,000.00	0.00
Actual	108,073,020.00	0.00

Operation ID	Operation Name
P154422	Mozambique PRSC XI (P154422)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-52990,IDA-57570,IDA-D0990	31-Dec-2016	70,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
22-Dec-2015	31-Dec-2016	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	70,000,000.00	0.00
Revised Commitment	70,000,000.00	0.00
Actual	69,620,372.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

The overall objectives of the fourth Poverty Reduction Support Credit Series (PRSC), which consisted of 3 Development Policy Operation (DPO) single tranche loans (DPO9, DPO10 and DPO11), was to assist the Government of Mozambique to: (i.) foster economic development and increase transparency in extractive industries; (ii.) strengthen social protection; and (iii.) strengthen public financial management by enhancing the effectiveness of internal audits, develop a public investment management process, and improve public debt management. (Financing Agreement, Ninth Poverty Reduction Support Credit, p. 5-6).

There were no revisions to the program development objectives.

b. Pillars/Policy Areas

The 3 pillars of the program were consistent across all 3 DPOs.

Pillar 1

The first pillar (program document 9, (PD9, p. 29-30) focused on supporting broad based growth through improving the business climate and increasing transparency in the management of extractive industries through:

- Simplification and harmonization of business licensing;
- Streamlining business registration;
- Increasing transparency and management in extractive industries by new legislation on extractive industries and promoting development of local communities located near extractive industries through investment in public infrastructure.

Pillar II

The second pillar focused on improving social protection and (PD9, p.30) by improving access and allocation of social protection systems through:

- Better coordination of social protection by establishing a single registry of beneficiaries;
- Expanding social safety net programs among the poorest and most vulnerable;
- Improving transparency in the provision of benefits of the social safety net programs.

Pillar III

The third pillar focused on better public finance management (PD9, p. 30-1) through:

- Enhancing the quality and effectiveness of audit processes;
- Developing and institutionalizing a public investment management process;
- Improving the management of debt and fiscal risks to ensure debt sustainability.

c. Comments on Program Cost, Financing, and Dates

DPO9 was approved on July 16, 2013 in the amount of SDR 73.4 million, was effective on October 29, 2013 and closed on schedule on March 31, 2014. The actual disbursement amount was SDR 73.4 million.

DPO10 was approved on December 5, 2014 in the amount of SDR 74.6 million, was signed on December 9, 2014 (there is no effectiveness date in the portal (ICR vi)) and closed on schedule on March 31, 2015. The actual disbursement amount was SDR 74.6 million.

DPO11 was approved on December 22, 2015 in the amount of SDR 50.2 million, was effective on the same date, and closed on schedule on December 31, 2016. The actual disbursement amount was SDR 50.2 million.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The overarching goal of the CPS was broad based, inclusive pro-poor growth. The CPS had 17 outcomes under 3 pillars (competitiveness and employment; vulnerability and resilience; and governance and public sector capacity) (CPS, p. 31). All 3 pillars of the DPOs were consistent with the World Bank's *Country Partnership Strategy (CPS) for the period 2012 – 2015. The pillars were relevant to the government's strategy and its development priorities that appear in the government's Action Plan for Poverty Reduction and its 5-year development plan (Plano Quinquenal de Governo).*

The CPS included the following desired outcomes:

- Simplified business regulations;
- Improved transparency and management of extractive industries;
- Improved access and allocation of social protection systems;
- Improved management of audits, public investments and public debt.

The reforms of the DPO series incorporated measures that were designed to achieve these outcomes. Nevertheless, the series failed to anticipate the danger to the economy of state owned enterprises (SOEs), and no objectives were included in this area, reflecting the CPS, which makes only minor references to SOE reform. Even after the diversion of $500 million of the proceeds of the Eurobond loan away from the fishing company to military spending was revealed, there was no additional focus in DPO10 and DPO11 on improved governance and auditing of SOEs.

Rating
Substantial

b. Relevance of Design

The design of the 4th series of DPOs was based on extensive country analytical work (ICR, p. 16) produced by the World Bank and other development partners, as well as lessons learned from the third Poverty Reduction Support Credit series. In this regard, the ICR (p. 6) points out that the 4th series incorporated important lessons from the 3rd PRSC series (which consisted of DPO6, DPO7, and DPO8), namely:

- Ensuring that the results framework linked concrete policy actions to the specified policy and institutional reforms;
- Incorporating robust M&E systems; and
- Providing technical assistance that focused on capacity constraints at multiple levels of government that would support the implementation of the reforms.

Objective 1
Achieving economic development through simplified business regulations: In the series, policy actions focused on changing the licensing requirements for businesses (DPO9-10 and ICR, p.13). To make starting a business easier, policy actions in DPO10 introduced a unified form for registration and DPO11 introduced an e-portal for registration. The implicit causal links were that by simplifying licensing processes thereby reducing business formation costs, more businesses would be established. However, a crucial step in the link between policy action and outcome appears to have been omitted, namely an analysis of existing legislation and regulations, because the ICR (p. 11) reports that parallel company registration procedures continued. Furthermore, the objective did not focus on outcomes – the number of licenses issued or the number of new companies registered, but rather on outputs (new decrees, simplified forms, and e-registration) that might have led to these but which fell short of specifying a meaningful outcome.

Improved transparency and management of extractive industries were to be achieved through improved compliance with the Extractive Industries Transparency Initiative. The policy actions required legislating more transparent contract disclosure, defining a fiscal regime for the hydrocarbon sector and promoting the economic development of communities located near extractive industries through revenue transfers to investment in infrastructure. They did not focus on how many contracts would be signed as a result of the legislation.

The policy actions related to benefitting local communities (DPO9) initially required that local communities were to be assisted by the transfer of 2.75% of the revenues generated by extractive industries. This was subsequently modified in DPO11 to local communities receiving a share of the royalties collected. These prior actions appear to be directly related to the objective of communities benefitting from extraction revenues, with a hard target outcome. The links between the prior actions that required fiscal transfers to local communities and the objective were clear, although changes in the exact way in which these were calculated could have resulted in confusion.

Objective 2

Improved access and allocation of social protection systems: The prior actions would achieve the objectives by expanding the public safety net, improving social program coordination and ensuring additional transparency in the provision of social safety net programs. The specific prior actions included developing a database of recipients and a payments distribution system. As in Objective 1, these were also outputs rather than outcomes, which could have been, for example, the number of eligible people actually receiving social payments.

Objective 3

Improved management of audits, public investments and public debt: The prior actions in DPO9 stipulated that this was to be achieved through developing a database to track the implementation percentage of recommendations by the inspector general and internal control units, with the target being at least 20%. In addition, a public investment management manual was to be developed, and an integrated investment program was to be adopted, including mandating that all projects above USD 50 million be submitted to the Ministry of Economy and Finance with a viability study.

While the development objectives did not change over the 3 DPOs, the emerging fiscal transparency risk that was identified in the implementation status report for DPO 9 resulted in a stronger focus on public investment management and public debt management. Three prior actions were added that were aimed at measuring the improvement in the transparency of extractive industries' management (ICR, p. 7) and 2 prior actions were added to strengthen debt management policies and reduce fiscal risk (ICR, p. 8). An additional prior action was added to DPO 11 requiring that the Ministry of Economy and Finance create a fiscal risks department.

The macroeconomic framework in the series was deemed to be adequate. The ICR (p. 2) notes that there were downside concerns in terms of the current account deficit and rising external debt. On the other hand, the forecast rate of real GDP growth (7.3% in 2013 driven by financial services, agriculture and trade [PD2, p. 5]) was sufficient to control the risks, assuming continuation of prudent monetary and fiscal policies.

Program design failed to identify the inherent risks to this framework of SOEs, which are also only mentioned in passing in the country partnership strategy. In the event, this was a substantial shortcoming of design. In 2014, it came to light that a $850 million Eurobond loan was issued with minimal transparency to fund the creation of a fisheries SOE and defense spending ($350 million). After Government agreed to strict financial monitoring of the SOE, and in consultation with other development partners, the Bank decided to proceed with the rest of the series. However, there was no attempt to incorporate into the design of DPO10 and DPO11 more focus on SOEs; there is only one reference to SOEs in DPO10, and one reference in DPO11. It was later found out that another $1.4 billion government guaranteed loan had been issued to two other SOEs for maritime radar surveillance and a fleet of patrol boats, again with minimal transparency. The fiscal risks posed by non-transparent SOE debt, combined with the other downside risks discussed above, resulted in debt default by Mozambique at the start of 2017, just after the series ended.

The design of many of the prior actions focused on outputs rather than outcomes and there was a failure to incorporate SOE reform into the private sector oriented reforms. In addition, no new policy actions in DPO10 and DPO11 were introduced to deal with the possibility that further undisclosed borrowing had taken place. This was a major weakness in the design of the PRSC series.

As a result, IEG rates design as modest.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
Foster economic development and increase transparency in extractive industries.

Rationale
Between 2001 and 2014 Mozambique had achieved annual growth rates that had averaged between 7 and 8 per cent in real terms. This objective of the PRSC series aimed to build on the growth performance through an improved business environment that would encourage business formalization and investment, and better management of the country’s extractive industries, which would continue to contribute to high growth rates.

The series of three DPOs required improvement in the time to register a business and a simplification of the licensing regime, in the areas of wholesale and retail commerce, services, import and export licensing, and tourism licensing procedures. The ICR (p. 23) indicates that the government approved new commercial licensing regulations in 2013 and approved an industrial licensing decree in 2014. The decrees were successful in reducing the number of days to obtain a business license to an average of 5.4 days compared with the target of 8 days. The time to obtain an industrial license also over-achieved the 20 day target – while no data are available for large firms, the time to obtain a small- and medium-enterprise license averaged 7 days and for micro firms, only 1 day. In addition, the number of procedures and costs involved in obtaining licenses also fell.

However, there was substantially less progress in the time required to register a business. Although an electronic platform for business registration was set up, parallel company registration procedures continued to exist, and the e-registration process was hampered by weak government capacity, and issues with internet and electricity reliability (ICR, p. 24). Furthermore, the ICR (p. 24) notes the existence of a parallel registration procedure, suggesting that the legislation underlying business registration had not been effectively amended.

There was substantial progress in complying with the Extractive Industries Transparency Initiative both with respect to compliance and to the publication of reports documenting compliance measures. All major mining and gas contracts were made public and new mining and petroleum legislation was adopted.

Only modest progress was made in transferring royalties to communities located near extractive industries, even though the new mining and petroleum legislation required this. The transfers were intended to fund the building of schools, health centers, irrigation and drainage systems, roads and bridges and other community oriented infrastructure. Although funds were transferred, execution rates were generally low, in the region of 5%, which the ICR (p. 25) suggests was due to significant disbursement delays.

Rating
Modest

Objective 2

Objective
Strengthen social protection

Rationale
This objective sought to improve access and allocation of social protection systems, directed at the poorest and most vulnerable Mozambicans, who faced chronic food insecurity, vulnerability to climate shocks, price instability of staples and shortages due to the seasonal nature of agricultural production (ICR, p. 6).

The government established three new programs to fund social protection; a cash transfer program targeting extremely poor households; a public works employment program, and; a short term support program to households temporarily affected by "an acute shock" (ICR, p. 26).

The PRSC series assisted with the establishment of a registry of beneficiaries and a verification mechanism to ensure that non-eligible recipients were reduced. This was achieved and the ICR (p. 26) estimates that only 2% of recipients were non-eligible by the end of 2016.

Significant progress was made in increasing access to public works program employment, with about 26,000 households being enrolled by the end of 2016, with further substantial increases expected (ICR, p. 27).

However, in both the social protection program and the public works employment program, timeliness of payments was a substantial challenge and little progress occurred over the life of the programs, with delays of 6 months being the average in June 2017. The ICR (p. 27) ascribes the delays to inadequate planning, bureaucratic delays in the distribution of funds, and extended processing times. A planned outsourcing of payments to a private sector provider did not occur because of a lack of acceptable bids. Although further measures are being pursued to improve efficiency, the delays remain.

Rating
Modest

Objective 3

Objective

Strengthen public financial management by enhancing the effectiveness of internal audits, develop a public investment management process, and improve public debt management.

Rationale

This objective sought to improve the management of audits, public investment and public debt with a view to achieve greater transparency and improved integrity of public administration.

The PRSC series required progress on strengthening the mechanisms for internal and external audits, which had been flagged as deficient in previous Public Expenditure and Financial Accountability reports (ICR, 28). Substantial progress was made, with PRSC and donor support resulting in increasing the number of audit reports, broadened audit coverage, and improved monitoring of compliance with audit recommendations, resulting in more than 50% of audits receiving appropriate follow up (ICR, p. 28). However, the audits failed to identify the diversion of funds in the USD 850 million loan for the fishing company that was guaranteed by the government and a significant portion of which was used to purchase high speed military patrol boats. The guarantee was made in mid-2013 while PRSC-10 was being prepared, but came to light in 2014.

Negligible progress was made in debt management, including the publication of debt reports and compliance with annual domestic debt plans. By 2016, debt reports were published with delays extending to nearly 12 months. Furthermore, in 2016 the annual domestic borrowing plan was essentially ignored, with the Central Bank providing the government a MZN 30 billion advance that was outside the borrowing plan, resulting in an 88% increase in internal borrowing, substantially above the planned amount. Furthermore, the debt management framework did not identify the undisclosed borrowing of USD 1.4 billion, which led to Mozambique defaulting on its sovereign debt (IMF Article IV Staff Report, 2017). The undisclosed borrowing came to light in April 2016, approximately 4 months after the approval of DPO 11.

The ICR (p. 29) reports that only modest progress was made in the inclusion of detailed information and quantification of fiscal risk in the 2016 and 2017 budgets. While the PRSC series was under preparation in 2013, the government had issued a USD 850 million guarantee to a government owned newly established tuna fishing company, which raised substantial concerns among budget support donors and highlighted the need for the management of fiscal risks. Furthermore, a World Bank public expenditure review concluded that additional risks existed from debt financing of government's stakes in extractive industry projects. The result was the establishment of a new fiscal risk unit in the Ministry of Economics and Finance, with World Bank and IMF support, that reported directly to the minister regarding the fiscal risk implications of government guarantees, public enterprises and public private partnerships. However, this did not result in a fiscal risks statement in the 2017 Budget Law, with a likelihood that it will not be included in the 2018 Budget Law either.

There was only modest progress in the development, appraisal and evaluation of public investment projects, which averaged more than 15% of GDP over the 2010-2015 period. The DPO series required that all public investment projects were to have been appraised and evaluated by the end of the period. This was not achieved and the ICR does not provide information on the shortfall.

Rating
Negligible

5. Outcome

The objectives were relevant to the CPS and the government's development plan, although there was a missed opportunity of addressing SOE-related objectives, even after major fiduciary risks became apparent. IEG rates the relevance of objectives substantial. The design of many of the prior actions focused on outputs rather than outcomes and there was a failure to design support to SOEs into the private sector oriented reforms, leading to a rating for relevance of design of modest.

Some progress was achieved on business environment reform, both through progress with the licensing framework and the framework for managing resource extraction. However, limited improvement in business registration and in disbursements for local infrastructure to communities located near resource extraction areas tempered the achievements under this objective.

Some progress was also achieved in improving social safety nets, particularly through the installation of an electronic management system that sharply reduced payments to non-qualifying recipients. Substantial progress was also made in the public employment program. Disbursements, however, continued to be delayed.

The third objective, enhancing public financial management was the most problematic. While progress was made in in increasing the number of audits and improved monitoring and compliance with audit recommendations, the major weakness was the failure to monitor effectively the uses to which the USD 850 million loan for the establishment of a fishing company were put. While DPO9 was being implemented, it came to light that USD 350 million had been diverted to defense expenditure. Ultimately, the government incorporated this amount into the budget and provided a sovereign guarantee for the total amount of the loan. However, it became apparent after DPO11 had been disbursed, that while the issues surrounding the diversion of the Eurobond loan to defense expenditure were coming to light, the government had been negotiating loans valued at $1.4 billion, with no disclosure or other transparency requirements, for 2 additional SOEs. This added significant concerns regarding the lack of transparency in the use of public funds. and led to Mozambique defaulting on its sovereign bonds. The consequences of this default will be born for several years and there is a likelihood that it threatens the growth performance of the economy into the foreseeable future because of the serious macroeconomic challenges ahead (IMF 2017 Article IV, p. 4).

a. Outcome Rating
Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

As did the other development partners, the project team failed to anticipate substantial undisclosed borrowing that had occurred before the series was designed. This consisted of the diversion of $500 million of a Eurobond loan away from the purchase of fishing vessels for a fishing SOE into defense spending, and 2 undisclosed loans for 2 new SOEs for the provision of security services and port services.

Because of the debt issue, the ICR (p. 20) states that budget support for Mozambique has been suspended and there are no plans for a follow up PRSC series, although investment lending and TA continues.

In total, the undisclosed borrowing, plus the guarantee for the Eurobond amounted to approximately USD 1.4 billion (ICR,19 and IMF, 2017, Article IV, footnote, page 4 for details). This led to Mozambique defaulting on its debt, an outcome that will have a strong deleterious effect on growth performance over the foreseeable future and will divert the attention of officials and development partners alike away from reform. As a result, the modest achievements under objectives 1 and 2 (and the negligible achievement under objective 3) are at risk.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The ICR (p. 35) states that the PRSC series made important contributions to Mozambique's reform agenda by focusing on public financial management, improvements in the business environment and enhancing social protection systems. There had been long-standing engagement between the World Bank and the Government of Mozambique consisting of extensive consultations with key government agencies as well as development partners.

The ICR (p. 36) points to the extensive analytical work underpinning this PRSC series (and its predecessors) which, together with continuous field presence by the World Bank "helped ensure the technical soundness, institutional feasibility and alignment of the DPO series with broader poverty reduction and development agenda of the government" (ICR, 36). This overstates the case. The analytical work failed to identify the risk to the program of Mozambique's SOEs, discussion of which did not appear in the country partnership strategy on which the series was based. The lack of transparency in government accounting for SOEs was identified during implementation of DPO9. The ICR (36) states that this led to increased focus in DPO10 and DPO11 on managing fiscal risks through stronger reporting on debt and improving the governance of SOEs but concludes "unfortunately to no avail" (ICR, 36). Because of the failure to take actions to monitor SOEs more closely, IEG rates quality at entry as unsatisfactory.

Quality-at-Entry Rating
Unsatisfactory

b. Quality of supervision

The World Bank through its field presence monitored closely the PRSC program, participating with development partners in two joint annual reviews and monthly joint steering committee meetings held between the government and the budget support donors. World Bank staff also participated in sector working group meetings. The World Bank had a leading role in the supervision process.

Nevertheless, when the loan guarantee for USD 850 million was disclosed the World Bank did not take strong remedial action and continued with the subsequent two DPOs without refocusing on SOEs, when suspending or halting the program would have appeared to be a more appropriate course of action.
As a result, IEG rates the quality of supervision as Unsatisfactory.

Quality of Supervision Rating
Unsatisfactory

Overall Bank Performance Rating
Unsatisfactory

8. Assessment of Borrower Performance

a. Government Performance

The ICR (p. 37) states that for the PRSC series, the government was the implementing agency, so that the borrower rating in this section applies to both the government and the implementing agency, (which initially was the Ministry of Finance, then shifted to the Ministry of Planning and Development for the second operation. After a new government was formed in 2015, the two ministries were merged into the Ministry of Economy and Finance).
□
The ICR (p. 37) points out that initially there was strong ownership by government of the reforms that were part of the series and was committed to improving the business environment. Elements of public financial management were improved as was the management of extractive industries.
□
Nevertheless, the government failed to disclose the questionable borrowing, initially with respect to the diversion of the proceeds of the fishing company Eurobond to defense spending and subsequently with other loans. Furthermore, it appears that the concealment of the additional borrowing was deliberate and put the macroeconomic stability of the country at risk by expanding external debt that ultimately led to default and compromises both macroeconomic stability and the growth potential of the country.

Government Performance Rating
Highly Unsatisfactory

b. Implementing Agency Performance

This was the same as the government performance.

Implementing Agency Performance Rating

Highly Unsatisfactory

Overall Borrower Performance Rating

Highly Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The ICR (p. 20) states that when the PRSC series was designed, the M&E framework reflected the poverty reduction strategy of Mozambique as well as those of development partners involved in budget support in the country. The indicators used in M&E design were prescribed in the poverty reduction action plan and included annual monitoring of activities and outputs developed for the balance sheet of the economic and social plan and the budget execution report. Specific indicators relating to private sector development and social protection were derived from the IFC investment climate indicators and the World Bank's Mozambique Social Protection Project. The ICR (page 20) reports that the Ministry of Economy and Finance was unable to meet the considerable demands of the M&E system because of the complexity of the poverty reduction program.

M&E design did not change over the three DPOs.

b. M&E Implementation

M&E implementation occurred through joint reviews that took place in April and September of each year. The supervision of the program arose from monthly meetings by joint government/donor/sector working groups and was based on indicators referred to in M&E design. World Bank staff participated in all meetings through its Mozambique field office, missions, and video conferences with staff in Washington DC. World Bank staff also participated in IMF missions.

Monitoring and evaluation processes incorporated not only development partners and government but also members of civil society and the private sector through collaborative fora.

c. M&E Utilization

Utilization of the M&E framework was hampered by the difficulty in monitoring key indicators because they were sourced from a wide range of government agencies, where capacity was uneven. As a result, precise timely monitoring of key indicators was not possible.

M&E Quality Rating
Negligible

10. Other Issues

a. Environmental and Social Effects
The PRSC supported improved processes of social and environmental due diligence in the selection, appraisal and evaluation of all public investments.

b. Fiduciary Compliance
The discovery of undisclosed borrowing highlighted the weaknesses in the Government's public investment management, debt management, SOE oversight mechanisms, as well as its ability to manage the macroeconomic framework more generally. Furthermore, it led to a general crisis of confidence in the Government's fiduciary capabilities and its ability to manage natural resource revenue (ICR, p. 2).

c. Unintended impacts (Positive or Negative)
The ICR (p. 33) reports that the PRSC series brought into focus synergies between poverty reduction and environment management in three areas:

- The legislation for the mining and petroleum sectors require mandatory environment and social impact assessments, although currently limited capacity to undertake these in the face of over 200 projects annually that would require assessments suggests that they will not be undertaken;
- The manual adopted by the Ministry of Economy and Planning requires social and environment impact statements;
- A process was created for the submission to the World Bank of grievances of communities and individuals adversely affected by World Bank country policies and prior actions.

d. Other
In 2016, it became known that the total amount of debt guarantees, including the Eurobond loan and additional undisclosed borrowing amounted to approximately USD 1.4 billion. This resulted in the actual value of Mozambique's debt being revealed as the equivalent of 112% of GDP, an amount that was unsustainable. The country was unable to meet its debt servicing and repayment obligations and at the beginning of 2017 defaulted on it sovereign bond (ICR, p.1). In early 2018, the International Monetary Fund

stated that the Mozambique Government had USD 710 million in arrears and forecast that that these will continue to accumulate until 2023 (International Monetary Fund, 2017, Mozambique, Article IV Report).

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Unsatisfactory	The three objectives had modest, modest and negligible ratings. This combined with modest design and unsatisfactory performance in many key areas gives an unsatisfactory rating.
Risk to Development Outcome	Substantial	High	Mozambique's debt default threatens the development of the country over the next several years. It places substantial question marks over the Government's fiduciary integrity
Bank Performance	Moderately Unsatisfactory	Unsatisfactory	The failure to incorporate scrutiny of SOEs in DPO10 and DPO11 after the diversion of funds from the fisheries SOES or to suspend the PRSC series when the diversion came to light.
Borrower Performance	Unsatisfactory	Highly Unsatisfactory	The fact that there was a deliberate cover up of the borrowings as well as undisclosed diversions of funds from the first Eurobond loan poses severe questions regarding the integrity of the Government as a development partner
Quality of ICR		Modest	the ratings provided for the various components of the program are overly forgiving and the ICR is rated modest.

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

1 . It is easy to be beguiled by strong country economic performance and assume that policy integrity exists where it might not. Extensive in-depth analysis of political economy issues should be an integral part of DPL program design.
2 . Caution is called for before basing program design and policy actions on the doing business indicators. In this case, reforms to promote private sector development should have focused on the misuse of Mozambique's capital stock by its SOEs, not on the number of days to start a business. A comprehensive private sector assessment should be the basis on which private sector development reform programs should be based.
3 . Implementation capacity constraints should be meticulously evaluated and incorporated into DPO program design (ICR, 38-9).

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well structured and describes well the design of the PRSC series and its rationale. In the absence of the specific circumstances of Mozambique surrounding the PRSC series, a rating of substantial would have been given. However, the ratings provided for the various components of the program are overly forgiving and the ICR is rated modest.

a. Quality of ICR Rating
Modest