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# Mozambique
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# Abbreviations

| | |
|---|---|
| AAA | Analytic and advisory activities |
| AfDF | African Development Fund |
| AfDB | African Development Bank |
| AIDS | Acquired immune-deficiency syndrome |
| APL | Adaptable Program Loan |
| AS | Advisory Services |
| ATM | *Autoridade Tributaria de Moçambique* (Mozambican Tax Authority) |
| BPES | *Balanço do PES* |
| CAS | Country Assistance Strategy |
| CASPR | CAS Progress Report |
| CASCR | CAS Completion Report |
| CEM | Country Economic Memorandum |
| CFAA | Country Financial Accountability Assessment |
| CFM | *Portos e Caminhos de Ferro de Moçambique* (Mozambique Ports and Railways Corporation) |
| CNCS | *Conselho Nacional de Combate Ao HIV/SIDA* (National Commission to Combat HIV/AIDS) |
| CNELEC | *Conselho Nacional de Electricidade* (electricity regulatory agency) |
| CPAR | Country Procurement Assessment Review |
| CPE | Country Program Evaluation |
| CPS | Country Partnership Strategy |
| CRA | *Conselho de Regulação do Abastecimento de Agua* (Water Supply Regulatory Board) |
| CUT | *Conta Único do Tesouro* (Treasury Single Account) |
| DAC | Development Assistance Committee (OECD) |
| DNA | *Direcção Nacional de Àguas* (National Directorate of Water Affairs) |
| DPL | Development Policy Loan |
| EDM | *Electricidade de Moçambique* (National electricity company) |
| EDP | Enterprise Development Project |
| EMPSO | Economic Management and Private Sector Operation |
| e-SISTAFE | Financial management information system (see SISTAFE) |
| ESSP | Education Sector Strategy Program |
| ESW | Economic and sector work |
| EU | European Union |
| FDI | Foreign direct investment |
| FIAS | Foreign Investment Advisory Service |
| FIPAG | *Fundo de Investimento e Património do Abastecimento de Água* (Water Supply Investment and Asset Fund) |
| FRELIMO | *Frente de Libertação de Moçambique* (Front for the Liberation of Mozambique) |
| FSD | Financial sector development |
| FTI-CF | Fast-Track Initiative–Catalytic Fund |
| FYDP | Five-Year Development Plan |
| GCCC | *Gabinete Central de Combate a Corrupção* (Central Anti-Corruption Office) |
| GDP | Gross domestic product |
| GEF | Global Environment Facility |
| GNI | Gross national income |
| HIPC | Heavily Indebted Poor Countries Initiative |
| HIV/AIDS | Human immunodeficiency Virus- Acquired Immune Deficiency Syndrome |
| HSRP | Health Sector Recovery Program |
| IBRD | International Bank for Reconstruction and Development |

| | |
|---|---|
| ICA | Investment Climate Assessment |
| ICR | Implementation Completion Report |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IFI | International financial institution |
| IMF | International Monetary Fund |
| M&E | Monitoring and evaluation |
| MDG | Millennium Development Goal |
| MDRI | Multilateral Debt Relief Initiative |
| MIGA | Multilateral Investment Guarantee Agency |
| MOU | Memorandum of Understanding |
| MSI | Mozambique SME Initiative |
| MSME | Micro, small, and medium enterprise |
| MTEF | Medium-Term Expenditure Framework |
| ODA | Official development assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PAF | Performance Assessment Framework |
| PARPA | *Plano de Acção para a Redução da Pobreza Absoluta* (Action Plan for the Reduction of Absolute Poverty, the Portuguese acronym for PRSP) |
| PEFA | Public Expenditure Framework Assessment |
| PER | Public Expenditure Review |
| PES | *Plano Económico e Social* (Economic and Social Plan) |
| PFM | Public financial management |
| PIU | Project implementation unit |
| PPAR | Project Performance Assessment Report |
| PROAGRI | Agricultural Sector Public Expenditure Program |
| PRSC | Poverty Reduction Support Credit |
| PRSP | Poverty Reduction Strategy Paper |
| PSD | Private sector development |
| PSIA | Poverty and Social Impact Analysis |
| QAG | Quality Assurance Group |
| SEF | Small Enterprise Fund |
| SIL | Specific Investment Loan |
| SISTAFE | *Sistema de Administração Financeira do Estado* (State Financial Administration System) |
| SMEs | Small and medium-sized enterprises |
| SSA | Sub-Saharan Africa |
| SWAp | Sectorwide Approach |
| TA | Technical assistance |
| TFCA | Transfrontier Conservation Area |
| WB | World Bank |
| WBG | World Bank Group |

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Comments from the government are included in the report as Appendix D.

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# FOREWORD

Mozambique emerged from the 1990s with impressive economic growth to become an example of successful post-conflict reconstruction and development. During the evaluation period (2001–2008), the World Bank Group helped further this agenda, aligning its support with the government's poverty reduction strategy, which focused on three pillars: economic growth, poverty reduction and human development, and governance.

Overall macroeconomic performance remained strong during 2001–2008, bolstered by large Overseas Development Assistance flows, agricultural sector recovery (until about 2003), and private investment, notably in megaprojects. Transfers under World Bank Poverty Reduction Support Credits (PRSCs) helped fund the budget, in turn stabilizing the real economy. Bank assistance was also effective in contributing to improved budget management, infrastructure development, and access to basic services in health care, education, and urban water.

Poverty declined from 69 percent in 1997 to 54 percent in 2003, but the rate of decline may have since slowed, with the benefits of economic growth unevenly distributed. Bank support to agriculture did not have a significant impact on the productivity of small-scale farmers in rural areas, where about 70 percent of Mozambique's population live. Progress in Bank support to the small and medium enterprise (SME) sector has also been slow because of limited access to finance. The Bank's program also fell short of intended results in other areas, including improving the quality of social services, countering the perception of increasing corruption, strengthening the judicial system, and stemming the spread of human immunodeficiency virus-acquired immune deficiency syndrome (HIV/AIDS).

During 2001–2008, International Finance Corporation's (IFC's) portfolio was dominated by investments in two foreign-owned, capital-intensive megaprojects (aluminum smelting and natural gas), with International Development Association (IDA) participation. The projects contributed to growth through increased exports and helped enhance foreign investors' positive perception of the investment climate. However, the extent of their development impact has been limited due to weak linkages with the local economy and limited employment generation.

The Independent Evaluation Group (IEG) has three recommendations for the World Bank Group (WBG). First, help make credit more accessible to SMEs, assist in improving business procedures and regulations, and ensure a firm basis for increased agricultural productivity. This would help Mozambique sustain high growth while reshaping its pattern to facilitate greater employment creation and poverty reduction. Second, focus analytic work on infrastructure strategy, agricultural productivity, education quality, and HIV/AIDS. Third, support more efficient public expenditures with emphasis on high-quality social services.

Finally, the Bank advanced the harmonization and alignment agenda through joint efforts with 18 other development partners to provide budget support under a reform agenda commonly agreed with the government. This helped to structure the dialogue and improved predictability of resource transfers. However, it also limited the Bank's flexibility and increased its transaction costs—issues that need to be addressed in the future.

Cheryl Gray

Vinod Thomas
By Cheryl Gray

# Preface

The work on this Country Program Evaluation (CPE) was conducted in collaboration with the Operations Evaluation Department (OPEV) of the African Development Bank. The two institutions carried out a joint assessment of Mozambique's socioeconomic development, the challenges facing the country, and the effectiveness of World Bank (WB)-African Development Bank (AfDB) coordination. For other aspects, the Independent Evaluation Group (IEG) and OPEV assessments of their respective institutions' assistance programs were done in parallel, but coverage and methods differ. The evaluation results are therefore presented in different reports.

This CPE reviews the World Bank's assistance to Mozambique over the period from FY2001–to 08. The evaluation builds on IEG background papers covering the main building blocks of Bank support to Mozambique. It also draws on Bank documents and on interviews with senior government officials, representatives of the private sector and civil society, nongovernmental organizations, bilateral and multilateral development partners, and Bank and International Monetary Fund (IMF) staff in Washington and in Mozambique. A list of those interviewed is contained in Appendix C. A joint AfDB OPEV-WB IEG mission visited Mozambique in February 2009.

# Mozambique: Summary of Bank Program Outcome Ratings

IEG's Country Program Evaluations (CPEs) *assess and rate the outcomes* (generally speaking, the "results") *of a given World Bank country program relative to its objectives*. This differs from rating country outcomes or Bank or client government performance. The central question underlying the table below is: "To what extent did the World Bank program achieve the outcomes that it set out to accomplish ?" Distinct ratings and subratings are typically assigned to each "pillar" or set of strategic goals set out in the relevant Bank strategy document(s) (see appendix B).

| BANK STRATEGIC GOALS[1] | ACHIEVEMENT OF ASSOCIATED CAS OUTCOMES OR RESULTS | MAIN BANK INSTRUMENTS TO HELP CAS OUTCOMES MATERIALIZE | BANK PROGRAM OUTCOME RATINGS[2] |
|---|---|---|---|
| 1. Macroeconomic stabilization and growth | There were positive outcomes in macroeconomic management, growth, financial sector development, and infrastructure development. However, results in private sector development and agriculture and natural resources management fell short of objectives. Hence overall performance under this pillar merits a rating of *moderately satisfactory.* | | Moderately satisfactory |
| Macroeconomic management | The review period was characterized by strong macroeconomic management, with the following caveats: (i) the growth achieved was not evenly distributed or employment-generating; and (ii) the pace of growth was fueled to a large extent by official development assistance (ODA). The sustainability of this support is somewhat uncertain given recent global financial developments. | Transfers under the Poverty Reduction Support Credit (PRSC) series helped fund the budget, stabilizing the real economy. Prior actions ensured some increased domestic revenue mobilization, and those aimed at public expenditure management helped improve government capacity in this area. In addition, the PRSCs allowed the Bank to participate in the dialogue on macroeconomic management, even though the International Monetary Fund (IMF) took the lead. The macroeconomic stability component of the Economic Management and Private Sector Adjustment Credit (EMPSO) called for the government to keep within the targets for selected macroeconomic indicators under an IMF program. This was achieved. | Satisfactory |
| Financial sector reform | The central bank's balance sheet was strengthened as was its supervision of the banking system. The overall soundness of the banking system steadily improved. Progress in expanding access to credit, particularly by small and medium enterprises (SMEs), was very limited. | A component of the Enterprise Development Project (EDP) tried to facilitate access to investment finance through lines of credit, with disappointing results, particularly for SMEs. The Financial Sector Technical Assistance (TA) Project helped improve the central bank's balance sheet and its capacity to regulate and supervise financial institutions. It also assisted in the adoption of international accounting reporting standards, a modest increase in competition within the banking system, and some improvement in the overall environment of the financial system. | Moderately Satisfactory |
| Private sector development | The results did not meet expectations. Progress in the development of the SME sector was slow. Although the enclave mega-projects may have done well because of their special circumstances, the performance of the | The EDP provided useful business extension services, and helped strengthen three government agencies that deal directly with business development. It tried to facilitate access to investment finance through lines of credit, with disappointing results. The Economic | Moderately unsatisfactory |

| BANK STRATEGIC GOALS[1] | ACHIEVEMENT OF ASSOCIATED CAS OUTCOMES OR RESULTS | MAIN BANK INSTRUMENTS TO HELP CAS OUTCOMES MATERIALIZE | BANK PROGRAM OUTCOME RATINGS[2] |
|---|---|---|---|
| | broader-based, smaller domestic businesses remains sluggish. Hence, the contribution of private sector development (PSD) to generating employment and spreading the benefits of growth was modest. | Management and Private Sector Operation (EMPSO) helped liberalize the telecommunications and air transport sectors. The PRSC series supported procedural measures to improve the business environment, which helped to reduce the time needed to register land and businesses and to facilitate visas for foreign workers. Less progress was made in moving forward with legislation for judicial courts and for a Notary Code. | |
| Rural develop-ment and sustainable management of natural resources | Bank assistance achieved a number of its objectives, such as decentralization of the Ministry of Agriculture and Rural Development, improvements in the financial, procurement, and audit management systems, and strengthening of the agricultural research program and connection with extension programs. The assistance has had very limited impact on agricultural service delivery and farm-level productivity, which were core objectives of the Bank's program. Progress in natural resource management has so far been limited. | The Agricultural Sector Public Expenditure Program (PROAGRI) provided significant institutional support to the ministry, but it was not successful in achieving other core objectives, such as increased agricultural productivity. The Market-Led Smallholder Development Project aims to improve the development of small-scale farming and sustainable land management, but is experiencing delays. PRSC triggers related to agriculture have contributed modestly to progress on policies, productivity, and extension. The PRSCs have so far not provided an effective platform for dialogue on the agricultural sector as originally intended. The Coastal and Marine Biodiversity Management project yielded some positive achievements, such as biological monitoring of marine ecosystems and strengthened capacity for environmental management by communities. But several prominent objectives, notably the protection of coastal habitats and private sector tourist development, were not achieved. | Moderately unsatisfactory |
| Improved access to energy | Progress was achieved in getting more households connected to the electrical grid, and in introducing solar electric panels for some 300 schools and health centers. A Bank-supported pilot expansion of electricity in isolated rural areas did not succeed. Progress was achieved in integrating the Southern Africa energy market through successful construction and operation of a gas pipeline exporting gas from Mozambique to South Africa. However, the Bank's approach to unbundling the electricity sector as a way to bring in the private sector proved inappropriate for Mozambique, and was replaced by a project component aimed at strengthening existing institutions. | With Bank and International Finance Corporation (IFC) support, the Gas Engineering project aimed to assess prospects for a commercial joint venture between the government, the Mozambique National Oil Company, and the private sector in the Pande gas field. The project's capacity building was not timely. The Energy Reform and Access project aimed to increase use of electricity for economic growth and social services in peri-urban and rural areas, and to strengthen capacity to use modern energy. Progress toward objectives at the end of 2009 was moderately satisfactory. The Southern Africa Regional Gas project aims to stimulate development and export of natural gas and, with IFC and Multilateral Investment Guarantee Agency (MIGA) support, to raise capital and commercial financing for private sector development. Progress toward objectives at mid-2009 was satisfactory. The Mineral Resources Management Capacity Building project helped provide institutional development that provided a platform for planning mining investments. | Moderately satisfactory |
| Improved access to transport | The condition of the road network has improved, and the Road Fund is better financed. It is allocating resources more efficiently and more transparently via a Road Board that includes private sector representation. However, much improvement | By rehabilitating priority roads, improving maintenance, and continuing regulatory reform and institution building, the Second Road and Coastal project helped to remove bottlenecks, particularly for agricultural production and distribution. The Railway and Road Restructuring project objective of increasing the operational efficiency | Moderately satisfactory |

| BANK STRATEGIC GOALS[1] | ACHIEVEMENT OF ASSOCIATED CAS OUTCOMES OR RESULTS | MAIN BANK INSTRUMENTS TO HELP CAS OUTCOMES MATERIALIZE | BANK PROGRAM OUTCOME RATINGS[2] |
|---|---|---|---|
| | is still needed to enhance rural population access. The objective of increasing international traffic at ports and on railways has been partially achieved. Progress on port development is satisfactory. However with respect to rail development, there is a gap between expected and actual performance. | of main railway lines, as measured by increased freight, was partly achieved. The Roads and Bridges project made progress on road and bridge rehabilitation and the establishment of road maintenance funds, although the institutional capacity to administer the road sector was not improved. The closing date of the Beira Railway project was extended to 2011, but work on the Sena railway line was successfully completed. Roads and Bridges II aims to stimulate growth and reduce poverty through improved road infrastructure, better sector policies, and enhanced roads sector management. Based on progress so far, this project is likely to meet its development objectives. | |
| 2. Poverty reduction and human development | The incidence of poverty declined, but it remains predominantly rural, and there is concern that the rate of decline in absolute poverty may be slowing down, with the benefits of economic growth unevenly distributed. Quality concerns affected interventions in education, though access improved. Design limitations, weak government capacity, and coordination problems affected outcomes for Bank support for human immunodeficiency virus-acquired immune deficiency virus (HIV/AIDS). Bank support to increase access to water and sanitation was successful in urban areas. | | Moderately satisfactory |
| Poverty reduction | Poverty incidence fell from 69 percent in 1997 to 54 percent in 2003, driven by rapid GDP growth. Other actions to alleviate poverty, such as access to social services, have improved. The government met its commitment, made in all PRSCs, to maintain budget allocations to six Government's Action Plan for the Reduction of Absolute Poverty (Portuguese acronym for Poverty Reduction Strategy Paper) PARPA-priority sectors/social services at 65 percent of the total. However, the budget could have been more deliberate in allocating expenditures to activities that would translate directly into a strong impact on poor households or at the smallholder farm level. Despite substantial progress over the past decade, the incidence of poverty is still higher in rural areas than in urban areas. | Poverty reduction is the outcome of many interventions, often with lags, including actions by both the government and its development partners. The Bank's PRSCs and investment projects were the main contributions for stimulating growth, employment and income generation, and hence poverty reduction. The PRSCs also required the allocation of 65 percent of the budget to the six PARPA priority sectors: health, education, rural development, basic infrastructure, good governance, and sound macroeconomic and financial management. | Moderately satisfactory |
| Improve access and quality of education services | Results were significant for building capacity and improving access, especially at the basic level, but quality weaknesses persisted. Bank support to higher education assisted in the achievement of key performance indicators related to internal efficiency rates, annual number of graduates, increased regional distribution of enrollments, and the introduction of new degrees. | The Education Sector Strategy Program helped substantially increase access to primary education, but did not adequately address the quality of primary education. In the context of the Higher Education project, Bank objectives for improving higher education were achieved through an increased enrollment efficiency ratio, a higher number of graduating students, development of new curricula and degree programs, and higher intake of students from the north. The 2006 Technical and Vocational Education and Training project is too recent to | Moderately satisfactory |

| BANK STRATEGIC GOALS[1] | ACHIEVEMENT OF ASSOCIATED CAS OUTCOMES OR RESULTS | MAIN BANK INSTRUMENTS TO HELP CAS OUTCOMES MATERIALIZE | BANK PROGRAM OUTCOME RATINGS[2] |
|---|---|---|---|
| | | evaluate. | |
| Improve coverage of health services | Key health indicators at the national level, such as infant and maternal mortality have improved significantly. Government capacity constraints, design limitations, and weak coordination limited the effectiveness of Bank support to reduce the incidence of HIV/AIDS. | Through the Health Sector Recovery Program the Bank and other partners financed the construction of health facilities in rural areas, improved a number of institutions, and trained many health professionals. While attribution is difficult to establish, official data show that during the period of Health Sector Recover Program (HSRP) implementation, population per health center, infant mortality, and intra-hospital maternal mortality all fell considerably. Progress under the HIV/AIDS Response Project has so far been minimal due to government capacity constraints, weak coordination, and design limitations. | Moderately satisfactory |
| Improve coverage of water supply and sanitation | Bank assistance to increase access to water and sanitation was largely institutional, supporting the privatization of service delivery in five major cities. Although Bank intervention assisted in achieving substantial institutional reforms, it had a narrow urban coverage. Access to potable water at the national level increased only marginally but is expected to increase significantly in the five targeted cities. There was little evidence of significant improvement in sanitation services at the national level. | The National Water Development Projects I and II assisted in substantial institutional reforms, which provided the framework for the public regulatory role and the private service delivery role that together improved and expanded urban water supplies in Mozambique's major cities. The five cities targeted now receive a minimum of 20 hours of water supply per day. The Water Services and Institutional Support Project continues to deepen the reforms from the previous two projects, but it is too early to evaluate its likely outcome. | Satisfactory |
| 3. Governance | Although support for budget management was satisfactory, support for governance reforms, including reducing corruption and improving the justice system, was not sufficiently focused. There were weaknesses in government capacity, and many agreed-upon reforms were not implemented. The overall outcome of Bank assistance is rated *moderately satisfactory* because of the importance of better budget institutions for resource allocation and accountability in a country where the size of government relative to total revenues is large. | | Moderately satisfactory |
| Improved budget allocation and execution | Results relevant to the Bank's assistance include sustaining poverty-reducing expenditures, decreasing funds managed off-budget, establishing a public financial management system (e-SISTAFE), and operating a Treasury Single Account for most goods and services. However, there is room to further improve the efficiency of public expenditures. | PRSC triggers covered spending in priority sectors (poverty-reducing expenditures), implementing an electronic account system (e- SISTAFE) that permitted full control and up-to-date information on expenditures and revenues, approving a new procurement decree, and concluding the study on "off-budgets" in the health sector and initiating implementation of its recommendations. To a lesser extent, the EMPSO and the Public Sector Reform project contributed to this subpillar. | Satisfactory |
| Strengthening government monitoring and evaluation capacity | The objective was partially achieved. Bank assistance helped the government improve its capacity to monitor programs and plans. Despite advances in budget management, planning, and monitoring, little seems to have been achieved on improving the quality of evaluation. | As a member of the budget support partners group, the Bank participates in biannual meetings with the government . These meetings constitute a monitoring exercise rather than an evaluation of plans and programs. The meetings use reference documents the government prepares, including a Medium-Term Expenditure Framework ( MTEF), budget execution | Moderately satisfactory |

| BANK STRATEGIC GOALS[1] | ACHIEVEMENT OF ASSOCIATED CAS OUTCOMES OR RESULTS | MAIN BANK INSTRUMENTS TO HELP CAS OUTCOMES MATERIALIZE | BANK PROGRAM OUTCOME RATINGS[2] |
|---|---|---|---|
| | | reports, and other documents relevant for the discussion. The exercise, which started in 2004, has helped the government improve its monitoring skills. Improved monitoring systems are evident in several recent government documents. | |
| Reducing corruption | The objective of reducing corruption was not achieved. The survey for 2004/05 was conducted, but no other governance survey has been carried out since 2005, contrary to what Bank assistance expected. There are some data available for 2008 and 2009, pointing to an acceleration in the number of proceedings related to cases of corruption, but to date few trials have started. | PRSC 1 and PRSC 2 supported the adoption of an anticorruption law, and the increase of resources for anti-corruption work, respectively. Apart from assistance with the one survey, the Bank did not produce separate analytic and advisory activities (AAA) on anti-corruption. | Unsatisfactory |
| Improving justice system | The results fell short of expectations. The government did not create judicial sections for commercial disputes on schedule and did not revise all the codes, but the number of cases sentenced increased. Neither the legal framework nor the efficiency of courts to solve business disputes improved. The evaluation lacks information to conclude that access to justice increased. | EMPSO supported the completion of a strategic plan of legal and judicial reform that incorporated the strategic plans of the four branches (Ministry of Justice, Attorney-General, Supreme Court, and Administrative Court). It also supported revisions of some codes and set as a second tranche condition adoption of the completed Strategic Integrated Plan for the Legal and Judicial Sector 2002-06. The Public Sector Reform project contains a component on improving access to justice and information but has suffered from delays. | Unsatisfactory |
| **Overall rating** | This CPE rates the overall outcomes against the Bank's strategic objectives in Mozambique during the evaluation period as *moderately satisfactory*. This reflects results achieved under each of the three pillars that can plausibly be attributed, at least in part, to the Bank's program. This is consistent with the rating of moderately satisfactory that each pillar received, although results varied across subpillars. In particular, this CPE identifies macroeconomic management and budget allocation and execution as subpillars that stood out positively and are rated satisfactory. On the other hand, in four subpillars the outcomes of Bank assistance were below expectations. Under the first pillar, these were private sector development and rural development including sustainable management of natural resources—both are rated moderately unsatisfactory. Under the third pillar, reducing corruption and improving the justice system are both rated unsatisfactory. In sum, although outcomes and the accompanying ratings on the level of pillars and the overall level were balanced and positive, this evaluation points to the indicated subpillars as areas of concern. | | Moderately satisfactory |

# Evaluation Summary

# Mozambique Country Program Evaluation

During the period FY2001–08, the World Bank was Mozambique's largest development partner, providing over $1.3 billion in International Development Association (IDA) funds. The Bank's strategy, which was aligned with and sought to support the government's poverty reduction strategy, focused on three pillars: (i) economic growth, including macroeconomic management, financial and private sector development, rural development, and infrastructure; (ii) poverty reduction and human development; and (iii) governance.

The evaluation finds that the Bank's strategy for Mozambique and its program were relevant to the country's development needs. The Bank's program was generally aligned with other development partners that provide general budget support, especially after FY05. Harmonization of procedures with other development partners also progressed, although there is scope for further improvement. The Bank's program was substantially effective in supporting macroeconomic management, infrastructure development, access to education and health care, urban water, and some areas of governance (such as budget management and execution).

However, the program fell short of its intended results with respect to the inclusiveness of growth, stimulating private sector development, improving agricultural productivity, achieving better quality of social services, countering the perception of increasing corruption, improvements in the judiciary system, and stemming the spread of human immunodeficiency virus-acquired immune deficiency syndrome (HIV/AIDS).

The Independent Evaluation Group (IEG) recommends that the Bank: (i) help Mozambique sustain high growth and reshape its pattern to make additional gains in poverty reduction; (ii) give priority in analytic work to infrastructure, agricultural productivity, education quality, and HIV/AIDS; and (iii) support improvements in the efficiency of public expenditures.

Mozambique is a country of over 20 million people with a per capita income of $370 (gross national income (GNI), Atlas method), and occupies an area of 800 thousand square kilometers in southeast Africa. About 70 percent of the population live and work in rural areas. Following years of conflict, the economy was in shambles by the mid-1980s when the country, in the midst of civil war, joined the World Bank. The civil war ended in 1992, and the first democratic elections were held in 1994. Since then elections have been held regularly. After the cessation of conflict, Mozambique achieved impressive economic growth (albeit from a low base) and has become an example of successful post-conflict reconstruction and development. Mozambique's development has been strongly supported by official development assistance (ODA) with average annual disbursements amounting to $1 billion (12 percent of gross national product (GDP).

## World Bank Assistance

*Bank strategy.* The reduction of poverty and improvements in social services has been, and still is, the most important objective for Mozambique's development strategy. The Bank has supported the government's Action Plan for the Reduction of Absolute Poverty (PARPA—the Portuguese acronym for Poverty Reduction Strategy Paper (PRSP), and the FY01 and FY04 Country Assistance Strategies (CASs) shared the same strategic objectives and pillars and covered the same policy areas. The overall intent was to help Mozambique promote growth to improve the country's standard of living and to reduce poverty, primarily through maintaining macroeconomic stability and promoting private sector initiative, particularly for small and medium-sized domestic enterprises (SMEs), including in agriculture and infrastructure. To this end, human resources needed to be developed through the provision of improved education, water, and health services. Public sector performance needed to be improved through capacity-building measures and better governance. Close coordination among the government and the development partners, including the Bank, was to help mobilize the needed assistance and increase the chances of its efficient use.

*Relevance of strategy.* Overall, the Bank's assistance strategy during the review period was relevant and closely aligned with the government's plan outlined in the PARPA. The strategic alignment with the PARPA enabled the Bank to be selective and to capitalize on its comparative advantage under each of the three pillars—growth, social services, and governance. Harmonization and alignment were advanced as the Bank agreed with the government and other development partners to support a common reform agenda and select triggers for Poverty Reduction Support Credits (PRSCs) from a commonly agreed-upon set.

*Bank program.* Support as delivered was broadly in line with the strategy. Most of the proposed lending program was implemented, and the credits that were not foreseen were consistent with the areas of Bank focus and within lending targets. The Bank also participated in Sectorwide Approaches (SWAps) in agriculture and health, but moved away from them to PRSCs as the core of its assistance program. However, the primary focus of actions that were to trigger disbursement of PRSCs during the evaluation period was on public financial management (PFM) and macroeconomic policy. At the sector level, several of these actions for agriculture were not met and there were no such prior actions in health.

*Analytical work.* Overall, the analytical work delivered by the Bank was relevant, of high quality, and connected with the lending program. Some of the Bank's analytical pieces were essential inputs to establishing the reform agenda. The candor and technical expertise in the analytical work were appreciated by the client and development partners, who would like to see the Bank prepare more of such work. There were, however, important knowledge gaps in certain areas, which the Bank could have addressed in its analytical and advisory work. These areas include improving the yields of smallholder agriculture, improving the quality of basic education, constraints in the battle against the spread of HIV infections, priority actions to improve rural water supply, and problems with electricity reform and railway concessions. Similarly, no public expenditure review (PER) was conducted after 2003.

## Findings

**Pillar I: Stabilization, Reform, and Growth**

*Macroeconomic stability.* Mozambique's macroeconomic performance has been generally good or improving when measured by aggregate indicators such as growth, inflation, balance of payments, external debt, and the budget. Transfers under the PRSC series helped fund the budget, and stabilizing the real economy. Prior actions ensured some increased domestic revenue mobilization, and those aimed at public expenditure management helped improve government capacity in this area. In addition, the PRSCs allowed the Bank to participate in the dialogue on macroeconomic-management, even though the International Monetary Fund (IMF) took the lead. The external debt position of the country also improved appreciably, largely due to the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) arrangements. The economy also responded positively to reforms. Maintaining annual growth that averaged 7-8 percent for almost 15 years was a commendable achievement.

Nevertheless, despite positive growth and overall macroeconomic performance, a number of concerns remain. First, although inflation was reduced significantly from the early days after independence, it fluctuated during the review period, and averaged 11.5 percent. The risk of macroeconomic instability lingers, especially in view of swings in global food prices and the uncertainty surrounding global developments in petroleum and other primary commodities markets. Second, the pace of growth has been fueled to a large extent by ODA, but the sustainability of this support is unclear given recent global financial developments. In addition, growth has been driven by agricultural catch-up (until about 2003), and private investment in physical capital (for example, through mega-projects) that has not yet substantially addressed the challenge of creating more jobs and facilitating more evenly distributed growth.

*Financial sector development.* The main objectives of financial sector development (FSD) reforms were met. The Bank's technical assistance followed up on the findings of the Financial Sector Assessment Program and helped to strengthen the central bank's balance sheet, as well as its supervision of the banking system. These Bank efforts contributed to a steady improvement in the overall soundness of the banking system as reflected in improvements in a number of indicators, such as the proportion of nonperforming loans, capital adequacy ratios, and increased competition among banks. In contrast, progress in financial intermediation, access to finance (particularly by SMEs), and the development of the non-bank financial sector remains a challenge.

*Private sector development.* The results achieved in PSD fell below expectations. Progress in the development of the SME sector was slow. The Bank program successfully provided some business extension services to SMEs and some technical assistance (TA) to strengthen a couple of government agencies, but the Bank-supported line of credit faltered and had to be altered to allow larger firms to borrow. While the enclave mega-projects may have done well because of their special circumstances, the performance of smaller domestic businesses remained sluggish. Hence, the contribution of PSD to generating employment and spreading the benefits of growth was limited.

*Rural development and sustainable management of natural resources.* Results of the Bank's interventions in agriculture, rural development, and natural resource management were also below expectations. Bank assistance through the Agricultural Sector Public Expenditure Program (PROAGRI), a SWAp supported by many bilateral development partners, achieved a number of its objectives, including decentralization of the Ministry of Agriculture, improvements in the financial, procurement, and audit management systems, and some improvement in agricultural research planning. However, the program did not have a significant impact on the productivity of smallholders. Although eight development partners continued their support to the second phase of PROAGRI, the Bank withdrew. Instead, the Bank's broad sector objectives were subsumed under the PRSC series. However, the PRSCs have so far not provided an effective platform for dialogue on the agricultural sector, and PRSC triggers have made only very modest contributions to progress on either sectoral policies or technical issues. In addition, the Bank completed but did not publish the Agricultural Development Strategy. The Bank resumed support to agriculture in 2006, and financed the Market-Led Smallholder Development project, but to date, it has experienced delays. Regarding natural resource management, the Coastal and Marine Biodiversity Management yielded some positive achievements, such as biological monitoring of marine ecosystems and strengthened capacity for environmental management by communities. However, several prominent project objectives, notably the protection of coastal habitats and private sector tourist development, were not achieved.

*Energy.* The Bank's initial strategy of improving the energy sector through the unbundling of generation, transmission, and distribution into separate companies to facilitate private operator engagement proved inappropriate for conditions in Mozambique. It was replaced by a strategy to strengthen existing institutions. With Bank support, access to electricity was expanded through cost-effective grid intensification. Solar electric panels for some 300 schools and health centers were introduced, but the Bank-supported pilot expansion of electricity service by creating independent, private electrical grids in isolated rural areas did not succeed. With World Bank (WB)/International Finance Corporation (IFC)/Multilateral Investment Guarantee Agency (MIGA) support, a new 865-kilometer pipeline was constructed and is operational, exporting natural gas from Mozambique to South Africa, representing a major demonstration of the potential for integrating energy markets in the region.

*Transport.* With Bank and other development partners' support, the conditions of the roads have improved. An independent Road Board, with majority representation from the private sector, was established to guide allocation and monitor use of funds. However, more needs to be done to further improve access for the rural population by improving or building feeder roads. Bank-supported concessioning of Mozambique's three main port-railway systems achieved partial progress toward increasing traffic on the country's railways and through its ports. Although international port traffic had reached 11.1 million tons by 2008—surpassing the target— traffic on the railways reached 3.5 million tons, half of the target level. An Infrastructure Assessment planned for FY07 was dropped, which meant that no formal analytical work was carried out during the evaluation period.

Based on the elements presented above, the overall outcome of the first pillar of Bank assistance is rated *moderately satisfactory*.

**Pillar II: Poverty Reduction and Human Development**

*Poverty reduction.* The incidence of poverty declined impressively from 69 percent in 1997 to 54 percent in 2003, whereas poverty remained higher in rural areas (55 percent) than in urban areas (52 percent). The results of the 2009 household income and expenditure survey were not available to this evaluation team. There is, however, concern that the rate of decline in absolute poverty may be slowing down. Although overall growth was impressive during the review period and the underlying macroeconomic performance was satisfactory, growth was not evenly distributed with its benefits were not reaching the majority of the population, particularly those in rural areas. Average growth rates in the agricultural sector were lower than the rapidly growing industrial sector dominated by capital-intensive megaprojects. Furthermore, agricultural growth was driven by catch-up (compensatory) gains and expansion into new areas rather than by productivity improvements.

All PRSCs carried a government commitment to maintain budget allocations to six PARPA priority sectors (health, education, rural development, basic infrastructure, good governance, and sound macroeconomic and financial management) at 65 percent of the total. This goal was met. However, the budget could have better focused the allocation of expenditures on activities that would translate directly into a strong positive impact on poor households or at the smallholder farm level.

*Education.* The Bank and 14 other development partners contributed to the formulation and implementation of the government's 1999 Education Sector Strategy Program (ESSP) to improve access to and the quality of education. A large number of schools and related infrastructure were rehabilitated or constructed, enrollment increased substantially, and access for the poor and in rural areas improved markedly. However, there were concerns about the program's lack of progress in enhancing the quality of education. In 2003, the Bank decided not to engage in the second phase of this program. The Bank subsequently agreed in FY09 to contribute $79 million from the Fast Track Initiative for the improvement of basic education. Bank support to higher education assisted in the achievement of key performance indicators related to internal efficiency rates, annual number of graduates, increased regional distribution of enrollments, and the introduction of new degrees. The Bank is now moving most of its attention to supporting vocational and tertiary education and outcomes so far are encouraging.

*Health.* The health system was in disarray at the end of the civil war. As in the education sector, the Bank chose to follow the government's strategy for the development of the health sector and started its support with a SWAp—the Health Sector Recovery Program. Together with other development partners, the Bank successfully supported the construction of numerous health facilities, improved a number of institutions, trained many health professionals, and contributed to increased health service access. This in turn led to improvements in key health indicators, including infant and maternal mortality rates. By contrast, the HIV/AIDS program has not progressed well due to government capacity constraints, design limitation, and weak coordination. This raises a serious concern as HIV/AIDS poses one of Mozambique's most daunting challenges.

*Access to safe water and sanitation.* With the agreement of development partners, Bank support to increase access to water and sanitation was directed at developing sustainable institutions in urban areas. Through these institutions, the Bank supported the privatization of water service delivery in five cities under the umbrella of a government parastatal responsible for managing Mozambique's water resources. Bank assistance was successful, but its urban focus meant that Bank projects had negligible impact on access to potable water in rural areas. There was also little evidence of significant improvement in average access to sanitation in rural towns.

The outcome of the second pillar of Bank assistance, poverty reduction and human development, is rated *moderately satisfactory*.

**Pillar III: Governance**

*Budget allocation and execution.* The main objectives in this area were achieved. With Bank and other development partners' support, the government introduced reforms that have changed the face of the budget system in Mozambique. In 2001, the country did not have the elements of a budget system, and today it has almost complete budget coverage, improved budget classification, a consolidated single treasury account (for most goods and services), adequate budget controls, and fiscal transparency. Although the system has substantially improved, the government is still working on including all wage and salary expenditures in its newly-introduced financial management information system, e-SISTAFE. However, the Bank's assistance paid insufficient attention to significantly improving the efficiency of public expenditures that the analytical work had identified as problematic.

*Monitoring and evaluation capacity.* The objectives in monitoring and evaluation (M&E) capacity building were partially achieved. Two important tools have helped create the conditions for a better M&E system: the PARPA and the overhauling of the PFM system. With Bank support, the government's ability to *monitor* programs and plans were enhanced, although there is room for improvement. However, the advances in managing and monitoring the budget have not yet translated into better government *evaluation* capacity.

*Reducing corruption.* This objective was not achieved. The Bank expected that as a result of the assistance the government would carry out governance surveys. A survey for 2004/05 was conducted, but no other survey has been carried out after 2005. Dealing with corruption requires better tools and creativity than the Bank displayed in its assistance. International indicators show that the levels of perceived corruption changed little. The government prepared an anticorruption strategy for 2006–10 but has not advanced much in implementing it. Despite the fact that many corruption cases were brought to court in the last years of the evaluation period, the fight against corruption was not complemented by an increased number of high-profile judgments.

*The justice system.* Bank assistance intended to reinforce the capacity of the judiciary but had little influence. Judicial sections for commercial disputes were not established as scheduled under the Bank's strategy. Neither the legal framework nor the efficiency of courts in resolving business disputes improved. The government did not revise all the codes, but the number of cases sentenced increased. The evaluation could not ascertain whether access to justice has improved.

The overall outcome of the third pillar of Bank assistance—governance—is rated *moderately satisfactory*. In reaching this conclusion, the evaluation placed greater weight on the results for the objective of improved budget allocation and execution for two reasons. First, this pillar directly covers an important part of the Bank's assistance provided as direct budget support, and second, the budget is relatively large, representing about 30 percent of GDP, substantially above the norm for developing countries. Therefore, improvements in budget management and allocation constitute an important step in strengthening accountability and capacity in the public sector. Eventually these improvements should also lead to a reduction in corruption through better control of the accounts and better tracking of where resources are spent.

## IFC's Assistance

Between FY01 and FY08, IFC's objectives, as articulated in the CASs, were to: (i) enhance support to SMEs, including improving the enabling environment for private sector participation; (ii) promote tourism;

(iii) develop infrastructure and mining; (iv) build and strengthen financial markets; and (v) support health, education, and the agribusiness sectors. IFC invested $56 million in nine projects in four sectors: industry, financial markets, agribusiness, and extractive industries. The active portfolio was dominated by two mega-projects: the Mozal aluminum smelter plant and the development of the Pande and Temane gas fields that deliver natural gas to South Africa. IFC also implemented 20 advisory services projects for a total funding of $11 million. These projects supported privatizations, SME linkages, SME capacity building, access to finance for SMEs, and the tourism sector.

IFC promoted private sector development by helping improve foreign investors' perception of Mozambique through mega-projects that led to follow-on projects, improving capacity of some SME firms, advising on privatization efforts to support private ownership, helping improve the business enabling environment in the tourism sector, and supporting SME linkages with large projects (although on a limited scale).

Ultimately, IFC's efforts to help develop the private sector were less successful in increasing access to finance for SMEs, improving corporate governance of some enterprises, expanding the positive investment climate that was created for mega-projects to the entire economy, helping improve the overall business enabling environment, and supporting agribusiness, health, and education.

IFC's strategy remains relevant in the country context. Mozambique faces the challenge of broadening its growth base. IFC can play a role in this area through greater focus on improving the overall business environment, increasing its support to indigenous SMEs, and ensuring the sustainability of its SME linkages programs.

The evaluation of IFC activities addresses evaluation questions that are somewhat distinct from those underlying the evaluation of the Bank's program (see appendix B for an outline of the latter). Accordingly, there is imperfect integration between the two, and the outcome ratings refer exclusively to the Bank's program and not that of IFC. IEG is, of course, well aware of the desirability of aligning the evaluation approaches, and has recently completed work on a test case—the Country Program Evaluation for Peru—that pilots an evaluation of the World Bank Group's consolidated program.

## The Bank's Role in Partnership and Harmonization

The Bank's efforts to roll out the main provisions of the Paris Declaration in Mozambique have yielded several favorable results. Some notable limitations have also surfaced. On the favorable side, the main gains have included greater predictability of resource transfers in line with an agreed schedule, and a more structured dialogue with the Mozambican authorities through coordination and alignment of the general budget support partners with the government's PARPA. At the same time, the main efforts which centered on the Memorandum of Understanding (MOU) regarding coordinated budget support also restricted flexibility. For instance, the Bank was not always able to embrace relevant policy issues (and include these as prior actions in budget support operations) if these were not foreseen when the Performance Assessment Framework (PAF) indicators were agreed.

In addition, the Bank's participation in a high number of (sector) working groups involves significant transaction costs. A more streamlined and prioritized approach to these groups could improve efficiency of the policy dialogue. At the same time, some hold the view that a mechanism needs to be found to give voice to a broader range of development partners. However, any move to increase the voice among non-budget support partners should be considered against the need for higher efficiency in the conduct of policy dialogue.

## Overall Rating

This CPE rates the overall outcomes against the Bank's strategic objectives in Mozambique during the evaluation period as *moderately satisfactory*. This reflects results achieved under each of the three pillars that can plausibly be attributed, at least in part, to the Bank's program. This is consistent with the rating of moderately satisfactory that each pillar received, although results varied across subpillars. In particular, this

CPE identifies macroeconomic management and budget allocation and execution as subpillars that stood out positively, and are rated satisfactory. However, with respect to the four subpillars, the outcomes of Bank assistance were below expectations. Under the first pillar, these were private sector development and rural development including sustainable management of natural resources—both are rated moderately unsatisfactory. Under the third pillar, reducing corruption and improving the justice system are both rated unsatisfactory. In sum, although outcomes and the accompanying ratings on the level of pillars and the overall level were balanced and positive, this CPE does point to the indicated subpillars as areas of concern.

## Recommendations

Based on the findings of this evaluation, IEG recommends that the Bank:

*1. Help the country sustain high growth but modify its pattern to make significant gains in employment and poverty reduction.* Although Mozambique has experienced strong growth, poverty and inequality remain high. A key strategic objective of the country and its development partners is to promote more sustainable, employment-generating growth. However, growth stemming from the foreign-owned, capital intensive, export-oriented mega-projects had limited impact on employment creation and productivity spillovers. At the other end of the private sector are the vast majority of firms, primarily SMEs, which sell mostly to the local market, face severe resource constraints, and contribute only modestly to economic growth and exports.

Sustained and broad-based growth in output requires diversification of production and exports, and the creation of a better business environment for a greater participation of the domestically-oriented private sector in the country's economic activity. The evaluation recommends that the Bank give even higher priority to assisting the country's efforts to modify its growth pattern and make it more evenly distributed, employment-generating, and poverty-reducing. This suggests a need to focus on:

- Making credit more accessible to SMEs and the agricultural/rural sector by developing financial intermediation in these areas, including through the promotion of nonbanking institutions and systems such as the network of traders that had operated before independence.
- Assisting improvements in business procedures and regulations to create a better business environment for the broader-based, smaller domestic businesses and to deal more creatively with the problem of collateral.
- Ensuring a firm basis for increased productivity in the agriculture sector, as well as supporting services, and better market access to smallholders in poor rain-fed rural areas. Strategic options need to be explored on how to sustainably improve yields and markets for crops produced by small-scale farmers to improve production, incomes, and employment.

*2. Strengthen the Bank's knowledge of the infrastructure and social sectors.* The fact that no formal economic and sector work on infrastructure was conducted over the past decade and that the proposed infrastructure review was dropped is worrisome, especially given the fact that the Bank is one of the major lenders in this sector. The problems with electricity sector reform and with railway concessions illustrate the need for in-depth analysis. This CPE also found that for projects in the social sectors and water supply there was only a modest amount of analytical work by the Bank, including some on education conducted in collaboration with the government. There were knowledge gaps in crucial areas such as improving the quality of basic education, constraints in the battle against the spread of HIV infections, and priority actions to improve rural water supply. In collaboration with the government and other stakeholders, IEG recommends that areas of focus include:

- Reinstating the infrastructure review, covering sectors that are likely to continue receiving assistance from the Bank.
- Conducting an analysis of constraints to improving the quality of basic education, including examining the training, incentives for and accountability of teachers and school administrators, reducing the waste of instruction time, and increasing availability of textbooks, particularly in rural areas.

- Designing improved technical and institutional strategies to reduce the incidence and spread of HIV infection as well as the treatment and mitigation of AIDS.
- Exploring technical solutions to find the most cost-effective improvements in the domestic water system for poor rural households and helping the government formulate a strategy that will create incentives for major private manufacturing, industrial, and service industries to invest in rural areas to reduce the pressure on urban water supplies and diversify the resource base for rural water supplies.

*3. Help the government improve public expenditure efficiency.* The Bank's assistance strategy did not explicitly state the need to improve the efficiency of government expenditures as an objective, although the Bank's analytic work identified sectors (including education, health, roads, and water) where efficiency could be enhanced. Enhancing efficiency is critical because government expenditure, at about 30 percent of GDP, is high. Despite the increase in domestic revenues supported by the Bank and other development partners, government revenues remained at half the level of public expenditures. In addition, grants from the development community finance about one-third of public expenditure, but the sustainability of the high level of grants is unclear, given recent global financial developments. Gains in the efficiency of public expenditure can help improve the quality of social services. These factors suggest a need to focus on:

- Helping to improve the efficiency of public expenditures through analytic work and follow-up lending. The government allocates a high share (65 percent) of its budget to PARPA priority sectors, but the high level of absolute poverty and low levels of social indicators necessitate further improvements in the efficiency of expenditures to make room for improved quality of social services, particularly in rural areas. Reinstating PERs alongside the PFM work would help serve the objective of rationalizing public expenditures.

# Management Action Record

| *Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response* | *Management Response* |
|---|---|
| Help the country sustain high growth but modify its pattern to make significant gains in employment and poverty reduction. This suggests need to focus on:<br><br>▪ Making credit more accessible to small and medium enterprises (SMEs) and the agricultural/rural sector by developing financial intermediation in these areas, including through the promotion of nonbanking institutions and systems such as the network of traders that had operated before independence.<br>▪ Facilitating improvements in business procedures and regulations to create a better business environment for the broader-based, smaller domestic businesses, and to deal more creatively with the problem of collateral.<br>▪ Ensuring a firm basis for increased productivity in the agriculture sector, as well as supporting services, and better market access to smallholders in poor rain-fed rural areas. Strategic options need to be explored as to how to sustainably improve yields and markets for crops produced by small-scale farmers to increase production, incomes, and employment. | Management agrees that more private sector development (PSD) is necessary to turn high growth into a more powerful instrument for job creation and inclusion. We note that this requires refining the analysis of the local political economy and its evolution.<br>• Management agrees with the need to make credit more accessible to SMEs. Among the initiatives being undertaken for this effect is support under the recently approved PSD project to strengthening the accounting and auditing profession to promote the preparation of financial statements and business plans by SMEs. Additionally the International Finance Corporation (IFC) is supporting the establishment of a privately-run credit reference bureau which would provide information on all clients, whether large or small. The Bank and the IFC have explored the feasibility of introducing a guarantee scheme, though this is not currently being pursued since the IFC has the Africa Micro,small and medium enterprise (MSME) Finance initiative with one of the leading banks in the country. The initiative aims to increase the portfolio of SME loans by the bank.<br><br>• Management agrees on the importance of improving the business environment to promote private sector development. To this effect, the Bank Group has been working in a coordinated fashion over the past two years, including specialists from the Foreign Investment Advisory Service (FIAS), Doing Business, and the region's PSD department to identify, advocate, and assist in the passage of reforms. The Bank has closely coordinated its efforts in this area with the other donor partners. Progress has |

| *Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response* | *Management Response* |
|---|---|
| | been made but remains modest, and the Bank's efforts are ongoing. These include using investment operations (such as the PSD project to improve licensing reform and trade facilitation), policy lending (such as the PRSC series), technical assistance missions from Doing Business /FIAS teams, and policy advocacy through studies and participation in debates and forums. This is a difficult and challenging area since it involves many different Ministries and also often results in the loss of income or incentives for government departments. It also requires a high level and sustained political commitment which while seemingly present needs to be followed with an empowered and capable implementation mechanism to carry out the needed reforms.<br>• Agricultural productivity is being addressed by the Sustainable Irrigation Development Project (PROIRRI) project (FY11). The development objective is to enhance agricultural productivity and profitability of smallholders farms in targeted new or improved irrigation schemes along the Beira Corridor. Furthermore, Mozambique is one of the countries being studied to evaluate if support to agricultural production needs to focus on the institutional arrangements that will maintain the initial higher profitability created by the reforms. |
| Strengthen the Bank's knowledge of the infrastructure and social sectors. In collaboration with the government and other stakeholders, the areas of focus would include:<br>▪ Reinstating the infrastructure review, covering sectors that are likely to continue receiving assistance from the Bank.<br>▪ Conducting analysis of constraints to improving the quality of basic education, including examining the training, incentives for and accountability of teachers and school administrators, reducing the waste of instruction time, and increasing availability of textbooks, particularly in rural areas. | Management agrees that more analytical work in infrastructure and social sectors is necessary to help the government and other stakeholders identify strong projects/policies. Management has also to consider the Bank's stronger expertise in infrastructure, and the fact that developing partners are more active in health and education.<br>• Special strategic attention will be paid to infrastructure, including corridors, the role of the private sector, regional projects, etc.<br>• The Bank has concentrated on analytical |

| *Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response* | *Management Response* |
|---|---|
| ▪ Designing improved technical and institutional strategies to reduce the incidence and spread of HIV infection as well as the treatment and mitigation of AIDS.<br>▪ Exploring technical solutions to find the most cost-effective improvements in the domestic water system for poor rural households. Helping the government formulate a strategy that will create incentives for major private manufacturing, industrial, and service industries to invest in rural areas to reduce the pressure on urban water supplies and diversity the resource base for rural water supplies. | works such as the recent study on Modes of Transmission of the Epidemic (2009), which led to a new government strategy that is more focused on prevention and better aligned to the main modes of transmission.<br>• The Bank-financed HIV/AIDS project has been restructured and extended to support this new strategy and to also cover the cost of treatment.<br>• Considering the aid effectiveness in the education sector and given bilateral donor proclivities to support basic education, the Bank is concentrating on vocational training and tertiary education.<br>• The Water Services and Institutional Development project addresses the increased water service coverage in the cities of Beira, Nampula, Quelimane, and Pemba under the delegated management framework, as well as the establishment of an institutional and regulatory framework for smaller cities and towns. Additionally, in FY11, a new water project will build on the recently completed Mozambique Country Water Resources Assistance Strategy. It will support the Government of Mozambique in ensuring the security of bulk water sources for the greater Maputo area. This would be done through partially financing the completion of the Corumana Dam, and supporting the implementation of the National Water Resources Management Strategy—particularly in improving management and development of water resources for urban and rural productive purposes on a catchment basis and supporting the development of small and medium scale water sources to support rural development. |
| Help to improve the efficiency of public expenditures through analytic work and follow-up lending. The government allocates a high share (65 percent) of its budget to priority/social sectors, but the high level of absolute poverty and low levels of social indicators necessitate further improvements in the efficiency of | Management agrees that a key policy challenge is the efficiency of public expenditures to be addressed through both analytic work and adequate projects. The Bank will examine the most appropriate analytical vehicle (e.g., PERs, Public |

| *Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response* | *Management Response* |
|---|---|
| expenditures to make room for improved quality of social services, particularly in rural areas. Reinstating Public Expenditure Reviews (PERs) alongside the public financial management (PFM) work would help serve the objective of rationalizing public expenditures. | Expenditure Tracking Survey (PETS), Poverty maps, etc.) to improve targeting of public spending. The Bank has been actively engaged in public financial management not only in the capital city with the Adaptable Program Loan (APL) Pro-Maputo (FY07). A proposed second phase (FY10) focuses on: consolidation of the institutional and financial reforms by the municipal mayor, council, and assembly who assume office in early 2009; investment in infrastructure and service delivery improvements on a larger scale; and support to decentralized governance, planning, land management, and service delivery at the level of municipal districts and neighborhoods, with a focus on poor peri-urban communities.<br>The Bank in close collaboration with multiple bilateral donors is also focusing on the district level by delivering a National Decentralization Planning and Finance project (FY10) to improve the capacity of local government to manage public financial resources for district development in a participatory and transparent manner. The project's focus will be on strengthening the capacity of the district governments. However, it now incorporates an increased focus on better integrating district planning and budgeting into the national systems and the scaling-up, institutionalization and mainstreaming of best practices. |

# Chairperson's Summary: Committee on Development Effectiveness (CODE)

On May 10, the Informal Subcomittee (CS) of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group (IEG) report entitled *Mozambique Country Program Evaluation.*

### Summary

The SC welcomed the informative and well written IEG report, whose findings and lessons learned may contribute to the preparation of the new Country Assistance Strategy (CAS). Members noted Mozambique's progress in achieiving macroeconomic stability, although it still faces significant challenges as a post-conflict country. In this context, members stressed the importance of equitable growth for poverty reduction and encouraged more attention to rural and agriculture development as well as private sector development, which may contribute to livelihood and employment opportunities. It was noted that the IEG report offers lessons in these areas that may applicable to other countries. Members also commented on and sought more information about the governance and rating of World Bank support in this area, challenges of donor coordination, trends in projects and analytical work, monitoring and evaluation issues; and raised a few specific questions on the IEG evaluation report.

### Recommendations and Next Steps

Management will take into consideration the findings and recommendations of the IEG report in the preparation of the new CAS. IEG was requested to clarify a few aspects of the report, such as the reflection on the use of trust funds (e.g. Fast Track Initiative).

### Main Issues Discussed

**Country Program Focus.** Members commended the alignment of the country program to the country needs. They observed that though there has been economic growth, less impact was seen on employment generation and poverty reduction, particularly in rural areas. In this context, interest was expressed in a total picture of Mozambique's progress towards the Millennium Development Goals. Some questions were asked about the more limited Bank support in the areas of agriculture and energy reform, prioritization of urban versus rural, support in the health and education sectors and the use of sector-wide approaches, and reasons for the drop or delay in projects. Management agreed on the importance of improving the World Bank Group's knowledge base (e.g. infrastructure, private sector). Responding to a question about the trends in analytical and advisory activities (AAA), management commented on the pressures associated with the increased number of operations and lending and the related resource needs for supervision, has created some constraints to undertake more AAA. A general interest was expressed in the pros and cons of "joint" country assistance strategy with other donors.

**Role of the private sector.** The private sector was acknowledged as critical for Mozambique's growth, and members stressed the need for the World Bank Group, including the International Finance Corporation (IFC) to strengthen its support in this area. In this regard, the importance of a realtistic assessment of the existing and future potential of the local private sector was noted. Responding to the question about the private sector assessment that had been undertaken in the past, IFC clarified that with the evolution of its analytical work, this assessment has been replaced with the Investment Climate Assessment; a suggestion was made for a technical discussion of IFC's various analytical instruments. Comments were made with regard to more progress needed in private enterprise development in key areas such as power, considering the role of the private sector in health and education, and support for the growth of small- and medium-sized enterprises.

**Governance.** Remarking on the importance of tackling governance and corruption, and remarking on the IEG findings that the program has fallen short in the areas of corruption and judicial reform, some members sought to better understand the rating of "moderately satisfactory" for the governance pillar. In this regard, IEG clarified that the overall rating for governance takes into account the contribution to the progress in public expenditure management.

**Donor Coordination.** Members noted that the World Bank Group support is generally well aligned with the programs of other donors. While welcoming the benefits of the strong donor coordination efforts, members acknowledged the associated challenges, such as the reduced flexibility for the Bank to adjust to unanticipated events (e.g. response to the food crisis) and how to overcome this. In addition, the issues of the multiplicity of donors and number of working groups and meetings as raised by the representative of the constituency that includes Mozambique were considered.

**Results and Data.** The importance of a strengthening monitoring evaluations system, of well designed results matrices that are simple and facilitate monitoring, and of government capacity to monitor programs was stressed. The need to update the poverty data based on the most recent household survey, which would serve as the basis for better targeting of support for poverty reduction.

**Other Comments.** A question was raised about the collaborate with the African Development Bank (AfDB) to prepare the evaluation report and absence of information on the outcomes of AfDB's evaluation as in the case for the Uganda Country Assistance Evaluation (CAE). IEG clarified that it was testing various evaluation approaches and the Mozambique Country Program Evalaution was done in parallel while the Uganda CAE was done jointly. IEG was urged to consider gender aspects in preparing the evaluation reports.

*Giovanni Majnoni*, Chairperson

# Chapter 1
# Country Background

Mozambique is a country of over 20 million people, has a per capita income of $370 (gross national income (GNI), Atlas method), and occupies an area of 800 thousand square kilometers in southeast Africa.  About 70 percent of the population live and work in rural areas.  Following years of internal conflict, the economy was in a shambles by the mid-1980s when the country, in the midst of civil war, joined the World Bank.  The civil war ended in 1992, and the first democratic elections were held in 1994.  Since then elections have been held regularly.  Since the cessation of conflict, Mozambique has achieved impressive economic growth (albeit from a low base) and has become an example of successful post-conflict reconstruction and development,  moving from a one-party state to a multiparty democracy and from a socialist, command economy to a market-based economy. Mozambique's development has been strongly supported by foreign aid, and since 2001 average annual disbursements of official development assistance (ODA) have amounted to over $1 billion, or 12 percent of gross domestic product (GDP) (Appendix table A.10).

## Political Developments

Mozambique acquired independence from Portugal in 1975, after 10 years of a guerilla campaign led by the Front for the Liberation of Mozambique—FRELIMO (*Frente de Libertação de Moçambique*).  The first national government, led by FRELIMO, was soon faced by a military opponent (*Resistançia Nacional do Moçambique*—RENAMO), and a violent civil war ensued.  About one million people were killed, close to two million took refuge in neighboring countries, several million were internally displaced, and an already poor infrastructure was further weakened.

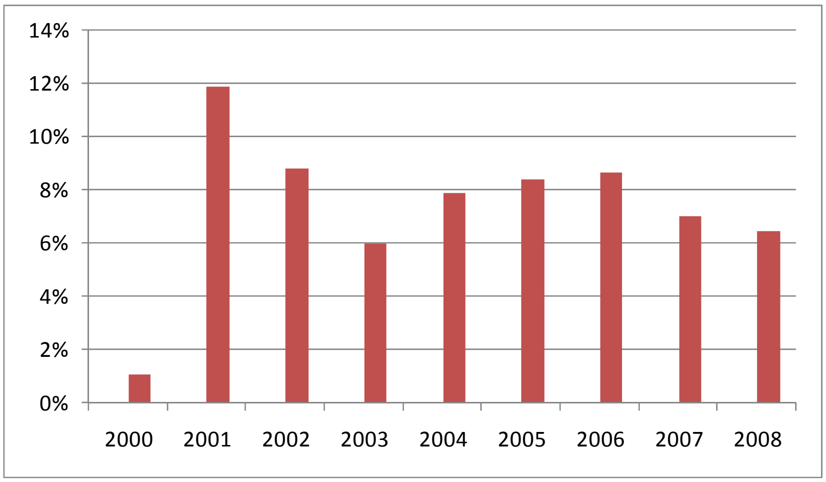
The first national government adopted a policy of radical changes.  Ties were established with the Union of Soviet Socialist Republics (USSR) and East Germany.  Private land ownership was replaced with state farms and peasant cooperatives.  The government adopted a command-and-control approach to economic management and put in place a vast nationalization program.  By the mid-1980s, Mozambique was virtually bankrupt, and the country turned to the West, including the International Monetary Fund (IMF) and the World Bank, for financial aid to help transform it into a market economy.

Following 17 years of internal conflict, a peace accord was signed in 1992, and since then there has been an uninterrupted process of political competition, democratization, and elections every five years.  The first elections were held in 1994.  FRELIMO won the presidential and legislative elections with more than 60 percent of the popular vote in December 2004, and with over 70 percent again in October 2009.

## Economic and Social Developments

**Real GDP growth has hovered about 7- 8 percent since 1996, higher than the previous decade**, when growth averaged 4 percent per annum (figure 1.1). Strong growth can be attributed to macroeconomic stability and policy reforms, growth in agriculture, postwar infrastructure rehabilitation, and increases in exports aided by mega-projects in the manufacturing sector. Part of this growth can also be attributed to a post-conflict catch-up effect that cannot last indefinitely. Sustaining the more "permanent" component of growth remains a challenge and necessitates a deepening of reforms, including governance reforms, improvements in the business environment, and the strengthening of human and institutional capacity as well as increased investment.

Figure 1.1 GDP Growth Rates




*Source:* World Bank (World Development indicators, September 2009)

**Strong economic growth has contributed to a decline in income poverty, but the level of overall poverty remains high** (table 1.1). However, there are major differences in poverty across the regions of Mozambique, ranging from 45 percent in the center of the country, where the greatest reduction took place over the evaluation period, to 66 percent in the south. There are also differences across provinces, ranging from 36 percent in Sofala (in the center) to 81 percent in Inhambane (in the South), partially reflecting differing access to markets and economic opportunities. Successive governments have shown strong concern for social equity and poverty reduction. The government prepared an Action Plan for the Reduction of Absolute poverty (PARPA, the Portuguese acronym for the Poverty Reduction Strategy Paper (PRSP) in 1999, and PARPA II in 2006.

| Table 1.1 Poverty Indicators | *1997 (%)* | *2003 (%)* |
|---|---|---|
| National poverty data (using a cost of basic needs approach) | 69 | 54 |
| World Bank data (poverty incidence at international poverty line) | | |
| People living on less than US$1 per day | 38 | 20 |
| People living on less than US$2 per day | 78 | 59 |

*Source:* World Bank (World Development Indicators 2004) and National Statistics Institute (National Survey on Living Conditions [IAF], 2003).

**Despite impressive growth, Mozambique remains one of the poorest countries in the world, with high levels of absolute poverty and malnutrition and low levels of social indicators** (table 1.2). The Human Development Index for 2008 ranks the country 175th out of 179 countries. Mozambique's per capita income is less than half the Sub-Saharan average, and many of the key social indicators are also below the Sub-Saharan average. Improvements in the quality of life have not been evenly distributed between females and males, and between urban and rural areas, with lowest access to social services in rural areas. Under-five mortality and maternal mortality are higher in the rural northern and central provinces, where the lack of health facilities limits access to care. Girls' enrollment, at the post-primary levels, lags significantly behind that of boys. Adult literacy is only 45 percent. There is an acute shortage of highly-educated workers and the quality and relevance of education continues to be a concern.

| *Table 1.2 Selected Social Indicators, 2007 or Nearest Year* | *Mozambique* | *Sub-Saharan Africa* |
|---|---|---|
| GNI per capita, Atlas method (current US$) | 370 | 696 |
| Immunization, measles (percent of children ages 12 to 23 months) | 77 | 73 |
| Improved sanitation facilities, urban (percent of urban population with access) | 53 | 42 |
| Improved water source (percent of population with access) | 42 | 57 |
| Improved water source (percent of urban population with access) | 71 | 81 |
| Improved water source (percent of rural population with access) | 26 | 46 |
| Mortality rate, infant (per 1,000 live births) | 115 | 92 |
| Mortality rate, under 5 (per 1,000) | 169 | 146 |
| Life expectancy at birth (years) | 42 | 51 |

*Source:* World Bank (World Development Indicators, September 2009).
*Note:* GNI= gross national income.

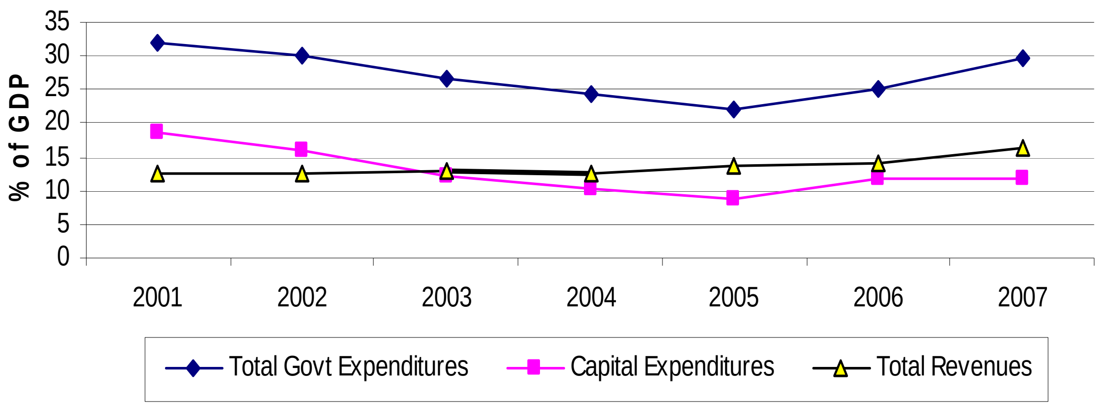
**Mozambique has received large flows of external assistance (including debt relief), typically accounting for about 12 percent of GDP.** Among some 40 development partners, the International Development Association (IDA) is the single largest financier, accounting for 14 percent of all development partner contributions (Appendix A, table A.10). The high volume of aid from a large number of development partners brings with it difficulties in effective coordination and maintaining coherence of strategic resource allocation within and between sectors, as well as issues related to aid alignment and harmonization.

## Development Challenges and Constraints

**Sustaining broadly-shared economic growth to reduce poverty remains a top challenge.** The overall growth performance of the economy over the past decade was commendable, although since 1999 much of it has been driven by capital-intensive mega-projects that generate relatively minor benefits for employment and linkages with the rest of the economy. In view of the very low income base from which growth started, the standard of living in Mozambique remains low. Therefore, sustaining growth and reshaping its pattern to make significant gains in employment and poverty reduction remains a top priority for the government. In addition to sustaining a high growth rate, poverty targeting and improvements in the quality and pattern of growth to ensure broader participation are needed.

**A high level of aid dependency is an area of concern.** These aid inflows, however, helped the government pay for larger levels of expenditure and welfare than would have been possible otherwise (figure 1.2). Domestic revenues increased by almost 3 percentage points of GDP, from 13.1 percent of GDP in 2004 to 16.0 percent in 2008. Reforming the public sector, improving public expenditure efficiency, increasing revenues, and enhancing the level/quality of public services to better position Mozambique to attract investment are important priorities. Without these, domestic savings and investment will remain low, with adverse effects on economic growth and quality.

Figure 1.2 Government Expenditure Composition




*Source:* Government of Mozambique's Budget Execution Reports, 2000-07 for budget data, and International Monetary Fund for GDP.
*Note:* GDP= gross domestic product.

**Public sector reform and governance issues remain high on the agenda.** Support to public sector reform and key institutional development is stressed and repeated by all stakeholders as a critical aspect for the various pooled and government-led financing arrangements. Central and decentralized institutional reform, financial management reform, judicial reform, and anticorruption efforts are among the key aspects of public sector performance where there is a need for continued country and development partner focus. Mozambique's PARPA emphasized the need for reform of public institutions at the central level, as well as for capacity development in decentralized institutions, which are important for actual service delivery. However, public sector reform and capacity development are not moving rapidly.

**Human immunodeficiency virus-acquired immune deficiency syndrome (HIV/AIDS) poses one of the most serious socioeconomic challenges for Mozambique.** The country has the seventh highest prevalence rate in the world—15 percent of Mozambicans live with HIV/AIDS (almost twice the Sub-Saharan average of 7.2 percent). Mozambique is surrounded by countries that have some of the highest prevalence rates in the world. The AIDS epidemic has devastating socioeconomic effects.

The high prevalence rate may reduce Mozambique's economic growth by as much as 1 percentage point annually (World Bank 2008a). The Food and Agriculture Organization

(FAO) estimates that Mozambique may lose more than 20 percent of its agricultural labor force by 2020 because of the epidemic. Mozambique's life expectancy is expected to drop to 37 years by 2010, in contrast to 50 years without HIV/AIDS (World Bank 2008a). The government and development partners have devoted significant efforts to dealing with the epidemic, but these are still not commensurate with the need.

## Organization of the Report

This Country Program Evaluation (CPE) focuses on the Bank's program for FY2001–08, examining the following questions: Did the Bank correctly assess the problems Mozambique faced? Was the Bank's strategy appropriate for meeting the country's development needs? How effective was Bank assistance in implementing those strategies? What were the outcomes of the assistance? To what extent did the Bank, other development partners, the government, or exogenous forces contribute to outcomes?

The CPE is organized as follows: Chapter 1 assesses Mozambique's economic and social development and identifies major development priorities and constraints facing the country. This chapter is common to the evaluation reports of both the World Bank and the African Development Bank (AfDB). Chapter 2 is an overview of the Bank's program of lending and analytic and advisory activities (AAA). Chapters 3, 4, and 5 cover thematic aspects: stabilization and growth (including infrastructure and agriculture development), poverty reduction and human development, and governance (Appendix B describes the methodology). Chapter 6 covers International Finance Corporation (IFC) activities in Mozambique, and Chapter 7 assesses partnership and harmonization. The last chapter contains conclusions, lessons, and recommendations.

The evaluation of IFC activities addresses evaluation questions that are somewhat different from those underlying the evaluation of the Bank's program (see Appendix B for an outline of the latter). Accordingly, the two are imperfectly matched, and the outcome ratings (also summarized in the table at the start of this report) refer exclusively to the Bank's program and not that of the IFC. The Independent Evaluatin Group (IEG) is, of course, well aware of the desirability of aligning the evaluation approaches, and has recently completed a test case—the Country Program Evaluation for Peru—that pilots an evaluation of the World Bank Group's consolidated program.

# Chapter 2
# The Bank's Strategy and Program

**Since Mozambique joined the World Bank in 1984, the Bank has prepared five Country Assistance Strategies (CASs), lent $3.6 billion, and carried out a number of analytic and advisory activities .** During the review period (FY2001–08), Mozambique received 22 credits from the Bank for a total of over $1.3 billion. This chapter presents the strategic context, for both Mozambique and the Bank's assistance to the country, with a brief review of previous Bank support, providing the basis for subsequent design of Bank strategy.

## Summary and Assessment of Prior World Bank Support (1987–2000)

**Bank assistance to Mozambique during the period 1987–2000 had three overarching aims:** (i) rehabilitate and recover from the devastating effects of the civil war; (ii) set up and strengthen institutions and processes required for nation building; and (iii) start the transition from a command to a market economy, in an effort to promote higher growth and alleviate poverty.

The Bank approved 29 operations (totaling more than $2 billion) and prepared a number of analytic and advisory services. Lending operations focused on general rehabilitation projects (two operations by 1987 and a third in 1989), a wide range of infrastructure projects in various sectors (urban facilities, roads and bridges, energy and power, and railways and ports), a number of operations in social services (mainly basic education and health services), a few projects in agriculture and rural rehabilitation, and a number of freestanding and technical assistance and capacity-building operations in a range of sectors (such as finance and economic management, public sector, and legal institutions), in addition to a wide range of technical assistance (TA) components in investment operations. With the end of the civil war, a series of three Economic Recovery Credits was initiated during 1992–97.

**In 1998, IEG (then called the Operations Evaluation Department (OED) completed a Country Assistance Review (CAR) covering the period 1987–98. It highlighted the critical role of the Bank in Mozambique's recovery in helping to assess problems and opportunities, designing the evolving policy agenda, and mobilizing IDA and other resources.** The CAR noted that development partners continued to look to the Bank to deliver advisory and analytical services for sectoral and thematic programs, particularly in economic governance (for example, fiscal management, public sector reform, trade policy, and financial sector development). The CAR also found that the availability of grant financing in some sectors, and the government's preference not to incur debt, may limit the scope for IDA financing. A further finding was that development effectiveness has also been limited by weaknesses in aid coordination, and an excessive focus on traditional investment and technical assistance projects rather than results-based interventions.

The CAR recommended that the Bank: (i) be more selective and cede leadership to other development partners where they have a comparative advantage or a substantial financial presence; (ii) use country dialogue and aid coordination mechanisms to nurture policy reform and capacity building; (iii) enhance partnerships among development partners and civil society to improve results for sector programs; (iv) support the Mozambican authorities' increased leadership in development and aid coordination; and (v) increase the responsiveness and effectiveness of Bank assistance by further decentralizing authority to the field.

## The World Bank's Assistance Strategy (FY2001–08) and Mozambique's Poverty Reduction Strategy

**This evaluation reviews the period July 1, 2000, through June 30, 2008** (that is, World Bank fiscal years 2001–08). Bank assistance was guided by a 2000 CAS for fiscal years 2001–03, a 2003 CAS for fiscal years 2004–07, and a 2006 CAS Progress Report (CASPR). A self-assessment of the FY2004–07 CAS program (a CAS Completion Report, or CASCR) was prepared as part of the fiscal year 2008–11 Country Partnership Strategy (CPS), which became effective on July 1, 2008.

**The Bank has supported Mozambique's poverty reduction strategy, and the two CASs maintained the same objectives but with some minor variations.** In 1999, the government had prepared an Action Plan for the Reduction of Absolute Poverty, which served as the basis for its Poverty Reduction Strategy Paper (PRSP), completed in 2001. The Government's Action Plan for the Reduction of Absolute Poverty (PARPA- the Portuguese acronym for the Poverty Reduction Strategy Paper) was part of the government's five-year program (2000–04)., The program's poverty reduction strategy was based on three pillars: (i) economic development (increasing economic opportunities in the 2000 CAS) through maintaining a sound macroeconomic environment, developing the financial sector, and strengthening the private sector; (ii) social development (improving human capabilities in the 2000 CAS) through improvements in health and education; and (iii) organization of the state (improved governance and empowerment in the 2000 CAS) through improvements in public service delivery, law and order, and transparency and accountability.

**The FY2001–03 CAS, which supported the government's poverty reduction strategy, focused on three pillars or objectives** that were further broken down into intermediate objectives as follows:

1. Increasing economic opportunities by:

   Strengthening the private sector environment and the financial sector
   Developing infrastructure
   Promoting rural development and agriculture and
   Ensuring sound environmental management.

2. Improving human capabilities by:

   Preventing and reducing the impact of HIV/AIDS

Improving health and
Improving education.

3. Improving governance and empowerment by:

Reforming the public sector and
Improving the rule of law.

**The FY2004–07 CAS constituted a continuation of the previous CAS by supporting the government's poverty reduction strategy.** The Bank support was mainstreamed across three similar pillars:

1. Improving the investment climate and sustaining GDP growth by:

Improving the business environment for the private sector
Reinforcing the regulation and supervision of financial systems
Sustainable management of natural resources and
Improving the delivery of infrastructure services.

2. Expanding service delivery by:

Reducing the incidence of HIV/AIDS
Improving coverage of health services
Increasing the access to and quality of the primary education system and
Increasing access to safe water and sanitation.

3. Building public sector capacity and improving governance by:

Improving budget allocation, execution and monitoring and
Improving governance, reforming the judicial system, reducing corruption, and enhancing accountability.

The 2006 CASPR, an assessment of the Bank's program during the first two years of implementation of the FY2004-07 CAS, retained the three pillars of the 2003 CAS, but it proposed harmonization of the outcome indicators in the CAS with the retrofitted Performance Assessment Framework (PAF) of the PRSP undertaken in 2006. The PAF is a matrix of policy and institutional reforms with results-focused monitoring indicators and progress benchmarks for which the government is prepared to be held to account and against which development partners would agree to provide budget support in more predictable ways (see FY04 CAS, box 7, page 22).

## Strategic Relevance of Bank Assistance

**Overall, the Bank's strategy was relevant to and consistent with Mozambique's development priorities as outlined in the five-year development plan, which incorporated the government's interim Action Plan for the Reduction of Absolute Poverty.** The FY01 CAS, by design and in agreement with the government, adopted the three pillars of the government's Five-Year Development Plan (FYDP), 2000–04: increasing economic opportunities, improving human capabilities, and improving governance and empowerment. In fact, the FY01 CAS incorporated the main substantive content of the

FYDP by stating how each of the major program objectives was to be assisted by specific Bank operations or services. The CAS went further and harmonized its targets and performance indicators with the monitoring plan of the FYDP and the PARPA.[1]

**The FY04 CAS, a continuation of the FY01 CAS, also supported the development objectives of the government as outlined in the PARPA.** The three pillars of the FY04 CAS were essentially the same as those of the FY01 CAS but with some minor variations, including program components.[2]

**The FY04 CAS also evaluated progress under the FY01 CAS.** The main lessons learned from this evaluation were: (i) the Bank needed to be more strategic and selective in its support; (ii) the design of Bank-supported projects should be simple, in line with the country's limited implementation capacity; (iii) recurring cross-cutting implementation risks needed to be realistically and consistently addressed; (iv) the Bank needed to improve monitoring of its own results and its assistance to the government in monitoring its PARPA results; and (v) the development partners needed to make a greater effort to improve the alignment of their support with the PARPA and to assist the government in improving its implementation capacity.[3] These findings were largely in line with the earlier IEG CAR recommendations.

In particular, the main improvements sought in the FY04 CAS, based on the experience with the previous CAS, were to embed this CAS in a more coordinated framework among the government and the large group of development partners, and to put more emphasis on the accountability of all concerned through the PAF and its process. In substance, the intent was to deepen and broaden the ongoing reforms that had been started under previous CASs.

It is noteworthy that a new Poverty Reduction Support Credit (PRSC) series was introduced in the FY04 CAS as a group of operations that would be ideal for promoting the desired improvement in coordination efforts among the government and the development partners (the Group of 11 [G11], in 2003, which subsequently grew into the G19).[4] This coordination took on a very practical shape when it was agreed in September 2003 that the government would develop the PAF.

**The alignment with the PARPA enabled the Bank to be selective and to capitalize on its comparative advantage under each of the three pillars.** Under Pillar I (growth), the Bank supported the government's long-term goal of sustaining GDP growth by improving the investment climate and facilitating infrastructure development. Under Pillar II (expanding social services), the Bank supported the government's effort in the area of human development and in improving the quality of life through interventions to control HIV/AIDS prevalence, reduce child mortality, improve access to safe water in urban areas, and increase access to basic and higher education. Under Pillar III (governance), the Bank helped the government to improve public expenditure management. The Bank also sought to help strengthen the rule of law, including systems supporting contract enforcement, and the enhancement of the government's monitoring and evaluation (M&E) capacity.

**In sum, this CPE affirms that the Bank's assistance strategy over the review period (FY2001–08) was relevant and closely aligned with the government's own overall economic development strategy and plans.** This alignment became even closer throughout the review period, as implementation matrices and benchmarks were also harmonized among the G19.

The two CASs essentially shared the same strategic objectives/pillars and covered the same policy areas.

The overall intent was to assist the government in its efforts to promote growth in order to improve the country's standard of living and to reduce poverty. The vision was that this could be achieved primarily through maintaining a stable macroeconomic environment and through promoting private sector initiative, particularly for small and medium-sized domestic enterprises and in agriculture. To that end, public sector performance needed to be improved through capacity-building measures and better governance, and human resources needed to be developed through the provision of improved education, health services, and water and sanitation. Very close coordination among the government and the development partners, including the Bank, helped mobilize the needed levels of financial assistance and increased the chances of its efficient use.

## The World Bank's Assistance Program

**The proposed assistance program in support of the Bank's strategy was generally consistent with the pillars of focus of the Bank and with Mozambique's poverty reduction strategy objectives.** The Bank's proposed program aimed to help the government achieve these objectives by providing $1.14 billion for 23 operations, as well as producing a number of analytic and advisory services. The proposed lending program is shown in table 2.1, with an indication of the pillar the project was meant to support as well as which project was implemented, delayed, or replaced. Although most of the proposed lending program was implemented, the Bank introduced credits not envisioned in the proposed lending program (though generally consistent with the areas of Bank focus) and met lending targets. The Bank's analytic work was relevant, of high quality, and well connected with the lending program. However, a number of gaps in the Bank's analytic work were identified and are discussed throughout this evalution.

**Lending by the Bank has been broadly consistent with the Bank's strategy of helping the government address poverty through the three strategic pillars**. Table 2.2 indicates that, to a large extent, the Bank's commitments captured the three pillars. Since 1998, IFC's committed portfolio has reached $495 million, covering the mining, power, and manufacturing sectors. The Multilateral Investment Guarantee Agency (MIGA) guarantees have totaled $311 million.

**Bank lending to Mozambique has been mainly in the form of investment credits, and recently through direct budget support.** During FY2001–08, Mozambique received 22 credits from IDA for a total of over $1.3 billion. Investment projects targeted infrastructure (Beira Railway Specific Investment Loan, Roads and Bridges Adaptable Program Loan); institutional development and capacity-building (Decentralized Planning and Finance Project, Financial Sector Capacity Project); and human development (Education Sector Strategy Project, the Technical and Vocational Education and Training Project). In line with the effort to implement the Paris Declaration on development partner alignment and harmonization and development effectiveness, direct budget support was introduced in FY05. The Bank also participated in sectorwide approaches (SWAps) in the agricultural sector (Agricultural Sector Public Expenditure Program, or PROAGRI) and in the education sector (Education Sector Strategy Program, or ESSP).

Table 2.1 FY2001 and FY2004 CAS-Proposed Versus Actual Commitments

| *CAS proposal/new* | | | *US$ million* | *Status/Actual (US$ million)* | | *Purpose* [a] |
|---|---|---|---|---|---|---|
| FY01 | Roads and Bridges APL | CAS | 80.0 | Delayed to FY02 | 162.0 | 1 |
| | Municipal development | CAS | 30.0 | Delayed to FY02 | 33.6 | 1, 2 |
| | Natural resource management | CAS | 10.0 | | 18.0 | 1 |
| FY02 | Energy reform | CAS | 20.0 | Delayed to FY04 | 40.3 | 1 |
| | Economic management/private sector | CAS | 100.0 | Delayed to FY03 | 120.0 | 1, 2 |
| | Rural action | CAS | 40.0 | Dropped | | 1, 2 |
| | Higher education | New | 60.0 | Replaces Skills Dev. | 60.0 | 3 |
| | Communications | New | 14.9 | | 14.9 | 1 |
| FY03 | Skills development | CAS | 80.0 | To FY02 | | 1, 3 |
| | Health SWAp | CAS | 40.0 | Dropped | | 3 |
| | Public sector/legal reform [b] | CAS | 54.0 | | 25.6 | 1, 2 |
| | HIV/AIDS [b] | New | 55.0 | | 55.0 | 3 |
| FY04 | Decentralized Planning and Finance | CAS | 42.0 | | 42.0 | 1 |
| | Southern Africa Power APL2 (regional) | CAS | 13.0 | | 30.0/18.5 | 1 |
| | National Water Development Project II Supplemental | CAS | 15.0 | | 15.0 | 1 |
| | PRSC 1 | CAS | 60.0 | Delayed to FY05 | 60.0 | 1, 2, 3 |
| | Energy Reform and Access | New | 40.3 | | 40.3 | 1 |
| FY05 | Beira Railway SIL | CAS | 70.0 | | 110.0 | 1 |
| | Sustainable Rural Development | CAS | 20.0 | Dropped | 20.0 | 1 |
| | Financial Sector Capacity | CAS | 10.0 | Delayed to FY06 | 10.5 | 1 |
| | Legal Sector Capacity | CAS | 5.0 | Dropped | | |
| | PRSC 2 | CAS | 60.0 | Delayed to FY06 | 120.0 | 1, 2, 3 |
| FY06 | Roads and Bridges 2 APL | CAS | 85.0 | Delayed to FY07 | 85 | 1 |
| | Technical and Vocational Education | CAS | 20.0 | | 30.0 | 3 |
| | PRSC 3 | CAS | 70.0 | Delayed to FY07 | 70.0 | 1, 2, 3 |
| | Market-Led Smallholder Development | New | 20.0 | | 20.0 | 1 |
| | Transfrontier Conservation | New | 20.0 | | 20.0 | 1 |
| FY07 | Public Sector Reform 2 | CAS | 20 | Dropped | | |
| | PRSC 4 | CAS | 70.0 | Delayed to FY08 | 120.0 | 1, 2, 3 |
| | Maputo Municipal Development | New | 30.0 | | 30.0 | 1 |
| | Market-Led Smallholder Development (GEF) | New | 6.5 | | 6.5 | 1 |
| | Water Sercives and Institutional Support | CAS | 15.0 | | 15.0 | 3 |

*Source:* FY2001 CAS, FY2004 CAS; for Actual Loans, World Bank data.
a. In support of pillar: 1 economic opportunity, 2 governance; or 3 human capabilities. b. Grant
*Note:* APL = Adaptable Program Loan; CAS= Country Assistance Strategy; FY= fiscal year; GEF= Global Environment Facility; HIV/AIDS= human immunodeficiency virus-acquired immune deficiency syndrome; PRSC= Poverty Reduction Support Credit; SIL = Specific Investment Loan; SWAp=Sectorwide Approach.

*Table 2.2 World Bank Lending by Major Groups, FY2001–08*

| | *Commitments (US$ m)* | *Share (%)* |
|---|---|---|
| Infrastructure [a] | 445 | 36 |
| PRSCs | 310 | 25 |
| Education/Health, Nutrition, Population/Social Protection | 160 | 13 |
| Economic policy [b] | 131 | 11 |
| Public sector governance | 68 | 5 |
| Urban development | 64 | 5 |
| Water | 30 | 2 |
| Environment | 20 | 2 |
| Agriculture and rural development | 20 | 2 |
| Total | 1,247 | 100 |

*Source:* World Bank internal database as of November 2008

a. Transport, energy and mining, and communications.
b. Includes financial and private sector development.
*Note:* FY= fiscal year; PRSC= Poverty Reduction Support Credit.

**The Bank's analytic and advisory work was relevant and of high quality, underpinning its operational program and its policy dialogue with the government.** For example, Country Economic Memoranda (CEMs of 2001 and 2005) provided the analytical underpinning for the Bank's support for the growth pillar of the respective CASs. The Bank analyzed financial and investment climate and provided recommendations for the operational work in these areas. Public Expenditure and Management Reviews addressed issues of expenditure priorities within a defined budget envelope. The original idea to carry on with public expenditure reviews (PERs) was abandoned after 2003, in favor of focusing on public financial management (PFM) under the PRSC series. The quality of policy dialogue was good. The client and development partners appreciated the candor and technical expertise of the Bank's analytical work.

However, some important analytical studies pertinent to the objectives of the CAS were dropped. These included the Poverty and Social Impact Analysis (PSIA) on agriculture, the Country Procurement Assessment Review, and the HIV/AIDS Retrospective Review proposed under the FY04 CAS (Annex table 5).[5] Instead, the Bank delivered 13 additional unprogrammed economic and sector work (ESW) reports (not foreseen in the FY04 CAS).

**A Quality Assurance Group (QAG) program review of the FY01 CAS AAA concluded that the quality of studies was generally satisfactory, but critical tasks were delayed.** The QAG report noted that several important pieces of high strategic relevance were postponed or dropped. These decisions, which affected more heavily the sectoral component of the AAA program, probably weakened Bank support to the country and left critical elements of the development strategy unattended. The last agriculture sector review was carried out in 1997, and the FY01 CAS-proposed rural development strategy study was delayed to FY05. Although it was discussed with the government, it was not published.[6]

## Overview of Strategy Implementation

**The implemented assistance program was broadly consistent with the Bank's strategy.** Although most of the prepared lending program was implemented, the Bank introduced credits not foreseen in the proposed lending program. These were generally consistent with the areas of Bank focus (table 2.1). Of the nine credits proposed in the FY01 CAS, three were postponed to other CAS periods, but IDA still gave six credits and two grants for a total of $489 million, compared to a planned amount of $584 million. Similarly, the implementation of the FY04 CAS slightly diverged from plan. The Bank delivered 14 credits, including three additional investment operations and one Global Environment Facility (GEF) credit that were not originally programmed. Total commitments were $659 million, compared to the proposed CAS amount of $560 million. In sum, of the 23 projects proposed in the CASs, only 16 were approved and 7 were dropped. Six new projects not foreseen in the CASs were prepared and approved (through fiscal 2007), bringing total approvals close to target.

**Delays were common.** Most operations were approved during the latter part of the CAS period, reflecting slippages in preparation. However, most of the proposed program was implemented. The main exceptions were projects in support of improving human capabilities under the FY01 CAS. Specifically, the Skills Development Project (tertiary, technical, and vocational training) was replaced by a Higher Education project and the proposed Health SWAp was delayed because of slow implementation of the previous health project. Similarly, the scheduling of the PRSCs encountered problems with respect to the preparedness of the government, which limited the timeliness of the sequence. The midterm CASPR of 2006 noted additional projects added to the portfolio (table 2.1) and midstream changes made to enhance the implementation of the FY04 CAS (including retrofitting of the Results Matrix), as well as aligning the PRSC with the budget cycle.

**Similarly, the Bank delivered fewer pieces of analytic work than proposed in its assistance strategy, but additional unprogrammed activities were delivered to make up for the shortfall.** Of the 11 ESW reports promised in the FY01 CAS, the Bank delivered three, plus two unscheduled reports—a Country Procurement Assessment Review (CPAR) and a Country Financial Accountability Assessment (CFAA). The FY01 CAS explicitly included 6 formal pieces of ESW, of which 3 (a PER (which was disclosed), and a legal reform review, and constraints to private sector report [which were not disclosed]) were concluded. Another 5 pieces were promised in the text of the CAS, none of which were completed. Four unprogrammed core diagnostic activities were added, but significantly less ESW was done than proposed in the FY01 CAS. Similarly, only 10 of the 18 pieces of ESW planned in the FY04 CAS were completed, although an additional 13 unprogrammed ESW products were delivered.

The 2007 CAS Completion Report (World Bank 2007a, Annex 6), a self-assessment of the FY04 CAS program, did not explain the factors behind the choice of the unprogrammed ESW or why a number of important studies were dropped. However, it did highlight problems with planning, coordination, funding, and dissemination. Analytical work was generally consistent with the areas of Bank focus, and the quality of studies was generally high, although it could have benefited from better programming, as well as been more demand-driven and better coordinated with other development partners, as will be discussed in later chapters.

## Portfolio Performance

**IEG ratings of projects outcomes that closed between FY01 and FY08 were generally satisfactory.** During this period, IEG reviewed 19 closed Bank-financed projects in Mozambique, representing about $1.1 billion in commitments (table 2.3). Of the 19 projects that exited the portfolio during FY2001–08, 10 had satisfactory outcome ratings, 7 had moderately satisfactory ratings, and the remainder had moderately unsatisfactory ratings. Therefore, nearly 90 percent (by number) of Bank-financed projects in Mozambique that closed between FY01 and FY08 had a satisfactory outcome, higher than the Bank average of 77 percent, and the Africa Region average of 67 percent. Mozambique also performed better than both the Africa Region and the Bank on institutional development impact and sustainability.

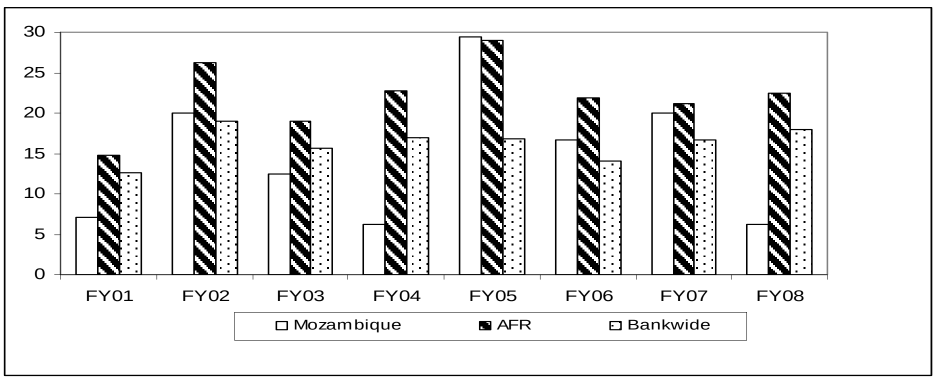
Table 2.3 Summary Evaluation of Outcome Findings (Exit Year FY2001–08)

| | *Total evaluated (US$M)* | *Total evaluated (number)* | *Outcome % satisfactory (US$M)* | *Outcome % satisfactory (number)* |
|---|---|---|---|---|
| Mozambique | 1,117 | 19 | 97 | 90 |
| Africa Region | 22,000 | 514 | 72 | 67 |
| Bank-wide | 149,375 | 2,142 | 83 | 77 |

*Source:* World Bank Internal Database as of March 2010.

**Nevertheless, portfolio quality has experienced some volatility.** The performance of the portfolio implementation was mixed during the FY2001–08 review period. It was rated low risk during FY2003–04 but deteriorated substantially in FY05 and improved marginally during FY2006–07 (figure 2.1). There were two reasons for the deterioration in the portfolio: slow project start-up, and slow disbursement that could be traced to problems with procurement, financial management, and counterpart funding.

Figure 2.1 Percentage of Projects at Risk, FY2001–08




*Source:* World Bank Internal Database as of March 2010.
*Note:* AFR= Africa Region; FY= fiscal year.

In sum, the Bank's strategy was relevant, but implementation diverged somewhat from the original plan. Of the 23 projects proposed in the two CASs, only 16 were approved and 7 were dropped. Six new projects not foreseen in the CASs were prepared and approved (through fiscal 2007), bringing total approvals close to target. The credits that were not foreseen in the original lending program were consistent with the areas of Bank focus and within lending targets. Similarly, of the 29 ESW reports promised, the Bank delivered 13, plus an additional 15 unprogrammed reports. An important aspect of the Bank's operational programs is that there have been significant delays in project preparation, effectiveness, and implementation. Disbursements on several infrastructure projects were slow, and closing dates were extended for several projects.

# Chapter 3
# Pillar I — Stabilization and Growth

Under this pillar, Bank assistance emphasized macroeconomic management and financial and private sector development, rural development and sustainable management of natural resources, and improved delivery of infrastructure services. The bulk of the Bank's activity, especially its lending, was directed toward this pillar. In particular, the development policy lending, the PRSC series, and the Enterprise Development Project, complemented by analytic work in the CEM, the PER, Doing Business Surveys, and targeted sector studies, such as the Poverty, Gender, and Social Assessment, were the main instruments through which the Bank sought to achieve its strategic objectives and the associated outcomes or results. This chapter examines progress toward achieving these CAS objectives.

## Macroeconomic Management, Financial, and Private Sector Development

*The Bank's assistance strategy*. The Bank's assistance, as reflected in the two CASs that framed Bank support during the evaluation period, was directed at a number of policy and institutional development areas: maintaining a stable macroeconomic environment, improving financial sector performance, promoting a better climate for private investment through legal and regulatory reform, extending business services and lines of credit to enterprises, and providing technical assistance to key institutions involved in financial sector development (FSD) and private sector development (PSD).

*The Bank's program*. The Bank's program in macroeconomic management, FSD, and PSD consisted of six operations approved during FY2001–08 (table 3.1): the Economic Management and Private Sector Operation (EMPSO), and the Financial Sector Technical Assistance Project, as well as four PRSCs. In addition, the Enterprise Development Project was approved in 2000 and active during the evaluation period. The Bank's program also included seven major pieces of analytical work (Appendix A, table A.11), in addition to policy and operational dialogue with the government that often also involved other stakeholders such as development partners and civil society in Mozambique.[1]

*Macroeconomic performance*. **Mozambique's overall macroeconomic performance was strong when measured by standard aggregate indicators, such as growth, fiscal balance, inflation, balance of payments, and external debt.** Over the past 15 years, Mozambique's GDP growth has averaged 7-8 percent per year, to a large extent the result of political stability and economic policies that supported growth and low inflation (table 3.2). With population growth at about 2 percent, average annual per capita GDP growth over the review period stood at about 6 percent. The largest share of this growth originated in the industrial sector, followed by services and agriculture. However, despite this growth, and given the low base from which it had started, Mozambique remained among the poorest countries in the world, with an average per capita income that, in 2007, ranked 195 out of 209 rated countries, using the World Bank Atlas method. Inflation was reduced considerably, and the fiscal balance improved in response to some revenue-raising measures supported by the Bank. The performance of exports and the external account was good, due mainly to exports by the mega-projects.

Table 3.1 World Bank Interventions under the Macroeconomic Management, Financial, and Private Sector Subpillars

| *World Bank Interventions* | *Date FY* | *Measures/actions Supported* |
|---|---|---|
| Macroeconomic Management | | |
| Economic Management and Private Sector Adjustment Credit (EMPSO) | 2003 | The EMPSO component that covered macroeconomic stability expected the government to keep within the overall targets for selected macroeconomic indicators under an IMF program. These targets were achieved. |
| PRSCs 1–4 | 2005-08 | Transfers under the PRSC series helped fund the budget, stabilizing the real economy. Prior actions ensured some increased domestic revenue mobilization, and those actions aimed at public expenditure management helped improve government capacity in this area. In addition, the PRSCs allowed the Bank to be an active participant in the dialogue on macroeconomic management, even though the IMF took the lead. |
| Financial Sector Development | | |
| Enterprise Development Project (EDP) | 2000 | A component of EDP tried to facilitate access to investment finance through lines of credit, with disappointing results, particularly with regard to utilization by small and medium enterprises (SMEs). |
| Financial Sector TA Project | 2006 | The project helped improve the balance sheet of the central bank and its capacity to regulate and supervise financial institutions. It also aided in the adoption of international accounting reporting standards, which have helped to improve the assessments of financial performance. The project led to a modest increase in competition within the banking system, and some improvement in the overall environment of the financial system. |
| PRSCs 1-4 | 2005-08 | A small selection of prior actions supported by the series related to FSDhelped spur, for instance, presentation of a new Financial Institutions Law to the National Assembly. |
| Private Sector Development | | |
| Enterprise Development Project | 2000 | The project provided useful business extension services, and helped strengthen three government agencies that deal directly with business development. It tried to facilitate access to investment finance through lines of credit, with disappointing results (see above). |
| Economic Management and Private Sector Adjustment Credit (EMPSO) | 2003 | The project helped liberalize the telecommunications and air transport sectors. |
| PRSCs 1-4 | 2005-08 | These series supported a number of procedural measures to improve the business environment, which helped to reduce the time needed to register land and businesses and to facilitate visas for foreign workers. Less progress was made in moving forward with legislation for judicial courts and for a Notary Code. |

*Source:* World Bank documents.
*Note:* EDP= Economic Development Project; EMPSO= Economic Management and Private Sector Operation; FSD= financial sector development; IMF= International Monetary Fund; PRSC=Poverty Reduction Support Credit; SME= small and medium enterprises; TA= technical assistance.

**Macroeconomic stability as a precondition for sustained growth has been a major policy objective of the Bank, the IMF, and government programs.** Substantial quick-disbursing assistance from IDA (through DPLs and PRSCs) helped stabilize the economy, making the financing of a given deficit level easier. The Bank was one of the largest providers of budget support, although there is general agreement that the Fund has been the leader on macroeconomic policy. Nevertheless, the Bank was centrally involved, both in the general dialogue and in supporting specific measures (for example, as in the PRSC series, where prior actions ensured consistency with ongoing IMF-supported programs). Together with the IMF and the AfDB, therefore, the Bank helped Mozambique improve its external debt position and enhance macroeconomic stability. The country's ratios of total debt outstanding and debt service-to-GDP improved appreciably during the evaluation period, in large part owing to the effects of the debt relief provided under the Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) (see chapter 7).

Table 3.2 Key Macroeconomic Indicators, 2001–08

| *Indicator* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* |
|---|---|---|---|---|---|---|---|---|
| GDP growth (%) | 11.9 | 8.8 | 6.0 | 7.9 | 8.4 | 8.7 | 7.0 | 6.5 |
| GNI per capita (US$) | 230 | 230 | 230 | 260 | 290 | 310 | 340 | 370 |
| Population growth (%) | 2.5 | 2.5 | 2.5 | 2.4 | 2.2 | 2.1 | 1.9 | 1.9 |
| GDP per capita growth (%) | 9.1 | 6.1 | 3.5 | 5.4 | 6.4 | 6.4 | 5.0 | 4.5 |
| Agriculture, value added (annual % growth) | 9.7 | 11.1 | 5.4 | 4.8 | 6.5 | 10.9 | 6.6 | 7.0 |
| Industry, value added (annual % growth) | 23.6 | 9.8 | 14.5 | 12.3 | 6.4 | 9.1 | 6.6 | 8.4 |
| Services, value added (annual % growth) | 11.5 | 5.4 | -1.6 | 8.5 | 11.4 | 7.9 | 6.4 | 6.4 |
| Inflation (CPI %) | 9.0 | 16.8 | 13.4 | 12.7 | 7.2 | 13.2 | 8.2 | 10.3 |
| Gross investment (% of GDP) | 20.0 | 30.0 | 22.3 | 18.7 | 18.7 | 19.0 | 19.2 | |
| (Public) | (14.0) | (12.2) | (10.5) | (9.7) | (8.6) | (11.8) | (12.7) | |
| (Private) | (6.0) | (17.7) | (11.8) | 8.9 | (10.4) | (6.9) | (7.1) | |
| Exports (% of GDP) | 24.6 | 28.3 | 29.0 | 32.1 | 32.9 | 39.9 | 37.6 | 32.0 |
| Imports (% of GDP) | 40.9 | 43.4 | 45.2 | 40.7 | 42.3 | 45.7 | 44.3 | 42.0 |
| Current account balance (% of GDP) | -16.1 | -20.7 | -17.5 | -10.7 | -11.6 | -10.9 | -9.8 | -10.0 |
| External debt (% of GNI) | 129.3 | 125.0 | 86.9 | 89.8 | 73.9 | 47.5 | 44.0 | |
| Debt service (% of GNI) | 2.4 | 1.9 | 1.9 | 1.4 | 1.4 | 0.8 | 0.6 | |
| Budget deficit (including grants, % GDP) | -6.1 | -7.0 | -4.5 | -4.4 | -2.3 | -1.7 | -3.9 | |
| Budget deficit (excluding grants, % GDP) | -19.9 | -17.3 | -14.0 | -11.7 | -8.9 | -12.5 | -13.5 | |
| Current revenues (excluding grants, % GDP) | 12.4 | 12.4 | 12.9 | 12.6 | 13.6 | 14.0 | 16.4 | |
| Total expenditures (% of GDP) | 32.1 | 30.0 | 26.5 | 24.5 | 22.0 | 25.1 | 29.7 | |
| Capital expenditures (% of GDP) | 18.6 | 16.1 | 12.2 | 10.2 | 8.6 | 11.9 | 11.9 | |

*Source:* World Bank (World Development Indicators) and internal World Bank database, March 2010).
*Note:* CPI= consumer price index; GDP= gross domestic product; GNI= gross national income.

**Despite the country's strong growth and positive macroeconomic performance, however, several concerns remain.** Although inflation was significantly reduced from its high level of over 30 percent during 1994–98, it fluctuated during the review period, averaging 12 percent. Thus the threat of some level of macroeconomic instability lingered, especially in the face of the sharp increases in global food and fuel prices in 2007–08, as well as of the overall uncertainty surrounding global developments in primary commodities markets. Second, the pace of growth has been fueled to a large extent by ODA, the sustainability of which is unclear, particularly in the wake of the global financial crisis and recession. In addition, growth has been driven by agricultural catch-up (until about 2003), and by private investment in physical capital. However, it has not been evenly distributed and has had limited impact on employment creation.

*Financial sector development*. The Bank's assistance program in FSD consisted of the Financial Sector Capacity Building Project (which closed in FY01), the 2006 Financial Sector TA Project, as well as a selection of prior actions in the PRSC series. These interventions aimed to improve the soundness and efficiency of the banking system, broaden the base of financial intermediation, and improve access to credit, particularly by small and medium enterprises (SMEs) and micro-borrowers, at a lower cost. The programs dealt primarily with strengthening the capacity of the central bank to develop better prudential regulations and supervise their implementation, withdrawing the state from the banking system by privatizing the two large state banks, and adopting a new Financial Institutions Law. Key nonlending deliveries included some advice on the financial sector in 2001, and a more formal assessment (undisclosed) in 2004. IFC support to strengthen financial markets is discussed below.

**Some of the main intermediate outcomes that were achieved, and can plausibly be linked to these measures, included increased capacity on the part of the central bank to regulate and supervise financial institutions, including banks, and the adoption of international accounting reporting standards, which have helped to improve assessments of financial performance.** These results can reasonably be assumed to have contributed to higher-level outcomes, such as a modest increase in competition within the banking system and some improvement in the overall environment of the financial system.

**The balance sheet of the central bank showed significant improvement following the Bank's FSD assistance program.** This program was also associated with steady improvement in the soundness of the banking system after 2001, including, for example: (i) nonperforming loans dropped dramatically from over 50 percent of gross loans in the mid-1990s to less than 6 percent by 2004, and further to about 3.3 percent by 2006; (ii) the average return on equity within the banking system improved significantly; and (iii) the capital adequacy ratio increased from 2 percent in 2000 to 14 percent in 2008. Thus, the main objectives of FSD reforms were largely met during a period when, according to a senior central bank manager, Mozambique had spent about five years at the turn of the millennium cleaning up the positions of the two largest privatized banks and avoiding a major financial crisis. Against this backdrop, the Bank's support was relevant and substantive.

**This good overall performance notwithstanding, some shortcomings were evident, and major challenges remain.** Topping the list of concerns are the relatively high cost of borrowing (interest rate spreads in early 2009 were still around 11 percent, and interest rates to SMEs exceeded 30 percent), and the very limited access to credit, particularly for SMEs and micro-borrowers. In fact, according to the most recent Investment Climate Assessment (ICA) of 2008/09, the proportion of SMEs (defined in the ICA as enterprises with 11 to 100 employees) that have accessed credit dropped from 35 percent in 2002 to 13 percent in 2008.[2] An even more pronounced problem has been the absence of any significant amount of credit for the smallest business ventures, particularly for start-ups, especially in rural areas.[3]

In addition to the relatively high cost of borrowing, factors that contributed to the limited access to credit by SMEs include: (i) the banks' requirement that SMEs submit audited accounts with their loan applications, a major stumbling block for most SMEs in a country with very few chartered accountants; (ii) the application process itself is bureaucratic and burdened with considerable paperwork; (iii) the scale of operations of SMEs in the country is small for the minimum size of the loans that the banks are willing to consider ($50,000 equivalent, whereas in Mozambique most SMEs normally require loans in the range of about $2,000-3,000 equivalent); (iv) banks in the country tend to be very conservative and highly risk-averse, preferring to invest in established, larger businesses, treasury bills, or to deposit their funds outside the country; (v) the modest level of rural infrastructure makes it difficult for the banks to extend their business to the countryside (the number of districts covered by banking services increased from 28 in 2007 to 45 in early 2009, out of a total of 128 districts. There were 14 banks, the top 4 of which accounted for about 80-85 percent of total assets of the banking system); and perhaps most importantly (vi) collateral represents a major obstacle as it is not possible to use land or land-use rights as collateral.[4]

*Private sector development*. The Bank's assistance program emphasized growth through greater private sector investment. Key measures implemented in the context of the Enterprise Development Project (EDP), the Economic Management and Private Sector Adjustment Credit (EMPSO), and the PRSCs included a number of procedural, legal, and regulatory measures to improve the business environment for the private sector. Measures also included the provision of business extension services, lines of credit to develop the SME sector, and technical support to improve the capacity of some relevant government agencies. In addition, measures were targeted to privatization and liberalization of two sectors (telecommunication and air transport), further increase competition, and a marginal reduction of the top duty on the import of consumer goods over what had been provided in previous periods. Key nonlending deliveries included an analysis of constraints to private sector development in 2003, and of public sector competitiveness in 2005. IFC support to PSD is discussed separately.

Some of the main intermediate outcomes that can plausibly be linked to these measures included a reduction in the time it takes to register businesses (which fell just short of the 40 percent decline projected in the CAS), increased competition in the telecommunications, air transport, and banking sectors, and a very modest improvement in the governance environment, whereby businesses could resort to the courts to arbitrate matters related to commercial practice, labor relations, or corruption (although the commercial courts continue to suffer from a long backlog of unattended cases [see chapter 5 for more details]). [5]

**On balance, the Bank's objective of improving the business environment for the private sector was partially achieved.** The reduction in the time required to register a business was not accompanied by similar improvements in other aspects of the business environment. Now it takes more than 1,000 days to resolve a business dispute, twice as long as in 2004, and businesses have to wait longer to deal with licenses, 364 instead of 212 days. Closing a business today takes as long as it took in 2004 (5 years).

According to the Doing Business Indicators, in 2008 Mozambique ranked about 140 out of 181 countries listed. According to a survey conducted in the course of preparing the 2008/09 ICA, the most significant obstacles to a better business environment were, in rank order: (i) practices of competitors from the informal sector; (ii) access to finance; (iii) tax rates; (iv) crime, theft, and disorder; (v) transportation; (vi) electricity; and (vii) corruption. It is both interesting and revealing that corruption was at the bottom of this list, whereas practices of competitors from the informal sector (such as avoiding bureaucratic red tape and taxation, since such firms typically are not registered) topped the list. Access to finance ranked a close second. Access to finance had topped the list in a similar 2003 survey, and corruption ranked third.

**Progress in the development of the SME sector, a major objective of Bank support, has also been slow—** this after the dramatic initial strides during the 1990s when most public enterprises were privatized, prices and external trade were liberalized, and the overall macroeconomic and policy environment was transformed to be supportive of private sector growth. The Bank-supported Enterprise Development Project (EDP) appears to have successfully provided some business extension services to SMEs, and some TA to strengthen several government agencies working in this field. However, its credit line component for small borrowers faltered and had to be modified to allow larger firms to borrow so that the credit line could be disbursed. With hindsight, the Bank's assumption that lending to SMEs would increase if banks gained access to term lending proved too optimistic as it underestimated the banks' risk-averse nature and the SMEs' limited managerial and technical capacity to manage the loan application process.

**On balance, the outcome of the Bank's interventions to support the subpillar objective of improving PSD fell short of the target.** Although the large export-oriented and capital-intensive mega-projects may have done well because of their special negotiated conditions and ability to circumvent many of the administrative barriers faced by local investors, domestic enterprises (especially SMEs) face sharper resource constraints and administrative barriers to doing business. They contributed only modestly to exports and growth. In turn, the contribution of PSD to generating employment and spreading the benefits of growth has been small.

**The question arises as to whether Bank support in this area could have been more effective if it had taken a different form or used different instruments.** One reason cited for the relative success of the Bank's assistance in FSD was that PRSCs incorporating FSD-related prior actions were accompanied by a dedicated technical assistance operation (Financial Sector Technical Assistance Project [FSTAP]). This could be a partial explanation. However, the EDP, which just preceded the beginning of the PRSC series, included two TA components, the implementation of which was relatively successful (it was the line of credit component that faltered, and that was associated at least as much with the FSD area as with the PSD area).

An alternative or additional explanation for the relatively lackluster results in PSD may simply be that it is inherently difficult to succeed in this complex, multidimensional area. For instance, in both macroeconomic management and FSD, there are significantly fewer "players" that need to be involved to implement reform measures: a few key economic ministries (such as Finance, Planning and Development, Trade), the central bank, and a few others. By contrast, for PSD-related reform measures, the number of players is much larger, and not as much within the control of the government. By their nature, matters related to governance, the judicial and regulatory environment, widespread petty corruption, dealing with a business community with diverse views, training a labor force in a country with a generally low level of education, and penetrating a very large and underdeveloped rural sector are daunting objectives. Moreover, entrepreneurship is a very important ingredient for PSD— one which cannot be legislated, forced, or rapidly created.

**In sum, the outcome of Bank support for macroeconomic management merits a rating of *satisfactory*, although it is clear that the success of the program cannot be reasonably attributed solely to the Bank.** The country's ability to maintain an annual growth rate that averaged 7 to 8 percent for almost 15 years was a commendable achievement, keeping in mind the dire conditions that had prevailed at independence. The Bank and the Fund supported this outcome. The main objectives of Bank assistance for FSD reforms were largely met, except for progress in the extent of financial intermediation and access to finance, particularly by SMEs.

**The overall outcome of Bank support to FSD merits a rating of *moderately satisfactory*.** In comparison to the results achieved in the macroeconomic and FSD areas, the PSD results have been below expectations. As an enclave, the mega-projects may have done well because of their special circumstances. However, they have so far generated relatively minor benefits in terms of employment and linkages with the rest of the economy. The performance of the broader-based, smaller domestic businesses remains very sluggish. Hence, the overall contribution of PSD to generating employment and spreading the benefits of growth has not been significant. **The overall outcome of the Bank's support to PSD to date is judged *moderately unsatisfactory*.**

## Rural Development and Sustainable Management of Natural Resources

*The Bank's assistance strategy.* Strong growth in the agricultural sector was a core strategic objective of the FY01 CAS, reflecting the government's priorities in the PARPA. The basis for this objective was that since "most of the poor are subsistence farmers, promoting agricultural growth and rural development is critical to reducing poverty over the short to medium term."[6] A necessary condition for growth was the improved capacity of small-scale farmers to generate surplus production, as well as access to markets for selling these surpluses. The FY04 CAS focused considerable attention on the agricultural sector as a source of growth and poverty reduction, aimed to support an increase the use of new farm technologies, and emphasized the importance of improving productivity in the smallholder subsector.

**In 1997, the Bank prepared a comprehensive overview of the agricultural sector that described and analyzed its important characteristics and strengths, reviewed the constraints to growth, drew conclusions about the sector's potential for future development, and suggested an agricultural development strategy.**[7] The proposed strategy emphasized the improvement of incentives for small-scale farmers to produce a surplus and the role of government to provide support services, such as extension services.

Both the FY01 and FY04 CASs planned to deliver a rural development study that would update the 1997 sector overview and would be a critical input into the country's rural development strategy and PARPA.[8] This study was eventually completed as a draft agricultural development strategy and discussed with the government in a formal workshop on September 27, 2005. Although the report was subsequently revised, it remained in draft. [9]

**The Bank's strategy for natural resource management, in collaboration with the government, the Global Environment Facility (GEF), and the private sector, is to develop frameworks for forestry and wildlife management in the Transfrontier Conservation Areas (TFCAs) and in the Maputo Corridor, which provides wildlife with access to their migration routes.** These frameworks were to take into account Mozambique's wide diversity of mountainous, woodland, wetland, and coastal marine ecosystems. These large areas are important both for their biodiversity and because they contain traditional corridors for large-scale animal movements. Many of Mozambique's national parks are adjacent to South Africa's Kruger National Park and represent valuable tourism assets. However, the FY04 CAS planned no analytical work on Mozambique's natural resources.

*The Bank's program*. When the FY01 CAS was prepared, a SWAp for the agricultural sector (Agricultural Sector Public Expenditure Program, PROAGRI, with IDA financing of $30 million and cofinancing from development partners of $162 million) had already been approved in 1999, and was being implemented (table 3.3). PROAGRI covered many core activities in the Ministry of Agriculture and Rural Development, such as research, extension, crop production, livestock, forestry and wildlife, irrigation, and land management. The main objective was to improve the impact of public expenditures in the sector by strengthening the decentralized management of the ministry, improving support services to agriculture at the provincial and district level, and ultimately improving farmers' productivity, thereby increasing their incomes and reducing poverty. A related objective of PROAGRI was to harmonize the financial contributions of all development partners to the agricultural sector and strengthen a central ministerial capacity. These objectives reflected the government's strategic objectives.

Table 3.3 Rural Development and Sustainable Management of Natural Resources Projects

| *World Bank Interventions* | *Date, FY* | *Measures/actions Supported* |
|---|---|---|
| Rural Development | | |
| Agricultural Sector Public Expenditure Program (PROAGRI) | 1999 | Although PROAGRI provided significant institutional support to the Ministry of Agriculture and Rural Development, it was not successful in achieving a number of other objectives, such as "increases in agricultural production and productivity"—one of the main impact indicators for PROAGRI and the CASs. |
| Market-Led Smallholder Development | 2006 | This project aimed to increase the average income small-scale farmers and achieve sustainable land management. It experienced delays. |
| PRSCs 1-4 | 2005-08 | The triggers related to agriculture have been very modest in their contributions to progress on either policies or technical issues in the sector. The PRSCs have so far not provided a platform for dialogue on the agricultural sector as originally intended. |
| Natural Resource Management | | |
| Coastal and Marine Biodiversity Management | 2000 | Although there were some positive achievements, such as biological monitoring of marine ecosystems and strengthened capacity for environmental management by communities, several prominent project |

| | | |
|---|---|---|
| | | objectives, notably the protection of coastal habitats and private sector tourist development, were not achieved. |
| Transfrontier Conservation Areas and Tourism Development Project | 2006 | The aim is to achieve growth in community-private sector led sustainable tourism in the TFCAs, and to increase the area and sustainability of biodiversity. The project is under implementation (expected to close by 2013), and it is still too early to assess its outcome. |

*Source:* World Bank documents.
*Note:* CAS= Country Assistance Strategy; FY=fiscal year; PROAGRI=Agricultural Sector Public Expenditure Program; PRSC= Poverty Reduction Support Credit; TFCA=Transfrontier Conservation Area.

It was anticipated that the Bank would continue its support for a second phase of PROAGRI. However, because it was not successful in achieving several objectives, the FY04 CAS announced that instead further IDA support for agriculture would consist of "policy dialogue and analytical work provided to the Ministry of Agriculture and Rural Development through the Bank's PRSC missions, with financing provided through the PRSC" (FY04 CAS, page 27).

The FY04 CAS also indicated that a Sustainable Rural Development project was being prepared (possibly as a follow up to the Rural Rehabilitation project), but it was not listed in the base case lending program.[10] That project did not emerge, but following discussions with the government, the Bank agreed to finance the 2006 Market-Led Smallholder Development Project in the Zambezi Valley, to which IDA contributed $20 million and the GEF contributed $6.5 million. The project's aim is to address the development of small-scale farming and sustainable land management. The project's development objective is to increase the incomes of small-scale farms as measured by a target of a 30 percent increase in the average agricultural incomes of 20,000 project beneficiaries over six years. This would be accomplished by using improved technologies introduced through the project with the aid of improved extension, market access, and investment for rural development. It is a difficult operation, to be implemented by an institution that is gradually gaining capacity in project management, with many components aimed at increasing the incomes of smallholders in the Zambezi Valley. These smallholders are caught in a low-level subsistence trap with few current prospects for marketing a surplus. Therefore, they have weak incentives to use the improved technology. The project is relevant to the government's strategic objectives and to the CAS.

Regarding natural resource management, the Bank first assisted the Coastal and Marine Biodiversity Management Project ($5.6 million) in association with the GEF ($4.1 million) in 2000. This pilot project was also intended to be the first phase of a two-part series of projects in the TFCAs. The objectives were to test a strategic integration of conservation measures with regional economic development, establish protection and conservation areas including community conservation activities, and build stakeholder capacities and public awareness of biodiversity. They were relevant to the government's strategic objectives and to the CAS. The second project, financed by the Bank in 2006, was the Transfrontier Conservation and Tourism Development Project ($13.9 million), cofinanced with the GEF ($10 million), which was based on the experience and lessons of the first project. Its aim is to achieve growth in community-private sector led sustainable tourism in the TFCAs and to increase the area and sustainability of biodiversity.

*Progress toward achieving Bank objectives.* **Although PROAGRI provided significant institutional support to the Ministry of Agriculture and Rural Development, it was not successful in achieving several other objectives**, such as "increases in agricultural production and productivity"—one of the impact indicators for PROAGRI and the CASs.[11] Box 1 examines overall agricultural growth and productivity. This evaluation agrees with the IEG Implementation Completion Report Review of PROAGRI that rated its outcome *moderately unsatisfactory* based on the incomplete reorganization of the Ministry of Agriculture and Rural Development as well as the insignificant impact of the ministry's institutions and support services, such as extension, on agricultural productivity and land policy. In addition, the monitoring and evaluation (M&E) program for the project was weak and offered very little evidence on outcome and impact.[12]

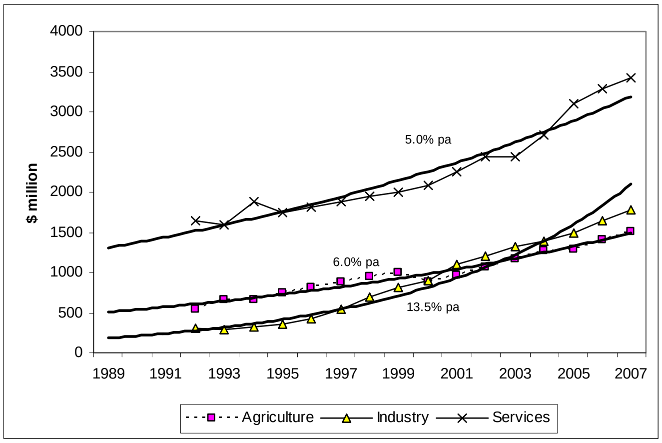
PROAGRI did, however, establish a new vision for the ministryduring the second phase of PROAGRI. To the extent that it continues to be supported by the government and a number of development partners, the risk to development outcome is considered moderate. The coordination of development partner assistance to the agricultural sector had improved during PROAGRI. Development partners were dismayed when the Bank decided not to support the second phase of PROAGRI, and to continue policy dialogue and analytical work under the auspices of the PRSCs instead.

### Box 3.1: Overall Agricultural Growth and Productivity

From the mid-1990s, average growth rates in the agricultural sector were substantially lower than those for the industrial sector. However, the sector held its own against the growth of the large service sector (Figure 3.1). Although agriculture employs at least 60 percent of the nation's labor force, it has the lowest labor productivity of any sector in the economy. It also has the highest incidence of poverty because, with only 20 percent of GDP, it supports about 70 percent of all of Mozambique's households. Therefore, public and private investments in the sector are critical to reducing poverty.

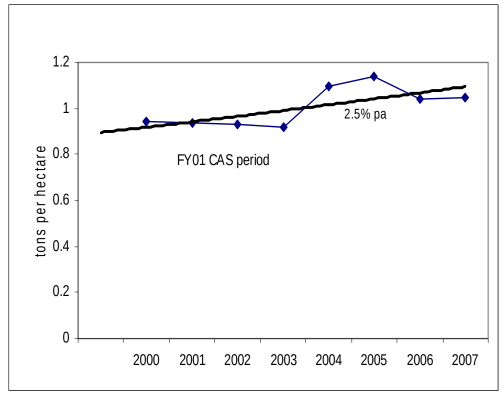
It has been widely accepted that achieving a high sustained growth rate in agriculture will depend heavily on a major increase in productivity rather than increases in area harvested, which result from the regular expansion of agricultural production by many small-scale farmers into virgin forests.[13] Low productivity in maize production (the most important grain crop in Mozambique)[14] illustrates the challenges for achieving growth.[15] Figure 3.2 shows how poorly the yields of maize compare with those in neighboring countries where maize is grown under similar agronomic conditions. In viewing the situation in the context of the two CAS programs, both of which emphasized improved agricultural support services, average yields for maize between 2000 and 2003 declined slightly by 1 percent per annum. This occurred despite a production increase by an average rate of about 5 percent per year, which was driven by a 6 percent annual increase in the area of maize harvested. Subsequently, average yield did rise in 2004 and 2005 during two drought years as area harvested declined, only to drop back again in 2006 and 2007 to about the same level as in 2000 (figure 3.3).

Figure 3.1 GDP Trends for Major Sectors, 1992–2007




*Source:* IEG estimates using World Development Report data.
*Note:* GDP= gross domestic product.

Figure 3.2Trends in Average Maize Yields, 2000–07

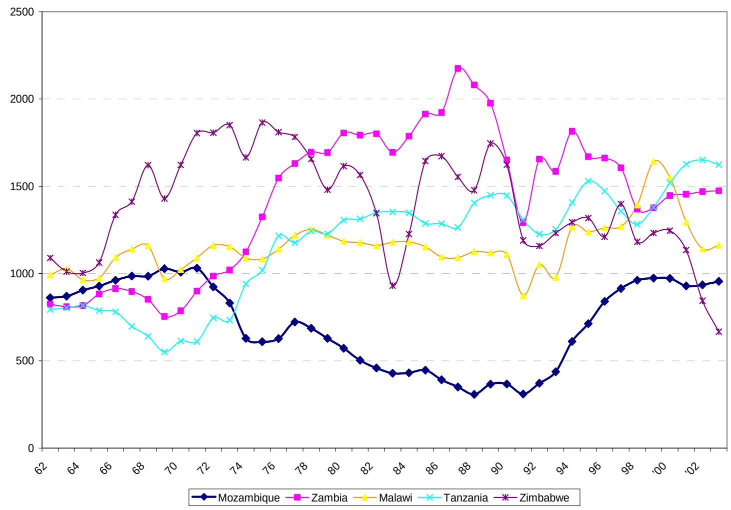



*Source:* FAOSTAT ( UN Food and Agricultural Organization Statistical) Database.
*Note:* CAS= Country Assistance Strategy.

Table 3.4 shows substantial gaps between average actual yields for all of the major crops produced in Mozambique compared with their potential. Technologies to increase yields are already available for many crops, but the constraints to increasing agricultural productivity in Mozambique are substantial. Support services remain weak and access to markets for increased production is very limited. Farmers are highly unlikely to use improved technologies to produce a surplus without assured markets.

Even if increased productivity in agriculture is achieved, marketing facilities and access to markets and transport systems in Mozambique will need to improve. These improvements will need to be mainly structural and institutional, with a balance of responsibility for action between the role of the public sector (transport infrastructure) and the private sector (progressive farmers, marketing facilities, and transport services). To illustrate the possibilities for improved access to markets, Zimbabwe and Zambia currently have significant maize deficits on a regular basis, and are therefore important international markets for Mozambique's surplus maize. However, much of the trading activity is rudimentary. There is inadequate information on market prices, and on the largely informal trade that frequently uses bicycles to transport maize long distances from farms to border areas.

Figure 3.3 Maize Yields in Mozambique and Neighboring Countries, 1962– 2003 (kg/ha)




*Source:* Internal World Bank estimates, and Perumalpillai-Essex, et al. 2005 based on FAOSTAT database, three-year moving averages. See also Jacob Kampen and Daniel Da Cruz Sousa 2008.
*Note:* kg/ha= kilogram per hectare.

Figure 3.4 Estimated Actual and Potential Yields for Major Crops

| Crop | Estimated Average Actual Yield | Estimated Potential Yields |
|---|---|---|
| | (tons per hectare) | |
| Maize | 0.9 | 5.0 – 6.5 |
| Sorghum | 0.4 | 0.8 – 2.0 |
| Rice | 1.0 | 2.5 – 6.0 |
| Beans | 0.5 | 0.5 – 2.5 |
| Cassava | 6.0 | 5.0 – 10.0 |
| Cotton | 0.5 | 1.0 – 2.0 |

*Source:* Perumalpillai-Essex, et al. 2005 based on data from Aviso Previo, Ministry of Agriculture and Fisheries and Howard et al. (1998).

**The PRSCs have thus far not provided an effective platform for dialogue on the agricultural sector, as foreshadowed in the FY04 CAS.** This dialogue, which took place within the context of the donor working group on agriculture, formulated PRSC triggers that have made only modest contributions to progress on either policies or technical issues in the sector. In addition, because of the weak monitoring and evaluation of the PRSCs' outcomes, it is difficult to evaluate the impact of the few actions that have been completed. For example, under PRSC 2, the trigger on the commercialization of grain production (maize, sorghum, and rice) by the formal sector was met, but the target was only 16 percent. For the same PRSC, the proportion of poultry farmers assisted by public extension and vaccination to combat Newcastle disease, and the proportion of cattle producers whose animals were vaccinated against anthrax and black leg, fell short of targets. PRSC 3 provided support for increased access by small-scale farmers to improved agricultural technologies through extension services. This was to be measured by the proportion of farmers who had adopted at least one new technology in 2006, which was in line with the CAS objective. This condition was not met by the end of 2006, and the issue was referred to the highest level of the government. Action was taken, and in the course of a mid-year review in September 2007, it was concluded that this condition would be met by the end of 2007. To date, however, there is no evidence that the improved extension service has had any net impact.

**A number of PRSCs required the rehabilitation of specified areas of irrigated land, but there is no evidence regarding the net benefits of the rehabilitation or new development.** Under the PRSCs, irrigation schemes that were rehabilitated or constructed reached 2,524 hectares as against the target of 2,900 hectares.[16] PRSCs 3 and 4 included support for the construction or rehabilitation of 3,200 and 4,000 hectares of irrigation schemes, which were triggers for the release of PRSC 4 and 5, respectively.[17] It is unclear why the rehabilitation and construction of irrigation schemes were included as triggers for the PRSCs because they involved substantial capital expenditures for the government with uncertain payoffs.[18] It is also unclear whether there was any net impact from the rehabilitation and construction of irrigation areas, whether that work benefited the poor in rural areas, or whether maintenance programs were in place.

**The Bank's objective of fostering "policy dialogue and analytical work" was only partly achieved.** The Bank completed but did not publish the Agricultural Development Strategy. This is unfortunate, because it is well known that the Bank's analytical work is usually valued by stakeholders. In not completing and disclosing the work publicly, the Bank's agriculture sector dialogue has likely weakened. More importantly, strategy options need to be explored regarding how to improve the productivity and market access for crops produced by small-scale farmers so that incentives for increased production are clear (see box 3.1 for more details).

In this regard, it is too early to be certain about the outcome of the Bank's support for increasing smallholders' income, as the Bank-supported Market-Led Smallholder Development Project (MSDP) is ongoing. There were substantial delays in establishing the institutional arrangements for the project. Because of these delays, the chances of the objectives being achieved by the current closing date were rated moderately unlikely in an internal quality assessment.[19] This evaluation agrees with that assessment.

In addition to implementation delays, the final outcome will depend critically on future markets for surpluses of the focus crops produced in the project area. Market prospects for maize are currently extraordinarily strong in neighboring Zambia and Zimbabwe, although this is in part due to current economic and political circumstances there. Sesame has recently emerged as a profitable crop with a sustainable domestic and export market. In the case of some of the focus crops such as cassava, there is usually an abundant supply relative to domestic and international demand. Cotton is also potentially tradable, but past analysis shows that Mozambique has no comparative advantage in its traditional export markets unless yields can be increased substantially to make production profitable for smallholders. The MSDP is also exploring the technical and economic prospects for some new crops such as soybeans and groundnuts.

**The outcome of the Coastal and Marine Biodiversity Management Project was marred by several implementation difficulties that were foreshadowed when an internal quality review rated the project unsatisfactory at entry.** The major issues facing project components were as follows: (a) the preparation of spatial development plans was considerably delayed and not completed until three months before the project's amended closing date; (b) no progress was made on a core objective of protecting coastal habitats; and (c) the private sector tourist development objective was dropped because it could not proceed without the spatial development plans. Although there were some positive achievements, such as biological monitoring of marine ecosystems and strengthened capacity of environmental management by communities, a number of prominent project objectives were not achieved.[20] An IEG review of the ICR downgraded the overall outcome rating of the project relative to the ICR self-evaluation to *moderately unsatisfactory,* and this evaluation supports that conclusion. The

Transfrontier Conservation and Tourism Development Project is under implementation (expected to close by 2013), and it is still too early to assess its outcome.

**In summary, despite efforts through PROAGRI and the Market-Led Smallholder Development Project, the Bank's assistance has not yet substantially contributed to the CAS objective of increasing agricultural productivity.** PROAGRI partly achieved its project objective of supporting a reorganization of the Ministry of Agriculture and Rural Development because it resulted in improvements in managerial efficiency and financial management of the ministry at the regional level. Although the Bank's subsequent assistance supported the CAS objective of increasing the use of new farm technologies, this was only partially met by the end of the evaluation period because Bank support has not yet been successful in achieving significant and sustained increases in yields. This shortcoming has probably been due to inadequate attention to the most important issue, namely the incentive structure that would lead small-scale farmers to use improved technologies to produce a surplus and raise agricultural incomes as anticipated. With respect to natural resource management, there were positive achievements regarding biological monitoring of marine ecosystems and strengthened capacity for environmental management. However, several prominent objectives, such as the protection of coastal habitats and private sector tourist development, were not achieved. On balance, therefore, the overall outcome of Bank assistance under the rural development and natural resource management subpillar merits a rating of *moderately unsatisfactory*.

## Improved Delivery of Infrastructure Services

### ENERGY AND MINING

*The Bank's assistance strategy*. The Bank pursued three objectives: (i) improvement of regulatory and legal frameworks for energy and mining to help bring in the private sector; (ii) expanding electricity service to households; and (iii) developing an integrated Southern African Development Community energy market. These objectives were in line with the country's needs, notably because very few households have access to electricity (the estimate for 1999 stood at 6 percent), and Mozambique has potential for large exports of energy (gas, hydropower) to South Africa.

Tables 3.5 and 3.6 illustrate Mozambique's large energy consumption per capita relative to its neighbors. This is the result of high industrial consumption (mega-projects and exports to South Africa), and not of the actual use of electricity by households. In 1995, in an attempt to improve the operations of the national electricity company (EDM), it was converted from a state monopoly to a public enterprise. However, this did not yield significant improvements in household access. Consequently, the FY01 and FY04 CASs had similar objectives for the energy sector: improvement of the legal and regulatory frameworks and an increase in household access to electricity. The objective of developing and exporting gas and minerals was relevant given the potential of these resources as a contributor to Mozambique's economic growth.

Table 3.4  Electricity Consumption and Installed Capacity

| *Country* | *Population (million)* | *Net consumption (billion of kwh)* | *Consumption per capita (billion kwh/million population)* | *Installed capacity (GW)* |
|---|---|---|---|---|
| Mozambique | 20.4 | 9.1 | 0.45 | 2.34 |
| Malawi | 13.1 | 1.3 | 0.10 | 0.31 |
| Uganda | 30.9 | 1.7 | 0.06 | 0.32 |
| Tanzania | 38.5 | 1.2 | 0.03 | 0.88 |

*Source:* This report is based on U.S. statistics, Official Energy Information Administration (2005) and various Internet sources for population 2007-09).

*Note:* GW= Giga Watts; kwh= kilowatt hours.

Table 3.5  Electricity Coverage and Tariffs (around 1999)

| *Country* | *Electricity coverage (% of population covered)* | *Electric power tariffs (US$/kwh)* |
|---|---|---|
| Mozambique | 6 | 0.12-0.14 |
| Sub-Saharan Africa (average) | 16 | 0.02-0.46 |
| Other low-income | 41 | 0.05-0.01 |

*Source:* Various Internet sources, including World Bank 1999. Infrastructure stock.

*Notes:* kwh=kilowatt hours.

*The Bank's program*. The lending program during the evaluation period consisted of four operations (table 3.7), namely the 2004 Energy Reform and Access (ERAP, $40.3 million), the 2001 Mineral Resources Management Capacity Building ($19.2 million), and two gas projects—the 1994 Gas Engineering ($30 million) that closed in 2003, and the 2004 Southern Africa Regional Gas ($30 million). The Southern Africa Regional Gas project involved three Bank Group entities, with IBRD providing a Partial Risk Guarantee, MIGA an equity guarantee rolled into a debt guarantee, and IFC an equity investment. ERAP required coordination with AfDB and with Norway, which cofinanced the project. No ESW was carried out in this area during the review period. The regional energy study by the Energy Sector Management Assistance Program (ESMAP, financed by the Bank, the UK, and other countries), completed prior to 2000, was integrated into the Maputo Corridor study (IEG 2003 Review of the CASCR, Annex Table 5).

Table 3.6  Energy and Mining Projects

| *World Bank Interventions* | *Date* | *Measures/actions Supported* |
|---|---|---|
| Gas Engineering | 1994 | The objective of this project, which closed in 2003, was to assess prospects for a commercial joint venture between the Government, the Mozambique National Oil Company, and the private sector in the Pande gas field. Gas reserves in Pande and nearby areas justified commercial development, which was supported by the IFC and the Bank. Capacity building was not timely. |
| Mineral Resources Management Capacity Building | 2001 | The objectives were to provide technical assistance to achieve institutional development and regulatory reform to attract private sector sustainable mining investment, as well as poverty alleviation in small-scale and artisanal mining areas. Institutional development successfully provided a platform for planning mining investments. Poverty reduction in small-scale and artisanal mining was partly achieved through legal and social measures, including an HIV/AIDS strategy and demonstration sites for ceramics production and gold mining. |
| Energy Reform and Access | 2004 | The objective is to increase use of electricity for economic growth and social services in peri-urban and rural areas, as well as strengthen the capacity of Mozambicans to use modern energy. The project has been restructured, which included cancellation of the independent grid electrification component. Progress toward objectives at the end of 2009 was moderately satisfactory. |
| Southern Africa Regional Gas | 2004 | The main objective is to stimulate development and export of natural gas and ensure environmental sustainability and poverty reduction, and with other IFC and |

| | | |
|---|---|---|
| | | MIGA support, to raise capital and commercial financing for private sector development. Progress toward objectives as of mid-2009 was satisfactory. |

*Source:* World Bank documents.
*Note:* HIV/AIDS= human immunodeficiency virus-acquired immune deficiency syndrome; IFC= International Finance Corporation; MIGA= Multilateral Investment Guarantee Agency.

*Progress toward achieving Bank objectives*. **As with many of its client countries, the Bank's aim of helping to strengthen the institutional setup in the energy sector, notably by unbundling generation, transmission, and distribution into separate companies to facilitate the entry of private operators, proved misguided.** The effort had to be abandoned and replaced by steps intended to strengthen the existing electric company (EDM), and create a regulatory agency (CNELEC). The reasons for the failure of the original plan were: (i) the energy sector was inefficiently operated and not a good candidate for unbundling, and (ii) the scale of production was too small. Together these factors discouraged reputable private operators from getting involved.[21]

Access to electricity is being expanded, however. Contracts for grid intensification (connecting clients that are reachable from the existing grid) are currently underway in several areas: in Central and Northern Mozambique, financed by the AfDB; in Maputo province, financed by the Nordic Development Fund (NDF); and in Southern Mozambique and Maputo City, financed by IDA. With the help of these development partners, some 9,000 new households were connected to the grid in 2008, and when the ongoing contracts for 2009 are completed, an additional 48,000 households will be connected.[22] The increase in 2008-09 represents about a 10 percent increase in the overall number of EDM customers.

These efforts notwithstanding, access to electricity is still low by regional standards. Of the joint 2009 goal of 48,000 additional connected households, the Bank itself targeted 2,500. New grid connections aside, solar electric panels are being installed for some 300 schools and health centers. Bank-supported pilots to expand electricity service by creating independent, private, electrical grids in isolated areas did not succeed.[23] With WB/IFC/MIGA support, a new 865-kilometer pipeline was constructed and is operational, delivering gas from gas fields in Mozambique to a petrochemical plant in South Africa. The pipeline demonstrates the potential for integrating power markets in Southern Africa. At the same time, the capacity of Mozambique to manage gas sector operations was not strengthened as much as was expected.

*Mining.* **With IFC support a series of laws was passed between 2002 and 2006, leading to major reforms in the legal, regulatory, and fiscal framework of the mining sector.** At the same time, institutions were strengthened and key tools for managing and promoting the sector, including up-to-date geological maps, a state-of-the-art cadastre, and a decentralized mineral license application and granting system were developed and made operational. Such reforms were key to increasing the number of private mining operations in Mozambique, which more than doubled (from 10 to 22) during 2000–07. This helped pave the way for agreements for two very large private investments (MOMA Sands and Moatize coal mine).

The role of the Bank Group and the financial engineering of the Southern Africa Regional Gas project merits special attention. It was a complex financing package, with different partners participating in the upstream and downstream components. Designing the project's financial structure required detailed analysis and finding the right balance between providing assistance to ensure that the project would proceed smoothly and avoiding intervening in areas where the private sector was more qualified. This implied, for example, that IBRD/IDA did not provide direct lending but, instead, provided a partial risk guarantee of debt for syndicated commercial loans. IFC provided equity and MIGA complemented the Bank's guarantee. Bank participation in the guarantee was essential, as this would entail a counter-guarantee from the government and provide a "breach of contract" guarantee, all of which MIGA could not do.

Overall, the Bank Group's role was to catalyze the mobilization of private capital as well as commercial debt financing. The project was the first large-scale, privately-financed energy export project in the gas subsector, providing a framework for future private sector projects and facilitating further investments in gas exploration and other gas-related industries. The project was also the first greenfield, cross-border infrastructure project of significant size in Southern Africa. A Social Development Fund that is helping to finance school and healthcare infrastructure in Mozambique has been established. Finally, the project created the opportunity for development of domestic gas markets, thanks to the creation of five offtake points on the Mozambique side of the pipeline.

**In sum, in the energy sector, the Bank's objective of improving the institutional structure of the market by unbundling the national electricity company (EDM) into separate generation, transmission, and distribution companies, and concessioning the distribution company to private operators, proved misguided.** The approach was redirected toward strengthening EDM and creating a regulator (CNELEC), a task that continues. Access to electricity is being expanded with Bank support (some 57,000 new households are being connected) through cost-effective grid intensification (connecting households where a main grid already exists). The Bank's efforts to pilot expansion of electricity service by creating independent, private, electrical grids in isolated areas did not succeed. Solar electric panels for some 300 schools and health centers in remote areas are being installed. With Bank/IFC/MIGA support, a new 865-kilometer pipeline was constructed and has been operational for five years, exporting gas from Mozambique to South Africa. Bank institutional support to improve the legal, regulatory, and fiscal framework of the sector was a key factor behind the increase in the number of private mining operations in Mozambique. The outcome of Bank assistance for energy and mining is rated *moderately satisfactory*.

### TRANSPORT

*The Bank's assistance strategy*. All CASs during the review period underlined the role of transport within the growth objective. Key CAS objectives were maintaining and expanding the main roads and increasing international traffic on Mozambique's railway and port system. These objectives were in line with the country's needs. Although Mozambique was historically well connected to its neighbors (most of which are landlocked) because of the country's privileged location in Southern Africa, domestic transport infrastructure is poorly integrated ( all three railway lines run East-West linking key ports and the national road network). Mozambique's road system compares poorly with that of neighboring Tanzania and Malawi in terms of the density of the network relative to the arable land area and access by the rural population to all-season rural roads (tables 3.8 and 3.9). All transport infrastructure, but especially the roads and railways, were severely damaged during the civil war, and rehabilitating those facilities became the first priority. The Bank and other development partners provided significant support to this end.

Table 3.7 Density of Paved Roads Relative to Arable Land

| Country | Ratio of paved roads (kilometers) to arable land (million hectares) |
|---|---|
| Mozambique | 156 |
| Malawi | 125 |
| Uganda | 442 |
| Tanzania | 625 |

Table 3.8 Access to Rural Roads

| Country | Percentage of rural population with access (less than 2 kilometers) to an all-season rural road |
|---|---|
| Mozambique | 12 |
| Malawi | 38 |
| Tanzania | 38 |
| Ethiopia | 17 |

*Sources:* Roberts et al. 2006 and Mozambique's highway agency.

*The Bank's program.* **The transport lending program approved during the evaluation period was consistent with the CASs' objectives.** The program was about equally divided between two subsectors (table 3.10): ports and railways (two Bank operations, $210 million) and roads (two Bank operations, $262 million). The ports and railways, as revenue-earning entities, were obvious candidates for the introduction of public-private partnerships, although experience in Africa and elsewhere suggests that ports were easier to concession to private operators than railways. The Railway and Port Restructuring and the Beira Railway SIL both had as a primary objective concessioning of these utilities to private operators and restructuring the Mozambique Ports and Railways Corporation (known as CFM).[24] The road projects aimed mainly at strengthening the management and financing of the road sector, and also at improving the condition of the country's road network and expanding it. However, most of the funding went for rehabilitation and maintenance of existing roads, with smaller amounts going to expand the geographical coverage of the road network. Under the two earlier Bank-financed Roads and Coastal Shipping Projects (approved in 1992 and 1994), over 3,000 kilometers (or about 14 percent) of the primary, secondary, and tertiary roads were rehabilitated, in addition to the support provided for periodic maintenance.

An Infrastructure Assessment, planned for FY07, was dropped, which meant that no formal analytical work was carried out during the evaluation period. This is a significant shortcoming in the Bank's activities in transport, a major sector that received $472 million in Bank funding during FY2000–FY08.[25] The problems with electricity sector reforms and with railway concessions illustrate the need for in-depth analysis.

*Progress toward achieving Bank objectives.* **The road network improved considerably.** The most recent survey in 2008 found 72 percent of the country's classified network in good or fair condition, compared to 56 percent in 2003, and 10 percent in 1994. Better roads have gradually increased access by the rural population to all-season roads, from close to zero some 10-15 years ago to about 12 percent now (table 3.9). With Bank support, a Road Fund was established and is helping secure better funding for maintenance as well as improved allocation of resources. The fund, *Resources Allocated to the Road Fund,* created in 2009 is independent from the road agency and has a board led by private sector representatives. Funds used mainly for maintenance reached $250 million (including $60 million from fuel tax, $40 million from the Ministry of Finance Investment Fund, and the rest mostly from development partners), some four times the level in 2002, thereby enhancing sustainability prospects.

A major north-south route was due to be completed when a bridge over the Zambezi, financed by the European Union (EU), is completed in 2009. In the future, it would be desirable to examine the need for additional north-south connections, and to do more to improve access by the rural population. This could be accomplished by improving and/or expanding feeder roads. Procurement and implementation capacity for road works also requires further enhancement.

Table 3.9 Transport Projects

| *World Bank Interventions* | *Date* | *Measures/actions Supported* |
|---|---|---|
| Second Road and Coastal | 1994 | The main objective is to contribute to economic growth through: (i) rehabilitating priority roads and eliminating the backlog of deferred maintenance as well as resuming regular maintenance; and (ii) continuing regulatory reform and institution building to ensure effective planning and monitoring by the government, and the development of private sector contractors and operators. Key performance indicators show that targets were substantially achieved. The project has helped to remove bottlenecks, particularly for agricultural production and distribution. The Road Fund will ensure that there is a continuous funding stream to help sustain this initiative. |
| Railway and Road Restructuring | 2000 | The objective was to increase the operating efficiency of the three major port-rail transport systems through concessioning, and to enable them to increase their international freight market share. In 2007, the project was restructured by dropping rehabilitation of small ports and rehabilitating jetties in three larger ports, purchase of new ferries and other vessels at these ports, support for the rehabilitation of a railway line and some other matters. Concessioning at three port-rail complexes was achieved with 70 percent of the project funds meeting the cost of staff retrenchment to support concessioning. The project objective of increasing the operational efficiency of main railway lines, as measured by increased freight, was partly achieved with port traffic 16 percent above the project target, but rail traffic almost 40 percent below target. |
| Roads and Bridges | 2002 | Twelve development partners cofinanced this project, which was estimated to cost $704 million, including an IDA contribution of $162 million. The main objectives were to improve roads and bridges, strengthen institutional capacity to administer the roads sector, and establish financing mechanisms for road maintenance. The project made progress on road and bridge rehabilitation and the establishment of road maintenance funds, although the institutional capacity to administer the road sector was not improved. |
| Beira Railway | 2005 | The objectives were to provide cost-effective transport to the Zambezi Valley to accelerate growth and reduce poverty, increase international traffic through the Beira Railway System, and ensure its sustainability. Its closing date was extended to 2011, but work on the Sena railway line (by far the major component in the project) has been completed and is rated satisfactory. Based on progress thus far, this project is likely to achieve its development objectives. |
| Roads and Bridges II | 2007 | This project is cofinanced by 13 other donors for a total cost of $1.043 billion, of which IDA is contributing $100 million. The project's main objective is to stimulate growth and reduce poverty through improved road infrastructure, better sector policies, and enhanced roads sector management. On the basis of progress to date, this project is likely to meet its development objectives. |
| PRSC 4 | 2008 | Measures were included to expand the construction, rehabilitation, and maintenance of roads. |

*Source:* World Bank documents.
*Note:* IDA= International Development Association; PRSC= Poverty Reduction Support Credit.

**The CAS objective of increasing international traffic on Mozambique's ports and railways through Bank-supported concessioning was partially achieved.** A concessioning program did take place, with Bank support directed at consulting advice for the program and funding for key investments. The country's three main ports (Maputo, Beira, and Nacala) are concessioned to private operators, as are the two railways (Sena and Machigo) in the Beira corridor, and the railway in the Nacala corridor (table 3.11). However, although international port traffic reached 11.1 million tons, surpassing the target for 2008, traffic on the railways reached only 3.5 million tons, half the 2008 target. Some service improvements were brought about by the concessions.[26]

The achievements reflect the difference in quality and success of the concessions as between the two modes, where the concessioning of railways has been especially difficult. Railways are normally loss-makers and require large investments and government subsidies, which severely limit the number of potential concessionaires. A further problem with the design of the railway concessions is the conflict of interest created by having CFM, the country's port and railways company and de facto regulator, as a 49 percent partner in the concessions.[27] In addition, it would be desirable to strengthen operational efficiency and financial indicators in the design of concessions. The absence of efficiency indicators in the concession agreements hampers analysis of service quality and costs to clients offered by the private operators.

Table 3.10 Concessions of Rail and Port Systems

| System | Year Concession Started | Concessionaire/comment |
|---|---|---|
| Port of Beira (general cargo and container terminals) | 1998 | *Cornelder de Moçambique* (Netherlands) |
| Beira rail system | 2004 | *Companhia Dos Caminhos De Ferro Da Beira* (India) |
| Port of Maputo | 2003 | Maputo Port Development Company (UK, Sweden) |
| Maputo line Ressano-Garcia | | Concession agreement signed in 2002, never became operational, and was terminated in 2005 |
| Port of Nacala | 2005 | *Corredor de Desenvolvimento do Norte* (US), until 2008, when it sold its share |
| Nacala rail system | 2005 | *Corredor de Desenvolvimento do Norte* (US), until 2008, when it sold its share |
| Port of Quelimane | 2005 | *Cornelder de Moçambique* (Netherlands) |

*Source:* IEG mission findings.

**In summary, because of improved routine and periodic maintenance as well as to rehabilitation of deteriorated roads, almost three-quarters of the classified road system is in good or fair condition compared with about half in 2003. The Bank's contribution to these improvements has been substantial.** Although funding for road maintenance has also improved and enhanced sustainability prospects, more effort is needed to improve access by the rural population to markets and services. Port concessioning was successful and international port traffic surpassed the Bank's target for 2008. The concessioning of the railways has been more complex and results are less favorable, with traffic in 2008 well below the Bank's target and barely above the level in 2000. **On balance, the outcome of Bank assistance in the transport sector is rated *moderately satisfactory.***

## Overall Evaluation of Pillar I

The breadth of objectives, the number of projects, the size of the Bank's lending program, and the number of development partners and their financial contributions were all much larger under Pillar I than for either of the other pillars in the Bank's assistance strategy in Mozambique. **This evaluation concludes that the large set of programs in Pillar I was *relevant* to achieving stabilization and growth.**

The Bank provided general budget support through DPLs and PRSCs to which development partners also made substantial contributions. Complemented by Bank analytic work, general budget support programs were key instruments for stimulating policy and institutional reforms that, *inter alia*, generated revenues and supported the budget, thereby helping to achieve macroeconomic stability. Whereas the achievement of sustained stabilization is most plausibly characterized as the joint effect of government and contributions of all development partners, including the IMF, it is plausible to assert that the coordinated implementation of budget support to the government might not have occurred had the Bank not provided the leadership for these programs. Since the Bank has been closely associated with a dialogue on macroeconomic policy, and even acknowledging the impossibility of clearly attributing the Bank' individual impact compared with other stakeholders and the government itself, **the Bank can with reasonable justification claim a substantial contribution to the outcome in this area.**

During the review period, GDP growth averaged between 7 and 8 percent per year. Bank support for the government's macroeconomic policy, financial sector reform, rural development, energy development, and mining as well as transport all contributed to this growth in different ways. At the same, progress on private sector development, a crucial engine of growth, was slow. Results were also below expectations in rural development and the sustainable management of natural resources. **The overall outcome rating for Bank support under Pillar I (Stabilization and Growth) is judged *moderately satisfactory*.**

# Chapter 4
# Pillar II — Poverty Reduction and Human Development

Social development is the core of Pillar II in the PARPA, but it was relabeled "human development" in the World Bank CAS of 2000. This chapter begins with a review of the incidence and depth of poverty because of its direct impact on the ability of close to half of all Mozambicans to access education, health, and related services that can contribute to human development. It also evaluates the extent to which the Bank has been able to contribute to a core CAS objective, namely to reduce the proportion of the population estimated as living below the poverty line. The chapter reviews the outcomes of the Bank's programs and projects that have supported education and health services, the lowering of the incidence of HIV/AIDS, as well as access to improved domestic water supplies and sanitation facilities, all of which were important CAS objectives.

## Poverty Reduction

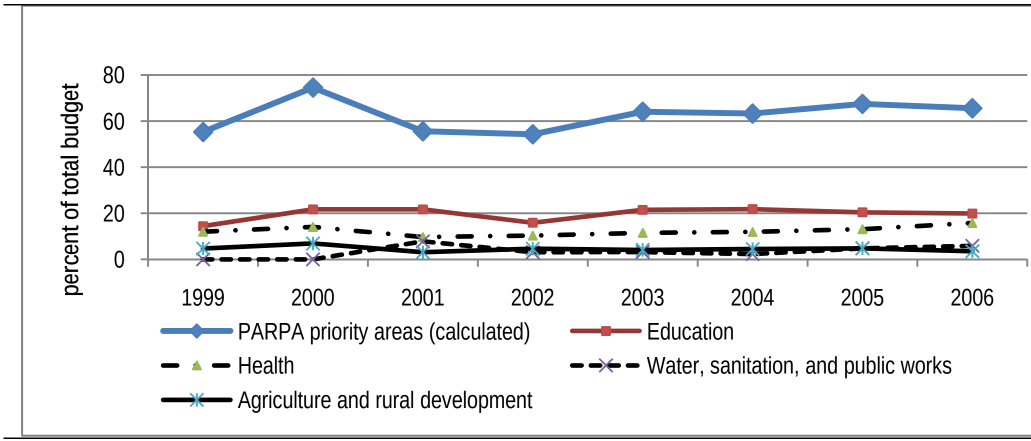
*The Bank's strategy and program.* The Bank's strategy for poverty reduction was to contribute to economic growth and improved social services. The Bank's PRSCs became the flagship instruments for supporting growth. The PRSCs did not include an explicit target for poverty reduction, presumably because it was expected that growth and improved social services would support the Mozambique government's broad-based poverty reduction objective. All PRSCs were conditioned on a government commitment to allocate and maintain 65 percent of the total annual government budget to the six PARPA priority sectors.

*Progress toward strategic objectives.* **The government commitment to allocate 65 percent of the budget to PARPA priority sectors—education, health, agriculture, water, infrastructure and governance—was met since it was already close to that level when the PRSCs started** (figure 4.1).[1] In other words, maintaining the relative importance of budget allocations to PARPA priority sectors was the main objective. Performance indicators used for the PRSCs changed from one PRSC to the next, so that there was no long-term perspective on the trend in these measures of progress. The indicators typically did not distinguish between urban and rural areas. In addition, in some sectors, the benefits of improved social services were focused on urban areas rather than rural areas where most of the poor and inadequate social services are located.[2] It should be noted that agriculture and rural development received a very low share of total budget expenditures (figure 4.1).

The PRSCs were more focused on macroeconomic policy and public financial management (PFM) than on the PARPA priority sectors. For example, until the end of 2008, PFM, with 20 out of 43 prior actions, was the primary focus of four PRSCs. The Joint Bank-Fund Staff

Assessment,[3] in reviewing PARPA II, noted similar areas for priority action by the government, including: (i) budgeting should be more deliberate in the allocation of expenditures to activities that would result in poverty reduction; (ii) more attention should be paid to economic development in rural areas (for example, SMEs and an increase in the provision of public and private agricultural and financial services); (iii) benefits from natural resources should be maximized; (iv) HIV/AIDS prevention should be accelerated; and (v) an anticorruption monitoring system should be established.

Figure 4.1 Public Expenditures Directed at Priority Sectors ( percentage of total budget)




*Source:* Government of Mozambique, PARPA I and II, Ministry of Finance, Budget Execution Reports
*Note:* PARPA= Action Plan for the Reduction of Absolute Poverty, the Portuguese acronym for the Poverty Reduction Strategy Paper).

Midway through PARPA I, the government established Poverty Observatories with the objective of involving civil society in the review of progress on poverty reduction. They were primarily focused on observation and process issues with no actions. This gave rise to a number of concerns among Poverty Observatory members. The Bank reviewed the role of the Poverty Observatories and recommended actions to enhance their effectiveness and legal standing (Appendix table A.12).

*Poverty trends.* The main source of evidence for poverty trends is the 2003 household income and expenditure survey, as the results of the 2009 survey were not available to this evaluation. The average incidence of poverty, as measured by expenditures revealed in household surveys compared with a minimum consumption basket, declined nationally from 67 percent in 1997 to 54 percent in 2003 (table 4.1). In rural areas the decline was 23 percent compared with 19 percent in urban areas—yet the incidence of poverty was still higher in rural areas (55 percent) than in urban areas (52 percent).

The table also shows that the poverty gap, which measures the depth of poverty, also declined substantially between 1997 and 2003. This meant that those still living below the poverty line were, on average, not as far below that line in 2003 as they were in 1997. **The decline in the incidence of poverty up to the end of 2003 has been attributed to rapid GDP growth, increased employment opportunities— and hence higher incomes— as well as a decline in the growth rate of the population.** This was all good news midway through PARPA I (2001–05).

**Reductions in poverty in rural areas did not mean a major change for the traditional subsistence small-scale farmers.** Even if they are living above the poverty line, they may still be in a low-level subsistence trap with few opportunities to trade their production surplus, and hence little incentive to improve productivity. Inequality (measured by the Gini coefficient) increased slightly from 0.40 to 0.42 between 1997 and 2003. Moreover, it is generally accepted that inequality ( although comparable with neighboring countries) has continued to remain relatively high and may have increased in Mozambique since 2003, as higher-income groups have gained and the real income of the typical poor subsistence farmers has stagnated. Consequently, assuming that the poverty gap is still high, there is concern that the rate of decline in the incidence of absolute poverty in rural areas may be slowing despite strong economic growth.

Table 4.1 Incidence of Poverty and Poverty Gap by Urban and Rural Areas, 1997 and 2003

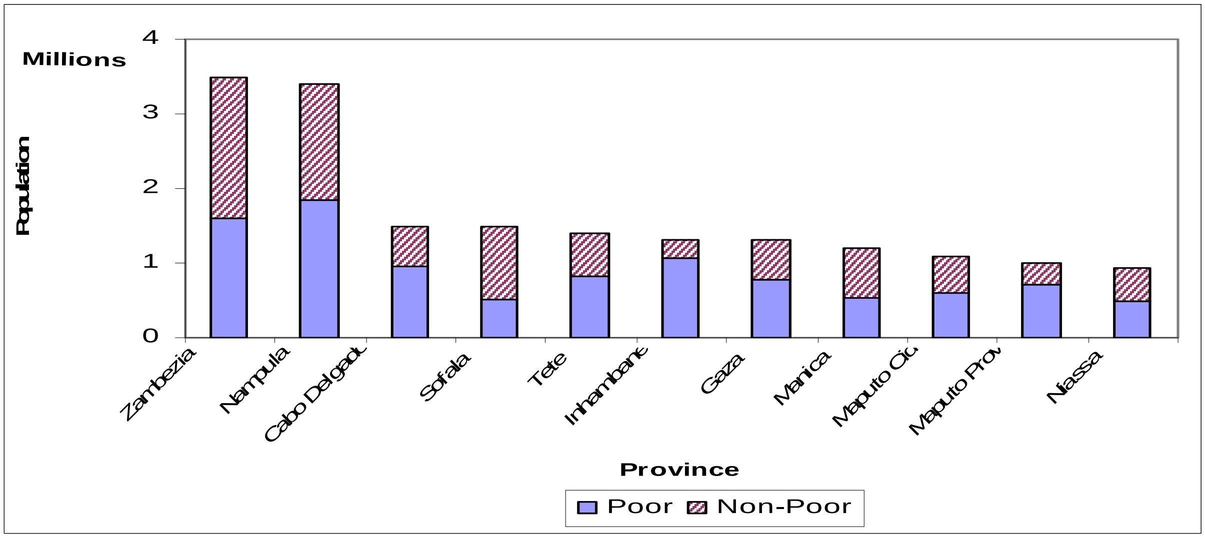
| Region/province | Incidence of poverty [a] | | | Poverty gap [b] | | |
|---|---|---|---|---|---|---|
| | 1997 | 2003 | Change | 1997 | 2003 | Change |
| | (percent) | | | | | |
| Mozambique | 69.4 | 54.1 | -22.0 | 29.2 | 19.9 | -31.8 |
| Urban | 63.9 | 51.6 | -19.2 | 27.2 | 18.9 | -30.5 |
| Rural | 71.6 | 55.2 | -22.9 | 30.0 | 20.4 | -32.0 |

*Note:* Urban and rural definitions as at 2003. See Appendix A, Table A.13 for a more detailed presentation of the incidence and depth of poverty in Mozambique in 1997 and 2003.
a. Proportion of the population living below the poverty line.
b. Aggregate poverty deficit of the poor relative to the poverty line.

*Source:* National Survey on Living Conditions (IAF) data for 1997 and 2003.

*Geographical distribution of poverty.* The rural averages mask considerable variation among provinces with respect to the changes in the incidence and depth of poverty between 1997 and 2003, as well as in the current incidence and depth of poverty. **The reductions in poverty were much higher in the northern and central provinces than in southern provinces with three major exceptions.** In Maputo province and Maputo City in the south the incidence of poverty increased 12.5 percent and 9.6 percent respectively.[4] These increases, along with a very small change in poverty in Inhambane province, resulted in the high levels of incidence and depth of poverty in the south compared with northern and central provinces in 2003, as shown in figure 4.2. The northern provinces of Zambezia and Nampula, however, have by far the highest population (about 3.5 million people each compared with other provinces that have less than 1.5 million) and hence the highest absolute number of poor, respectively about 1.6 and 1.8 million. On the other hand, the depth of poverty in 2003 in these two provinces was lower than the national average.

Figure 4.2 Population and Poverty by Provinces and for Maputo City




*Source:* National Survey on Living Conditions (IAF) for 2003.

*The pattern of growth and poverty reduction*. **The incidence of poverty in different provinces in 2003 reflected the growth pattern.** That pattern largely compensated for the low growth during the 20-year civil war. After the peace agreement, poverty reduction was spurred by "the ability of family farmers and family-owned small businesses (where more than 90 percent of the labor force in Mozambique works) to raise their incomes" but, "overall, households with diversified sources of income tended to be less poor in 2003 than those that did not diversify."[5] Usually diversification meant gaining off-farm employment compared with farm employment. In addition, there was considerable growth of private and public services in urban areas, which resulted in direct and indirect generation of employment. Beginning in 1999, growth was also driven by public and private capital accumulation (including a number of FDI-financed mega-projects that aimed at harvesting natural resources). However, these have not yet substantially addressed the challenge of creating more jobs and making growth more evenly distributed.

*More recent indicators of changes in poverty*. The Bank's 2008 report *Beating the Odds: Sustaining Inclusion in Mozambique's Growing Economy* included results from a small 2006 Poverty and Vulnerability Survey, which collected perception-based data from households in selected areas in the provinces of Gaza, Nampula, Niassa, and Zambezia.[6] The results, summarized in box 4.1, indicate an overall perception of worsening poverty in these areas. Although differences in methodology and coverage dictate caution when making a comparison with the 2003 household survey results, a preliminary interpretation could be that growth after 2003 has not been trickling down to the poor to the same extent as in the earlier period.

This CPE found general agreement with these conclusions among the policymakers and resident community of development partners. Aggregate growth has been impressive during the review period, and the underlying macroeconomic performance satisfactory. However, the benefits of growth have not reached the majority of the population, particularly those in poor rural areas. According to "Beating the Odds", "Rural income inequality seems to be growing, and already high urban inequality persists, so fast growth may now have less of a poverty-reducing effect." Thus, although the draft 2009 CEM concluded that continued interest in mega-projects by foreign investors in new areas, such as coal and pipelines for natural gas and possibly petroleum, is likely to be very beneficial for the economy, particularly if supply chain linkages to the domestic economy are strengthened as intended, the major challenge remains to create a significant volume of new employment in the "smaller" economy, in urban areas, and particularly in rural areas.

**Box 4.1 Results from the Poverty and Vulnerability Survey**

The following observations reflected credible concerns about the future prospects for reducing poverty in Mozambique:

- The survey identified six realities of poverty: (i) lack of income and employment and hence the instability of livelihoods; (ii) lack of assets such as land, labor, livestock, and agricultural inputs with which to develop and sustain livelihoods; (iii) lack of household and personal amenities, such as food, clothing, and housing; (iv) inadequate infrastructure that would usually be supplied by the public sector, such as water supply, sanitation, roads, energy, and markets; (v) poor access to education and health facilities; and (vi) lack of social capital that could provide reinforcement for local efforts to achieve social change.
- Inequality was perceived as a pervasive attribute of poverty, underlining the significant possibility that inequality is rising, as is its social impact and impact on the incidence of poverty. Poverty was blamed for the unequal access to services and other resources needed for survival.
- An overall perception that poverty has worsened rather than fallen, which was reflected in declining feelings of well-being and deteriorating living standards.
- Households remain hopeful about their future well-being. A higher percentage of households in urban areas expected poverty to decrease or remain the same in the near to medium term. Although the optimism of the urban areas was not necessarily shared in rural areas, a much lower percentage in both rural and urban areas was pessimistic about the future than was pessimistic about the past.

*Source:* Poverty and Vulnerability Survey, 2006. This survey collected data based on purposive cluster sampling from households using participative survey techniques in the provinces of Gaza, Nampula, Niassa, and Zambezia. The survey methodology is described in World Bank 2008d, Annex B, page 103.

**To summarize, the CASs were aligned with PARPA I and II and focused on poverty reduction. The incidence of poverty declined markedly between 1997 and 2003, following rapid GDP growth. However, estimates of poverty beyond 2003 will not be available until the results of the 2009 national household expenditure survey are made public.** The 2006 Poverty and Vulnerability Survey indicated that the overall perception of poverty in a selection of four provinces (including two with by far the largest population) had worsened. This result needs to be interpreted with caution because data were not obtained from a random sample. It could also be an indication of a slowdown in the rate of poverty reduction—even in times of strong growth.

Poverty reduction is the outcome of many interventions, often with lags, by both the government and its development partners. The PRSCs played a substantial role in this process through financing and prior actions, such as allocating 65 percent of the budget to PARPA priority sectors. The budget could have been more pro-poor in the allocation of expenditures to activities that would translate directly into benefiting poor households. **On balance, based on the data available, the outcome of Bank assistance for poverty reduction is rated *moderately satisfactory*.**[7]

How much of Mozambique's future pattern of growth will be employment-generating and poverty-reducing? If Mozambique continues to be characterized by low agricultural productivity, slower growth in the employment-intensive service sectors, and generally fewer opportunities for off-farm employment, are there strong prospects for the reduction of poverty? If this future scenario of lower employment opportunities plays out, then the role of the other leg of poverty reduction—improved human capital development—will become even more crucial than it is today. This evaluation turns now to the Bank's assistance to Mozambique for human capital development.

## Human Capital Development

PARPA I established the "Fundamental Areas of Action" for sectors that merited "special attention due to the critical role they play in their impact on its multidimensional perspective on poverty reduction, socio-economic development and inclusive, broad-based economic growth."[8] Education, health, and water supply were included in the list of PARPA priority focus areas.[9] PARPA I emphasized that human capacity is the primary contributing factor to the initiatives and actions of all citizens and all social institutions. PARPA II (2006–09) built on these objectives, emphasizing that human capability is a fundamental asset for the initiative and actions of citizens and all of society's institutions.

## Education

*Government policy and Bank strategy.* The government's objectives in education were embodied in its Education Sector Strategic Plan, to which the Bank had made a number of contributions. The Bank's strategy was, in turn, aligned with the government's strategy. The plan was to develop not only primary school education, but also post-primary and higher education in order to improve the quality of human resources. The benefits of education, especially the education of girls, were seen to extend beyond the individual because of the potential multiplier effect on the entire society. Special urgency was attached to ensuring the recruitment of well-qualified teachers and literacy of workers in sufficient numbers to support economic growth. Investment was to be directed toward the least-favored regions and oriented toward education for all. Investment in education also needed to serve persons with disabilities so that all citizens might take a more active part in reducing poverty. Efforts needed to continue to ensure the internal efficiency of the sector and the effectiveness of outside assistance.[10]

When the civil war ended in 1992, the education sector was in parlous condition. Even seven years later, when the Education Sector Strategic Plan was launched, gross primary school enrollment and completion rates were estimated at only 67 and 50 percent respectively in grades 1-5, and at 15 and 37 percent respectively in grades 6-7. Secondary education was even weaker because of a lack of both facilities and teachers, with enrollment rates well below 10 percent and completion rates reported at only 33 percent.[11] The urgent need for vocational and higher education was underlined in PARPA I, which noted that in

1998, less than 3 percent of the national staff for the whole public administration in Mozambique had a higher education. PARPA I made detailed suggestions for an investment program in education.

At the time the peace agreement was signed in 1992, one university (Eduardo Mondlane University) accounted for about 75 percent of total higher education enrollment, and this university still has the most students. Although a number of institutions of higher education have been established since 1992, Mozambique continues to face a substantial shortage of the high-level skills that are required for development and growth. In addition, a related problem is that there is a shortage of teachers at the 10 institutions currently providing higher education— and a shortage of teachers at institutions that train teachers.

*The Bank's program*. **The Bank financed three education projects** (table 4.2): the Education Sector Strategy Program ($71.8 million), the Higher Education Project ($60 million) and Supplementary financing ($15 million) for the project, and the Technical and Vocational Education and Training Project ($30 million). The Education Sector Strategy Program (ESSP) aimed at supporting the government's basic education sector program. Its objective was to provide increased and equitable access to higher quality education. The project used a sectorwide approach (SWAp), which included substantial support from 14 development partners (planned at about $120 million), including the AfDB, for different components of the whole $717 million program. The Bank financed 10 percent ($71 million) through the SWAp, and the government contributed $445 million (62 percent). There were, however, no legal agreements to define the nature or extent of development partner financing, and in the course of project implementation, development partner support varied significantly.[12]

Table 4.2 Education Projects

| *World Bank Interventions* | *Date* | *Measures/actions Supported* |
|---|---|---|
| Education Sector Strategy Program (ESSP) | 1999 | This SWAp, which included support from 14 development partners, helped substantially increase access to primary education, but quality of primary education was not adequately addressed. |
| Higher Education | 2002 | Under this project, Bank objectives for improving higher education were achieved through an increased enrollment efficiency ratio, a higher number of graduating students, development of new curricula and degree programs, and a higher intake of students from the north. |
| Technical and Vocational Education and Training | 2006 | It is too early to evaluate the outcome of this project, but recent Bank supervision mission reports indicate that after a delayed start, the project is on track to meet its development objectives of facilitating a demand-led training program, providing beneficiaries with more market-relevant skills, and improving economic opportunities after graduation. |

*Source:* World Bank project documents.
*Note:* ESSP= Education Sector Strategy Program; SWAp= sectorwide approach.

**All the projects were relevant to the education sector strategy of the government and the Bank.** ESSP provided resources to plan a Higher Education Project, which was approved in 2002. Its objectives were to enhance the internal efficiency of higher education and expand the output of graduates, to improve equitable access to higher education, and to improve the quality of the teaching/learning process and the relevance of the curriculum. Targets were established for the enrollment efficiency ratio, the number of graduating students, new curricula and degree programs, and the intake of students from the north.

The 2006 Technical and Vocational Education and Training Project aimed to facilitate a demand-led training program and provide beneficiaries with more market-relevant skills and improved economic opportunities after graduation. In addition, in FY09 the Education for All Fast Track Initiative–Catalytic Fund (FTI-CF) allocated $79 million to a pool fund used to implement the government's ESSP to further support the development of primary education.[13] In order to provide additional support to the education sector, the Bank undertook a useful analysis of the impact of fees on primary school enrollment and repetition rates. This resulted in the abolition by the national government of formal fees for primary education in 2005 (Appendix A, table A.14).

*Progress toward achieving objectives.* **The objective of improving access to basic education (primary and secondary) under ESSP was met.** Table 4.3 shows that over the past decade, access to primary and secondary education (measured by the availability of schools) increased substantially as the government, with the assistance of the Bank and its other development partners, constructed numerous primary schools (EP1 and EP2 levels) and secondary schools (ESG1 and ESG2 levels)—mostly in rural areas. An indication of the relative status of Mozambique's education system is shown in table 4.4, which compares three education Millennium Development Goal (MDG) indicators for Mozambique, Zambia, and Sub-Saharan Africa (SSA). Mozambique's education indicators lag behind Zambia and Sub-Saharan Africa, except for net primary school enrollment rates where the Mozambique and Sub-Saharan Africa averages are currently comparable.

Table 4.3 Trends in the Number of Schools at Primary and Secondary Levels, 2000–08

| Year | EP1 (grades 1-5) | EP2 (grades 6-7) | ESG1 (grades 8-10) | ESG2 (Grades 11-12) |
|---|---|---|---|---|
| | (number) | | | |
| 2000 | 7,072 | 522 | 92 | 20 |
| 2001 | 7,480 | 685 | 105 | 23 |
| 2002 | 7,788 | 823 | 116 | 27 |
| 2003 | 8,077 | 950 | 125 | 29 |
| 2004 | 8,373 | 1,116 | 140 | 30 |
| 2005 | 8,696 | 1,320 | 156 | 35 |
| 2006 | 8,954 | 1,514 | 190 | 49 |
| 2007 | 9,303 | 1,842 | 255 | 58 |
| 2008 | 9,649 | 2,210 | 285 | 76 |
| Growth rate (%) | 3.8 | 17.2 | 14.0 | 15.8 |

*Source:* Ministry of Education and Culture.
*Note:* Basic education is defined as levels EP1, EP2, and ESG1.

However, data from the Ministry of Education indicate that the enrollment rate for EP1 reached 95 percent in 2007, far short of the FY2003–07 CAS target of 128 percent. A recent Multiple Indicator Cluster Survey provides more accurate information on primary school completion rates.[14] It found that only 15 percent of children of primary school age in Mozambique completed the final primary school year (level EP2). This is far below the World Development Report estimate of 45 percent in 2007 in table 4.4 and substantially below the CAS target of 59 percent for EP1 level graduating percentage. In rural areas, the Multiple Indicator Cluster Survey found completion rates of only 7 percent, compared with 31 percent in urban areas. A related conclusion from the Multiple Indicator Cluster Survey was that completion rates of primary school children increased as the education level of the mother increased. Table 4.4 also shows that the indicators for girls have improved, but that the difference with boys persists.

The ICR for ESSP evaluated its outcome as *moderately satisfactory*, a rating which was endorsed by IEG's ICR Review. The main driver for these evaluations was the substantial increase in access to primary education, although it is acknowledged that primary education quality has lagged considerably. Subsequent Project Performance Assessment Report (PPAR) concluded that:

> This was an overly ambitious and complex objective that could not be attained efficiently. Few activities actually aimed at improving management; to the contrary, financing was diverted from quality inputs into civil works. And although most 'hardware' activities were completed, activities for girls' scholarships and for special education were not implemented. Little attention was given to adult literacy and secondary education, as well as to instructional issues at any level. Reductions in repetition rates were attained through semi-automatic promotion rather than improved learning outcomes. This promotion policy risks creating cohorts of students who graduate without literacy or other skills associated with schooling and for whom education funds have essentially been wasted. Not coincidentally perhaps, primary-school pass rates increased across the board in the year that ESSP ended, but the improvements were difficult to explain. Overall, relevance was substantial, but efficacy and efficiency were modest.

For these reasons, the PPAR rated the project's outcome moderately unsatisfactory.[15]

Table 4.4 MDGs for Education for Mozambique, Zambia, and Sub-Saharan Africa

| *MDG Indicator* | *Units (%)* | *Mozambique* | | *Zambia 2007* | *Sub-Saharan Africa 2007* |
|---|---|---|---|---|---|
| | | *2000* | *2007* | | |
| Persistence to last grade of primary school | cohort | 32 | 45 | 75 | n.a. |
| -Female | cohort | 29 | 41 | 67 | n.a. |
| -Male | cohort | 34 | 48 | 83 | n.a. |
| Primary school completion rate | relevant age group | 16 | 46 | 88 | 63 |
| -Female | relevant age group | 13 | 39 | 83 | 58 |
| -Male | relevant age group | 20 | 53 | 94 | 69 |
| Net primary school enrollment | age group | 56 | 76 | 94 | 72 |
| -Female | age group | 50 | 73 | 94 | 70 |
| -Male | age group | 62 | 79 | 94 | 75 |

*Source:* World Development Report database and Annex B covering all MDGs.
*Note:* MDG= Millennium Development Goal.

**Of course, questions about the quality of primary education are a major concern in the Ministry of Education and Culture and among development partners.** It is known that attendance is less than enrollment, and recent data indicate that 78 percent of primary school-age children attend school in rural areas and close to 90 percent in urban areas.[16] The quality of teachers is also known to be low, with about 60 percent of teachers considered unqualified.

The Bank's 2008 report, *Beating the Odds: Sustaining Inclusion in Mozambique's Growing Economy,* suggests that the average quality of education (measured by pupil-to-teacher ratios, numbers of unqualified teachers, and rising dropout rates) appears to be getting worse, particularly in the underserved areas. Northern areas of Mozambique have the lowest completion rates and the widest gender gaps. It should be noted, however, that the Bank's own performance was sometimes less than satisfactory during the formulation and implementation of the ESSP, which may have contributed to shortcomings in the outcome of the project. For example, an internal quality review identified the shortcomings of an "unsound design" and found fault with the Bank's failure to pay attention to content.

Despite the successful performance of the ESSP in improving access to primary education, and undoubtedly aware of the serious deficiencies in the quality of instruction, the Bank decided not to finance a second phase of the ESSP. This meant that, after mid-2006, the Bank's only financial involvement in the primary education program took place through the PRSCs' prior actions that required a 65 percent budget allocation to PARPA priority sectors, which included education. However, it was unlikely that the serious problems of nonattendance, lack of text books, and the need for increased and improved teacher training would have been solved through a general budget allocation to the Ministry of Education and Culture by way of a PRSC. A second ESSP could have addressed the quality issues directly using the Education Sector Pool Fund to which development partners continued to contribute, but the Bank decided to redirect its support to higher education because there were already many donors supporting basic education. Nevertheless, after protracted negotiations with the government and development partners on issues such as procurement, the Bank renewed its direct support to primary education through the FY09 FTI-CF grant.

***Bank objectives for improving higher education have been achieved.*** During implementation of the Bank-supported Higher Education Project the following were noted: (i) the enrollment efficiency ratio (new admissions over total enrollment) was approaching 50 percent compared with the target of 22 percent for the project; (ii) the absolute number of graduating students was 4,164 in 2007 compared to the target of 4,000; (iii) new curricula and degree programs were being implemented as intended; and (iv) a greater proportion of students at institutions of higher learning were now from the north compared with the proportion in 2002. A large part of the project was associated with new school construction and rehabilitation, but the Bank supervision mission reports note that maintenance has not kept pace with the improvements in infrastructure. This is an issue that needs to be addressed to ensure sustainability.

The Technical and Vocational Education and Training Project will not close until the end of October 2009. It is too early to evaluate the outcome of this project, but recent Bank supervision mission reports indicate that, after a delayed start, the project is on track to meet its development objectives.

***In summary,*** **the Bank's strategic commitment to support all levels of education through rehabilitating and constructing infrastructure has contributed, together with support from other partners, to increased access to education. However, future Bank assistance should increasingly focus on improving the quality of education.** This can be achieved using funds allocated to ESSP from the Fast Track Initiative-Catalytic Fund, or through the Bank's analytic and advisory support. The PPAR prepared by IEG on the ESSP suggests ways to improve education quality, such as reducing the waste of instruction time, increasing the availability of text books, as well as better training, incentives and accountability for teachers and school administrators, particularly in rural areas.[17] **On balance, the outcome of Bank assistance to education is rated *moderately satisfactory*.**

## Health and HIV/AIDS

*Government policy and Bank strategy*. Following a series of postwar reconstruction planning documents prepared in 1991 and subsequent deliberations, which included the legalization of private healthcare providers, a government health policy emerged. This policy was contained in the government's Letter of Sector Policy to the World Bank in 1995 in support of its request for the proposed World Bank credit for the Health Sector Recovery Program. The core features of the policy were: (i) an emphasis on primary healthcare; (ii) inclusion of the National Health Service as well as nonprofit and nongovernmental organizations in the health reconstruction program and rehabilitation of the health infrastructure and their services at all geographical levels; (iii) improvement of human resources; and (iv) strengthening of management and financial resources in the national health system and cost recovery.

The Bank adopted this strategy, and it remained largely unchanged during the period of this evaluation until 2006, when the Bank suggested a four-point strategy for scaling up healthcare services to: (i) improve population-based preventive services; (ii) scale up community-based services; (iii) improve facility-based care; and (iv) provide outreach healthcare services in remote areas. It is understood that elements of this strategy provide the organizing framework for the next Bank-financed healthcare project in Mozambique.

For HIV/AIDS, the challenge for government strategy, as described in PARPA II, was to make the nation aware that there was an urgent problem and that an effective and multisectoral response would not only slow new infections but prolong the life expectancy of people living with HIV/AIDS by providing appropriate care and treatment. This urgent problem attracted the attention of the government and all development partners. However, the institutions charged with taking action were overwhelmed by the magnitude of the task, and needed to be strengthened. The challenge of poverty reduction in Mozambique becomes all the more daunting when one considers the need to eliminate the risky behavior patterns of the sexually active, overcome the spread of HIV infections, and treat the increasing number of AIDS patients.[18]

*The Bank's program.* **The Bank financed only two health-related projects during the review period** (table 4.5): the Health Sector Recovery Program (HSRP, $98.7 million) and the HIV/AIDS Response Project ($55 million).[19] The HSRP was approved as a SWAp in 1996 and focused on health service delivery, institutional support, and human resources development with the objective of improving the health status of the population in general, and of decreasing infant and child mortality in particular.[20] The total funding for the HSRP was $355.7 million, of which $116.5 million was contributed by the government, $140.5 million by the development partners, and $98.7 million by the Bank. The 2003 HIV/AIDS Response Project, which had not been identified in the CAS as part of the lending program, aimed at supporting communities, civil society, and NGO initiatives to address HIV/AIDS problems. It also supported the financing of grants for research and studies to investigate and address HIV/AIDS-related problems. In addition, it sought to strengthen and scale up health services for HIV/AIDS programs implemented by the Ministry of Health. Both projects were relevant to government and Bank health sector and HIV/AIDS strategies. Additional support was provided in the form of two health sector analyses in 2004 and 2006.

Table 4.5 Health and HIV/AIDS Projects

| *World Bank interventions* | *Date* | *Measures/actions supported* |
|---|---|---|
| Health Sector Recovery Program (SWAp) | 1996 | The HSRP financed the construction of numerous health facilities in rural areas, improved a number of institutions, and trained many health professionals. While attribution is always difficult to establish with improved social services, official data show that during the period of HSRP implementation, population per health center, infant mortality, and intrahospital maternal mortality all fell considerably. |
| HIV/AIDS Response Project | 2003 | This project aimed at supporting communities, civil society, and NGO initiatives to address HIV/AIDS problems. It also financed grants for research and studies to investigate and address HIV/AIDS-related problems. In addition, it strengthened and scaled up health services for HIV/AIDS programs implemented by the National Commission to Combat AIDS and Ministry of Health. Progress has so far been minimal due to capacity constraints within the government, weak coordination, and design limitations. |

*Source:* World Bank documents.
*Note:* HIV/AIDS= human immunodeficiency virus-acquired immune deficiency syndrome; HRSP= Health Sector Recovery Program; NGO= non-governmental organization; SWAp= Sectorwide Approach.

*Progress toward achieving objectives.* **There was no monitoring of the HSRP's main objective during implementation of the program, namely to increase coverage of basic health services from 40 to 60 percent of the population.** Nevertheless, it was estimated that the population per health center was reduced from 85,000 in 1995 to 42,000 in 2003. The HSRP financed the construction of numerous health facilities in rural areas, improved a number of institutions, and trained many health professionals. While attribution is always difficult to establish with improved social services, official data show that during the project implementation period, infant mortality decreased from 162 per 1,000 in 1996 to 101 per 1,000 in 2003. In addition, the intra-hospital maternal mortality rate fell from 186 per 100,000 live births in 1995 to 160 per 1000,000 live births in 2002. Table 4.6 provides recent data and shows that based on five MDG indicators, Mozambique's health status is roughly comparable to neighboring Zambia— although generally behind Sub-Saharan Africa as a whole in 2007, based on World Development Report data.

More recent data show that average infant and under-five mortality rates have declined over the past 10 years. However, rates remain at 105 and 154 per 1000 live births, respectively, for urban and rural areas, although rural rates have declined most rapidly. Although the current burden of communicable diseases is serious, vaccination coverage among children under one year of age has improved. For example, immunization against polio increased from 54 to 70 percent between 1997 and 2008. This was the largest increase in preventive action. However, in general, the vaccination rates in urban and rural areas are improving even though the coverage in rural areas lags behind urban areas by between 3 and 10 percentage points.[21]

Table 4.6 MDGs for Health for Mozambique, Zambia, and Sub-Saharan Africa

| *MDG Indicator* | *Units* | *Mozambique* | | *Zambia* | *Sub-Saharan Africa 2007* |
|---|---|---|---|---|---|
| | | *2000* | *2007* | *2007* | |
| Infant mortality rate | Number per 1000 live births | 124 | 115 | 103 | 89 |

| | | | | | |
|---|---|---|---|---|---|
| Under 5 mortality rate | Number per 1000 | 184 | 168 | 170 | 146 |
| Measles immunization rate | Percentage of children aged 12 to 23 months | 71 | 77 | 85 | 73 |
| Incidence of tuberculosis | Number per 100,000 people | 377 | 431 | 506 | 369 |
| Prevalence of HIV infection | Percentage of population aged 15-49 | n.a. | 15 | 15 | 5 |

*Source:* World Development Report database.
*Note:* Indicators for maternal mortality are not shown because of doubts about the accuracy of their measurement over time.
*Note:* HIV= human immodefiency virus; MDG= Millennium Development Goal.

**Despite these positive aspects of health sector performance, several issues need to be addressed in order to attain the MDGs.** First, in 2006, the overall amount of health spending was not enough to address the country's health problems. National health expenditure amounting to $8.30 per capita per year represented a meager amount of money devoted to health programs when compared with neighboring countries and with the average for Sub-Saharan Africa. It also fell short of the World Health Organization target of $10 per capita. Second, the allocation of existing resources in the health sector has not been optimal. Specifically: (i) the poor, although suffering from worse health problems, benefited least from public health expenditures; (ii) rural households have suffered from the declining financial support to rural primary healthcare services, which constitute their main source of healthcare; and (iii) a regional imbalance remains because the northern regions, although having the worst health status, receive less help compared with other regions, particularly the better-off southern region.[22]

The 2006 "Better Health" report concluded that to reach the MDGs, Mozambique needs not only to increase expenditures in the health sector, but also to ensure more effective public spending to achieve better results. More effective spending, the report concluded, required clarifying outcome objectives, prioritizing a high-impact service package, linking inputs to outputs, and establishing an effective service delivery system.

**Progress toward achieving the objectives of the HIV/AIDS project has so far been minimal because of government capacity constraints, weak coordination, and design limitations.** The National Commission to Combat HIV/AIDS (CNCS) is responsible for project management and for building capacity in the provinces for grant-making programs. These are difficult tasks to implement at a time when the capacity of CNCS has been weakened by high staff turnover.[23] In addition, the CNCS claims that there was unsatisfactory communication with the Bank on issues such as procurement. In June 2007, in the wake of accumulated implementation delays, the project objective was reduced in scope to "contribute to slow the spread of HIV/AIDS in Mozambique and mitigate the effects of the epidemic through prevention and care treatment." The change in project design was meant to indicate that the outcome of the project would be measured by the success of "its contribution to slowing the spread of HIV/AIDS," and would not address "treatment and mitigation," which were previously part of the development objective. The project's closing date was also extended to December 2009.

However, except for the Ministry of Health component, the pace of implementation did not improve, and recently it was agreed to reallocate $20 million among various components to put financial resources into the hands of those (such as the Ministry of Health) who are likely to use them effectively before the project's revised closing date. The latest report on these adjustments indicates that procurement plans for half of the $20 million reallocation had already been agreed.

In sum, the Bank financed the construction of numerous health facilities in rural areas, improved a number of institutions, and trained many health professionals, contributing to increased health service access and improvement in key health indicators. However, Bank assistance to address HIV/AIDS was based on strategies aimed at strengthening the institution responsible for leading Mozambique's campaign against the spread of HIV infections and at supporting research work on HIV/AIDS, but these strategies have not been successful thus far.

This does not mean that there has been no progress on addressing factors that cause HIV/AIDS and affect transmission of HIV. The data from the Multiple Indicator Cluster Survey show a substantial increase in knowledge among women regarding common misconceptions about HIV and AIDS. However, knowledge about how to prevent the transmission of HIV is still very weak. The survey also showed a substantial increase in the use of condoms.[24] While this progress is encouraging, none of it can be plausibly attributed to the Bank's HIV/AIDS project.[25] In the future, it would be desirable for the Bank to support Mozambique's HIV/AIDS programs more directly through an intensive collaborative analysis of effective strategies and actions that could lead to reducing the incidence of HIV infections and the sustained treatment of AIDS. **The overall outcome of Bank assistance to the health sector and for HIV/AIDS is rated *moderately satisfactory*.**

## Water and Sanitation

*Government policy and Bank strategy.* The government had already formulated a National Water Policy when the Bank started its assistance to this sector in 1998. That policy committed the government to: (i) recognize water as an economic and social good; (ii) decentralize autonomous and financially self-sustaining water supply and sanitation services; (iii) phase out its direct service provision role, integrate water management taking environmental impacts into account; (iv) conduct multi-objective investment planning with greater focus on capacity building; and (v) provide for an increased role for the private sector.

*The Bank's program.* In light of this policy, the Bank agreed to support the government in : (i) reorienting the management arrangements for the sector away from direct service delivery toward strategic sector direction-setting, regulation, and financial planning and management and further support for the implementation of the National Water Policy; (ii) reforming the management of the water companies in Beira, Maputo, Nampula, Pemba, and Quelimane by placing them under private sector management; (iii) reforming tariffs, aiming at full cost recovery; (iv) embarking on a program of investment to bring water services in the five cities to an acceptable level of service and coverage; (v) reforming the provision of rural water supply services with the objective of implementing a demand-oriented approach; (vi) developing a strategy for water resource management and the management of bulk water for irrigation and other purposes; and (vii) developing human resource capacities. These strategies occupied the government and the Bank for many years.[26]

**The Bank financed three projects in the water sector** (table 4.7): the National Water Development Project I ($36 million), the National Water Development Project II ($75 million) and Supplementary ($15 million),[27] and the Water Services and Institutional Support Project

($15 million). The last project became effective in March 2008, and it is therefore too early to judge its efficacy or outcome. All three projects were aligned with the government and Bank strategies. In 2007, the Bank, in collaboration with the National Water Department of the Ministry of Public Works, prepared a "Country Water Resource Assistance Strategy: Making Water Work for Sustainable Growth and Poverty Reduction" (Annex 17).

Table 4.7 Water and Sanitation Projects

| *World Bank Interventions* | *Date* | *Measures/actions Supported* |
|---|---|---|
| National Water Development Project I and II | 1998 and 1999 | These Bank interventions supported substantial institutional reforms that provided the framework for the public regulatory role and the private service delivery role that together achieved improved and expanded urban water supplies in Mozambique's major cities. In terms of service delivery, the five cities targeted receive a minimum of 20 hours of water supply per day. |
| Water Services and Institutional Support Project | 2008 | The project continues to deepen the reforms from the previous two projects, but it is too early to evaluate its likely outcome. |

*Source:* World Bank documents.

The core objectives for each of the Bank-financed projects were similar, namely, to support the privatization of water service delivery in urban areas (five major cities) under the umbrella of a government parastatal that is responsible for managing Mozambique's water resources and the contracting of urban water distribution to the private sector. The first National Water Development Project included a rural water supply component, but it was relatively small compared to the total needs for water supplies in rural areas where access to safe water supplies was, and still is, much worse than in urban areas. In contrast, the Second National Water Development Project was completely dedicated to urban water supplies in the five cities and gave no attention to rural domestic water supplies. Also, little attention was given to sanitation, particularly in rural areas.

**The issue for the Bank is whether to focus on urban water supplies for all domestic (including slum areas) and industrial water users or to expand the availability of safe water supplies to agricultural areas and small rural towns with the possibility of decentralizing heavy water-using enterprises to rural areas.** Constraining factors are the lack of available government funds and the increase in projected water demand in Maputo (Appendix A, table A.16). It is suggested that a more balanced urban/rural assistance strategy could be considered that would include incentives for water-using industries to locate to rural areas, thus reducing the stress on the water supplies in cities like Maputo. This would also provide incentives for a substantial development of rural water supplies and help promote the government's decentralization policy. From this perspective, the Bank's strategy of focusing only on urban areas, leaving the expansion of rural water supplies to the African Development Bank and other development partners, could be reassessed with the aim of forging a closer partnership with the AfDB. Such a partnership could help to accelerate the pace of improvement in rural water supply and reduce investment in urban water supplies where the private sector could likely play an increasing role.

*Progress toward achieving objectives.* **Bank interventions assisted with substantial institutional reforms.** Strengthening the managerial and technical capacity of the National Directorate of Water Affairs (DNA) was an important institutional achievement. This effort included improvements to DNA's existing facilities, the provision of equipment, and construction of the first phase of a new DNA building. In addition, the former state water companies have ceased to exist, their roles having been taken over by the Water Supply Investment and Asset Fund (FIPAG). The Water Supply Regulatory Board (CRA) was also established. These institutions are very important to the development and management of water resources, as well as to the efficient delivery of domestic water supplies in Mozambique.

**In terms of service delivery, the targeted five cities receive a minimum of 20 hours of water supply per day.** FIPAG has, with some contract adjustments, successfully implemented the delegated management strategy of urban water supply services. However, one of FIPAG's objectives was put in jeopardy. In October 2008, FIPAG was close to achieving the objective of reaching a financial break-even point, but this was not possible because the government, for social reasons, requested a delay in well-justified domestic water tariff increases. This has had a negative impact on the suppliers of water, as well as on FIPAG's cash flow. At the time of the CPE mission, this matter was being addressed with the Ministry of Finance. The Bank's contribution to sanitation was minor: a pilot of the rural water supply and sanitation plan was implemented in one province, including training and participatory planning at the community level, as well as implementation of three small water pipe schemes in some small towns.[28]

**There remains considerable scope for improvement of access to potable water and sanitation in Mozambique.** Average access to water improved only slightly, from 41 percent in 2000 to 42 percent in 2007, which is behind Zambia and the Sub-Saharan African average, which are both 58 percent (table 4.8). In addition, Mozambique's national average obscures a very uneven distribution of water supplies between rural and urban areas. In rural areas, there are only rudimentary safe water supplies for 30 percent of the population and small rural towns where surface and underground water is distributed at pumps located at strategic points. In contrast, high-income urban areas are now well served in most cities and major towns where an average 70 percent of the population has access to potable water—typically distributed through pipes. Access to sanitation improved from 27 percent in 2000 to 31 percent in 2007, on par with the Sub-Saharan African average— but considerably behind the 52 percent access in Zambia (table 4.8). The focus of local governments is almost entirely on improving urban sanitation programs where adequate water supplies are available. Apart from private solutions in rural towns, in rural areas outside the towns sanitation is typically rudimentary and based on pit latrines.

Table 4.8 MDGs for Water and Sanitation for Mozambique, Zambia, and Sub-Saharan Africa

| *MDG Indicator* | *Units* | *Mozambique* | | *Zambia* | *Sub-Saharan Africa 2007* |
|---|---|---|---|---|---|
| | | *2000* | *2007* | *2007* | |
| Improved sanitation facilities | percentage of population with access | 27 | 31 | 52 | 31 |
| Improved water source | percentage of population with access | 41 | 42 | 58 | 58 |

*Source:* World Development Report database.
*Note:* MDG= Millenium Development Goal.

Mozambique is committed to meeting the MDGs on water supply and sanitation to more than 7 million people in rural areas and 3 million in urban areas by 2015. To assist the government, this CPE recommends that the Bank play an active role on this difficult issue by undertaking with the government and other stakeholders an assessment of the most cost-effective way of achieving major improvements in access of the rural population (including small-scale farmers) to potable water supply and sanitation.

In sum, Bank assistance to increase access to potable water and sanitation was largely institutional, supporting the privatization of service delivery in five major cities. Although Bank interventions resulted in successful institutional reforms and substantial improvement of water supplies, the program had a narrow, mostly urban, coverage. Because about 70 percent of the population lives in rural areas, average access to potable water improved only marginally, and there was little evidence of significant improvement in average access to sanitation. **On balance, the outcome of Bank assistance is rated *satisfactory*, but it would be advisable for future programs to consider a broader perspective on water supply projects which, if extended to rural areas, could support the decentralization of some industries and relieve the pressure on water supplies in major cities such as Maputo.**

## Overall Rating for Pillar II

**Under the second pillar (poverty and human development), quantitative measures show progress over the review period, including a substantial reduction in poverty during the first three years and improved access to health and education services— all to some extent attributable to the Bank's assistance program.** Although the incidence of poverty has probably continued to decline because of sustained high growth rates in the economy, it remains high in many rural areas and in parts of most cities. There is also concern that the rate of decline in absolute poverty may be slowing.

Although Bank assistance in collaboration with other donors increased access to education over the review period, little progress was made with respect to education quality, which remains an important challenge. The Bank's program, in conjunction with other donors, improved access to and the quality of health sector services. However, design limitations and weak government capacity undermined the effectiveness of Bank support for HIV/AIDS. Bank-assisted projects to improve water supply and sanitation through the development of effective public institutions and the involvement of the private sector in retail water distribution in large cities were successful, although the strategy focused mainly on urban areas. **The overall outcome of Bank assistance under Pillar II is rated *moderately satisfactory*.**

# Chapter 5
# Pillar III — Governance

## Context

This pillar focused on the interrelated CAS objectives of improving governance and empowering people though an effective judiciary. Hence, this chapter evaluates the extent to which the Bank's program achieved reform of the public sector aimed at enhancing the management of government institutions. Progress made under another objective in the Bank's CAS, improved effectiveness and equity of the rule of law, will also be examined. In evaluating progress, however, it is necessary to first understand the strategies and programs designed to achieve these objectives.

### THE BANK STRATEGY AND PROGRAM

Assistance under this pillar sought to help the government to: (i) improve budget allocation and execution; (ii) enhance the government's monitoring and evaluation (M&E) capacity; (iii) reduce corruption; and (iv) increase the efficiency in the provision of services in the justice system.

The objective of improving budget allocation and execution was further broken down into five subobjectives: (i) enhance budget comprehensiveness and transparency; (ii) improve budget formulation and evaluation; (iii) enhance the credibility of the budget; (iv) create organizations and build capacity; and (v) allocate 65 percent of the total budget to the six PARPA expenditure priorities.

However, Bank strategies lacked well-defined indicators for outcomes and intermediate results, especially under the 2000 CAS (Annex Table 19). This shortcoming becomes evident when analyzing attempts to establish what happened following the assistance. To assess achievements of objectives, this evaluation used assistance indicators where available and, where they were not, it used a group of relevant indicators (proxies). In particular, the evaluation benefited from 2004 and 2006 Public Expenditure Framework Assessment (PEFA) reports about budget practices in Mozambique.

The program consisted of six lending operations, mainly PRSCs, and eight analytical reports (table 5.1 and Appendix A, table A.20). The PRSCs covered spending in priority sectors (poverty-reducing expenditures), implementing an electronic account system (e-SISTAFE) that permitted full control and up-to-date information on expenditures and revenues, approving a new procurement decree, rolling out the e-SISTAFE to more ministries and state organs (the CAS Progress Report names seven ministries and organs), and concluding the study on "off-budgets" in the health sector, and initiating implementation of its recommendations as evidenced by the inclusion in its 2006 budgetary proposal.

A component of the 2002 Economic Management and Private Sector Operation (EMPSO) sought to increase the budget coverage of various ministerial receipts and expected that expenditures funded by development partners and classified by function would be reflected in the budget execution reports. The PRSCs and 2003 Public Sector Reform Project included measures to enhance government M&E and improve the judiciary system. Bank assistance sought to reduce corruption with the support of governance surveys, a Public Sector Reform Project, and indirectly via general budget support with the PRSCs. Last, the strategy identified as an intervention a Decentralized Planning and Financing project that focused on capacity building on the local level. However, the country assistance strategies did not list specific indicators in the results-frameworks regarding governance on a decentralized level.[1]

Table 5.1 Governance-Related Bank Projects

| *World Bank Interventions* | *Date* | *Measures/actions Supported* |
|---|---|---|
| Improved budget allocation and execution | | |
| Economic Management and Private Sector Adjustment Project (EMPSO) | 2003 | One of EMPSO's three components sought to increase the budget coverage of the various ministerial receipts and to standardize the modalities of donor flows. The credit did not achieve its objective of reflecting all off-budget funds in the budget or in their execution. However, the government started to include some off-budget revenues in the budget,and to report in the quarterly budget execution report some of the expenditures financed with donor funding. |
| Public Sector Reform | 2003 | This project supported restructuring of the public sector, professionalization of public servants, and governance. After two and a half years, the project had advanced little and its design and implementation problems had become evident. A restructuring subsequently took place. |
| PRSCs 1-4 | 2005–08 | Relevant PRSC triggers covered spending in priority sectors (poverty-reducing expenditures), implementing an electronic account system (e-SISTAFE) that permitted full control and up-to-date information on expenditures and revenues, approving a new procurement decree, and concluding the study on "off-budgets" in the health sector, as well as initiating implementation of its recommendations as evidenced by the 2006 budgetary proposal. |
| Government monitoring and evaluation capacity | | |
| PRSCs 1-4 | 2005–08 | As a member of the budget support partners group, the Bank participates in biannual meetings with the government that constitute a monitoring exercise rather than an evaluation of plans and programs. The meetings use reference documents prepared by the government, which include the Medium-Term Expenditure Framework (MTEF), Economic and Social Plan (PES), *Balanço do PES* (BPES), budget execution reports, and other relevant documents. The exercise, which started in 2004, has helped the government improve its monitoring skills. This is evident in the government documents used as monitoring tools. |
| Reduced corruption | | |
| PRSCs 1-4 | 2005–08 | PRSC1 and PRSC2 supported the adoption of an anticorruption law, and the increase of resources for anti-corruption work, respectively. |
| Efficiency in the provision of services by the justice system | | |
| Economic Management and Private Sector Adjustment Project (EMPSO) | 2003 | EMPSO supported completion of a strategic plan for legal and judicial reform, incorporating the strategic plans of the four branches (Ministry of Justice, Attorney-General, Supreme Court, and Administrative Court). It also supported revisions of some codes and set as a second tranche condition adoption of the completed Strategic Integrated Plan for the Legal and Judicial Sector 2002–2006. |
| Public Sector Reform | 2003 | This project contains a component on improving access to justice and information, but it has experienced delays. |

*Source:* World Bank documents.
*Note:* EMPSO= Economic Management and Private Sector Operation; PRSC= Poverty Reduction Support Credit.

Among the analytical support, Public Expenditure and Management Reviews (PER, 2001 and 2003) dealt with issues of budget formulation, execution, evaluation, audit, and government expenditure in education, health, roads, and water. These reviews also directly supported the objectives of improving budget allocation and execution and M&E capacity. The Country Financial Accountability Assessment ( 2001) examined the strength of financial accountability processes, and determined the level of financial accountability risk in Mozambique. It found that public sector financial management systems were weak and that there was no professional institute, association, or board of accountants in Mozambique. The CFAA and the PERs, together with the work of other development partners— especially the IMF—contributed to creating a blueprint for financial management and public expenditure reform, an important objective of development partner assistance throughout the years. The judicial assessment (2004, not published) provided a sectoral overview and an analysis of the judiciary, the legal profession, legal education, and access to justice. The Bank did not conduct analytical work on corruption, but it expected that as a result of the assistance, the government would carry out governance surveys to diagnose the situation.

#### RELEVANCE OF THE OBJECTIVE AND INSTRUMENTS

**This evaluation finds that the strategy's four objectives under Pillar III were relevant.** First, taxpayers in Mozambique and in donor countries knew little about how the government used their resources, which amounted to about 30 percent of GDP. The government could not formulate and execute the budget properly, nor could it evaluate and audit expenditures. Second, to account for the good use of resources, the government had to build its capacity to monitor expenditures and to evaluate whether it provided services to taxpayers at a reasonable cost. Third, a 2001 corruption survey indicated that most citizens had to pay under the table for government services (such as education and health), or were extorted by government employees for services not rendered, or to avoid a larger punishment for alleged violations of rules and regulations (such as traffic police).[2] Most of the corruption was petty, but the levels of extortion were large. A 2006 study on enterprise development found that from 2002–05, about 27 percent of firms paid bribes that cost 5.7 percent of annual sales.[3] Fourth, regarding the judicial system, the Bank's strategy rightly pointed out that it was neither effective nor efficient nor independent, and citizens had little access to it. These observations coincide broadly with those in the 2006 report "Mozambique: The Justice Sector and the Rule of Law."[4] The four objectives were in line with the government priorities identified in the PARPA.

**Bank assistance paid insufficient attention to the efficiency of public expenditures that analytical work had identified as problematic.** The 2001 PER identified cash management and accounting and reporting as areas for potential gains in efficiency, but the assistance did not make such gains an explicit objective. The 2003 PER identified inefficiencies in the education, health, roads, and water sectors and proposed an action plan to address those inefficiencies. Among the specific actions called for were: investigating "ghost teachers" and removing them from the payroll, linking performance in health with compensation, conducting regular beneficiary assessments in health, providing full funding for routine and periodic road maintenance, and reducing nonfunctioning water points. However, Bank assistance did not mention these in its objective of improving budget allocation and execution. The 2006 "Better Health" report called for effective public health spending.

Neither the indicators for the Bank strategies nor those for the Performance Assessment Framework looked at net benefits or cost effectiveness of expenditures. The assistance could have demanded a regular review of the efficiency of expenditures in the priority sectors that account for 65 percent of total expenditures, and consequently revise the 65 percent targets to reflect gains in efficiency. However, the originally planned annual PER series was discontinued after 2003. This was reportedly done to allow for more emphasis on improving the budgeting process and accounting, through the PFM work in the context of the PRSC series. Maintaining the PERs alongside the PFM work might have better served the objective of rationalizing public expenditures.

**In addition, Bank assistance did not include sufficiently appropriate instruments to deal with corruption and the inefficiencies in the judiciary.** Therefore, the design of the assistance in these areas was less relevant than it might have been to the problems it tried to deal with, which in turn reduced the efficacy of the assistance. Although a governance survey can be informative about the status of corruption in Mozambique, it cannot in itself reduce corruption. In lending, for example, the Economic Management and Private Sector Operation (EMPSO) covered little that could help reduce corruption during the period of CAS implementation, and its legal reform component was limited to the preparation of a strategic plan for legal and judicial reform. The PERs dealt with issues that pertained to improving government management of public spending, but they did not deal specifically with corruption.

## Improved Budget Allocation and Execution

**This objective was achieved.** Compared to 2001 when Mozambique did not have the elements of a budget system, the government introduced reforms—with the support of the Bank and other development partners—that led to: (i) a decrease in funds managed off-budget; (ii) improved budget classification; (iii) introduction of a consolidated single treasury account for most goods and services; (iv) adoption of adequate budget controls; and (v) improved fiscal transparency. The funds disbursed under the PRSCs have made the Bank one of the largest contributors among the development partners that provide funds for budget support (G19),[5] using Mozambican instruments of planning, budgeting, monitoring, and evaluation.

Despite the gains, much remains to be done, as two recent reviews of the system note. A 2006 report from Global Integrity gives low marks to budget processes and civil service regulations but higher ones to audit institutions and taxes and customs.[6] A second report, by the IMF's Fiscal Affairs Department (2008), points out how much the country has advanced but also how much remains to be done. The report notes that the country has made significant progress on fiscal transparency over the last few years, as a result of a wide range of relevant legislative reforms in line with international good practices. These reforms have strengthened Mozambique's fiscal management and, in particular, led to the emergence of a relatively well-structured planning and budgeting mechanism and budget reporting system, and a well-defined coordination mechanism of development partner activities. Nonetheless, further improvements are needed to bring Mozambique's practices in line with the IMF Code of Good Practices on Fiscal Transparency. The main shortcomings identified included: (i) the still-limited coverage of the budget and incomplete use of the e-SISTAFE, which impairs the quality of budget reporting; (ii) lack of fully effective external controls; (iii) insufficient human and technical resources; and (iv) scant use of the Ministry of Finance Web site in particular and the Internet in general to disseminate fiscal information.[7]

*(a) Enhance budget comprehensiveness and transparency (off-budget transactions)*

**The evidence on this subobjective (table 5.2) shows that budget comprehensiveness and transparency have improved, but not as much as originally intended.** The main results achieved include the following. The government now incorporates in the budget revenues from more than 25 ministries and state organs (well over the seven listed in the 2006 CAS CASPR) and more than 291 budget management and execution agencies. The Treasury Single Account now handles the accounts for 10 external funds, exceeding the target of at least one major external fund established in the 2006 CASPR. The funds managed off budget have decreased, but there is room for improvement on domestic[8] and external resources. Although the proportion of ODA funds from Program Aid Partners (the G19) going into the budget increased from zero in 2001 to 98 percent in 2007, about 50 percent of projects funded with external resources are still outside the budget. Data from two PEFA reports show similar results.

Table 5.2 Outcomes and Indicators for Comprehensiveness and Transparency (Off-Budget Transactions)

| | | | *Baseline* | | | *Results* | |
|---|---|---|---|---|---|---|---|
| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met?* | *Period* | *Value (%)* | *CAS goal* | *Period* | *Value (%)* |
| 1. Off-budget revenues reported to the Ministry of Planning and Finance by ministries, and development partner funding also reported: | Yes | Yes | 2004 | | Not defined | | |
| a. Own receipts appear in budget law | | No | 2004 | No | | 2008 | 0 |
| b. Own receipts reported in CGE (% of GDP) | | Yes | 2002–04 | No | | 2005 | 0.5[g] |
| c. Projects funded with external resources outside the budget | | | | | | 2007 | 50 [a] |
| d. Share of program aid partners' ODA in the budget | No | Yes | 2004 | 38 [b] | | 2007 | 98 [b] |
| 2. Off-budget transactions eliminated | Yes | No | 2004 | | 0% | 2007 | > 0 |
| a. PI-7 (i) Level of extrabudgetary expenditures that is unreported | No | Yes | 2004 | C [c] | | 2006 | B |
| b. Off-budget expenditure from own resources (percent) | No | No | 2004 | > 5 [d] | 0% | 2007 | 1 - <5 [d] |
| 3. Data on development partner financing collected, reported | Yes | No | 2004 | [e] | | | [e] |
| a. PI-7 (ii) Income/expenditure information on development partner-funded projects included in fiscal reports | No | | 2004 | C | | 2006 | C |
| a. D-2 (ii) Frequency and coverage of reporting by development partners on actual development partner flows for project support | No | | 2004 | D | | 2006 | D |
| 4. Increased government revenues included in the budget (PAF 28 – Ministries of Education and Culture, Health, Agriculture, Public Works, Tourism, Mineral Resources, Youth and Sport, included in Budget for 2007) | CPR 2006 | Yes | 2006 | | 7 ministries and organs | 2007 | 25 ministries and organs, and > 291 UGE |
| 5. Increase number of external funds that are on CUT (PAF 29 – at least one major common fund in CUT) | CPR 2006 | Yes | 2006 | 0 | >=1 | 2007 | 10 [f] |

*Source:* For PEFA ratings,PEFA Report 2006 (Lawson et al. 2006). This report rates the results for 2006 and covers trends in 2007.
a. IMF, *Report on Observance of Standards and Codes: Mozambique —Fiscal Transparency Module*, IMF Country Report No. 08/152, May 2008, p. 22, par. 28. b. For 2004 SCANTEAM, *Mozambique, Public Finance Management, Assessment 2004*, Final Report, Oslo, September 2004, p. 13, and it refers to information captured in the budget execution reports; for 2007, Institute for Social and Economic Studies (IESE), *Programme Aid Partners Performance Review 2007, Final Report*, Version 02/04, April 5, 2008, Table 2.1. c. Score for 2004 revised from B to C in PEFA Report 2006, p. 38. d. PEFA Report 2006, p. 39. e. PEFA Secretariat, *Public Financial Management-Performance Measurement Framework* (World Bank, Washington, DC, May 2006) recommends not to aggregate scores across all or subsets of indicators; see p. 10. f. IESE, *Mozambique Program Aid Partners Performance Review 2007*, Final Report, Version 02/04, April 5, 2008, p. 63. g. Tribunal Administrativo, *Relatorio e Parecer Conta Geral do Estado de 2005* (Nov. 2006), Table III-1.

*Note:* CAS= Country Assistance Strategy; CGE=*Conta Geral do Estado*, a report prepared by the Administrative Tribunal; CUT= *Conta Único do Tesouro* (Treasury Single Account); GDP= gross domestic product;; ODA= official development assistance; PAF=Performance Assessment Framework; UGE =*Unidad Gestora Executora* (budget management and executing agency)

*(b) Improve budget formulation and evaluation*

**This subobjective largely has been achieved (table 5.3). The integrated financial management information system (e-SISTAFE) was established in 2004 and has been supporting budget execution since 2005.** Almost all transactions of goods and services are managed through e-SISTAFE. These transactions take place in real time and can be organized by main budget categories and sectors. The government is still working on including all wage and salary expenditures in e-SISTAFE. The budget directorate has a well-established system of budget classification, but little has been done to introduce subfunctional classifiers. The PEFA 2006 report notes that since 2003 when the new (Government Finance Statistics-compatible) budget classification system was introduced, there have been significant improvements. However, no specific initiative to introduce subfunctional classifiers was attempted. That is, the system classifies the budget along 10 principal functions despite having the possibility of using 69 subfunctions. The government uses the budget classification system to track the budget and has improved the quality of information in the budget reports. The PEFA score for the quality of information in budget reports improved (table 5.3).

Table 5.3 Outcomes and Indicators for Budget Formulation and Evaluation

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met?* | *Baseline* | | *CAS goal* | *Results* | |
|---|---|---|---|---|---|---|---|
| | | | *Period* | *Value* | | *Period* | *Value* |
| 1. SISTAFE introduced in 2004/05, with functional classification | Yes | Yes | 2003 | No system | SISTAFE operating | Sept. 2005–present | Supports budget execution |
| 2. Classification of budget transactions done | Yes | No | 2004 | | | | |
| a. PI-5 Classification of the budget | No | No | 2004 | B * | | 2006 | B |
| b. PI-8 (iii) Extent to which consolidated fiscal data are collected and reported for general government according to sectoral categories | No | No | 2004 | D | | 2006 | D |
| 3. Classification used for budget tracking | Yes | Yes | 2004 | | | | |
| PI-24 Quality and timeliness of in-year budget reports | No | No | 2004 | C+ | | 2006 | C+ |
| of which (iii) Quality of information | No | Yes | 2004 | C | | 2006 | B |

* PEFA Report 2006, p. 34.
*Source:* For PEFA ratings, PEFA Report 2006 (Lawson et al. 2006). This report rates the results for 2006 but covers trends up to 2007.
*Note:* CAS= Country Assistance Strategy; PEFA= Public Expenditure Framework Assessment; SISTAFE= State Financial Administration System.

*(c) Enhance credibility of the budget*

**This sub-objective has largely been achieved.** The assistance sought to increase the credibility of the budget by making the outturn of the budget as close as possible to the original budget plan, and by making the transactions of the budget more reliable (table 5.4). The evaluation concludes that the intermediate indicator “outturn close to budget” shows improvement. This is because the scores for two PEFA proxy indicators rose, one stayed unchanged, and one fell.

Moreover, the change in scores suggests that the gain from those that improved (that is, aggregate revenue outturn compared to original approved budget and stock and monitoring of expenditure payment arrears) exceeds the loss from the one that regressed (that is, composition of expenditure outturn compared to that in the original approved budget).

The reliability of budget transactions has also improved as the availability of funds to pay for committed expenditures is more predictable, and the government records and manages better its cash balances, debts, and guarantees. The government needs to further improve its record on collecting tax payments, which it could do by collecting with more vigor its tax arrears. Its collection rates for arrears were 3.93 and 3.94 percent in 2005 and 2006, well below the benchmark of 60 percent required to receive a score of C in this dimension of the PEFA (PI-15).

Table 5.4 Outcomes and Indicators for Credibility of the Budget and Budget Execution

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met?* | *Baseline* | | *CAS goal* | *Results* | |
|---|---|---|---|---|---|---|---|
| | | | *Period* | *Value* | | *Period* | *Value* |
| 1. Outturn close to budget (e.g., measured by budget deviation index, i.e., sum of shortfalls and overruns as a percentage of budget) | Yes | Yes | 2004 | | See col. 1 | 2006–07 | |
| a. PI-1 Aggregate expenditure outturn compared to original approved budget | No | No | 2004 | B [a] | | 2006–07 | B |
| b. PI-2 Composition of expenditure outturn compared to original approved budget | No | No | 2004 | B | | 2006 | C |
| c. PI-3 Aggregate revenue outturn compared to original approved budget | No | Yes | 2004 | B | | 2007 | A [b] |
| d. PI-4 Stock and monitoring of expenditure payment arrears | No | Yes | 2004 | D+ | | 2006 | B+ |
| 2. Reliability of budget transactions improved | Yes | Yes | 2004 | | | 2006 | |
| a. PI-15 Effectiveness in collection of tax payments | No | No | 2004 | D+ | | 2006 | D+ [c] |
| b. PI-16 Predictability in the availability of funds for commitment of expenditures | No | Yes | 2004 | D+ | | 2006 | C+ |
| c. PI-17 Recording and management of cash balances, debt and guarantees | No | Yes | 2004 | B+ | | 2006 | A |

a. The 2004 PEFA review gave a score of A to this dimension, but the 2006 PEFA review says it would have scored it B (see p. 30 of the 2006 PEFA report). For 2004 this review uses a score of B.

b. The 2006 PEFA report gave a C to this indicator but notes that "if collections in excess of 97% of estimates were again to be achieved in 2007, the score for this indicator would be an 'A' if a PEFA assessment were to be undertaken in 2008." Because in 2007 actual collection exceeded the estimated collection (ratio was 102 percent), this review increased the rating to A as the 2006 assessment suggested.

c. The PI-15 rating is pulled down by the low collection rate for tax arrears, 3.93 percent in 2005 and 3.94 percent in 2006. At end of 2006, tax arrears amounted to Mts1.4 million, comprising around 219,000 cases.

*Source:* For PEFA ratings, PEFA Report 2006 (Lawson et al. 2006).
*Note:* CAS= Country Assistance Strategy

*(d) Create organizations and build capacity*

**This subobjective has largely been achieved (table 5.5). The three intermediate indicators identified in the Bank's strategy were met.** First, the government merged the agencies that collected internal and external revenues, and created a single Mozambican Tax Authority. Second, the government implemented the Treasury Single Account to manage revenues and expenditures. Third, the government developed its accounting and auditing capacity, which has led to improvements in this field.

The PEFA review provided additional insights, pointing to improvements in the internal controls for nonsalary expenditures as well as to increased effectiveness of internal auditing. No change has taken place in the scope, nature, and follow-up of external audits. The number of audits increased from 53 in 2005 to 102 in 2006. Although this indicates an improvement in the capacity to produce and deliver audits, the number in 2006 falls short of the 208 planned for that year. Lastly, the Administrative Tribunal audited about 25 percent of government accounts in 2007, possibly an improvement over 2004, but below the international norm of 75 percent.

Table 5.5 Outcomes and Indicators for Creating Organizations and Building Capacity

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met/Up?* | *Baseline* | | *CAS goal* | *Results* | |
|---|---|---|---|---|---|---|---|
| | | | *Period* | *Value* | | *Period* | *Value* |
| 1. Revenue authority created | Yes | Yes | 2004 | DGA & DGI operating | One authority operating | 2008 | ATM operating: |
| 2. Treasury Single Account (CUT) implemented (no indicator defined) | Yes | Yes | 2003 | No CUT | | 2004-08 | CUT in place |
| 3. Accounting, auditing capacity developed (no indicators defined) | Yes | Yes | 2004 | | No | 2006-07 | |
| a. PI-20 Effectiveness of internal controls for non-salary expenditures | No | Yes | 2004 | D + | | 2006-07 | B |
| b. PI-21 Effectiveness of internal audits | No | Yes | 2004 | C + | | 2006-07 | B |
| c. PI-26 Scope, nature, and follow-up of external audit | No | No | 2004 | D + | | 2006-07 | D + |
| d. Audit reports prepared | No | No | 2005 | 53 | | 2006 | 102 |
| e. Government accounts verified by *Tribunal Administrativo* (percent) | No | Inconclusive | 2004 | | | 2007 | 25% * |

*Source:* For PEFA ratings, PEFA Report 2006 (Lawson et al. 2006).
*Note:* Individual ratings of separate PEFA categories cannot be combined into one single rating (that is the case of the indicators in rows 3a-3c).
* IMF, *Report on Observance of Standards and Codes: Mozambique —Fiscal Transparency Module*, IMF Country Report No. 08/152, May 2008, page 37, par. 63. The international norm is 75 percent, but Mozambique started only recently to produce these reports, so that goal may be too high at this point.
*Note:* ATM= Mozambican Tax Authority *(Autoridade Tributaria de Mozambique);* CAS= Country Assistance Strategy; CUT= Treasury Single Account *(Conta Único do Tesouro)*; DGA= General Directorate of Customs *(Direccao Geral de Alfandegas)*; DGI= General Directorate of Taxes *(Deireccao Geral de Impostos)*;

*Contribution of Bank Assistance to Improved Budget Allocation and Execution*. Bank assistance supported this objective with AAA and lending. The CFAA and the PERs, produced in 2001–03, identified the main problems in financial management and in public expenditure management at the global and sector level. They also helped to identify possible solutions to the problems. Together with the work of other donors—especially the IMF—the reports contributed to creating a blueprint for financial management and public expenditure reform, which has been an important objective of donor assistance throughout the years. Because the Joint Reviews focus on public expenditure management issues, they help build the foundation for the actions that donors support.

The EPMSO credit (FY03) had three components, one of which concerned public sector management. The component sought to increase the budget coverage of the various ministerial receipts and to standardize the modalities of donor flows. The credit did not achieve its objective of reflecting all off-budget funds in the budget or in its execution. However, the government started to include some off-budget revenues in the budget and to report in the quarterly budget execution report some of the expenditures financed with donor funding.

Actions under the PRSCs covered spending in priority sectors, implementing SISTAFE, approving a new procurement decree, rolling out the e-SISTAFE to the Ministry of Education and Culture, and concluding the study on "off-budgets" in the health sector, and initiation of implementation of its recommendations as evidenced by the 2006 budgetary proposal. As a result, the funds from PRSCs, as well of other donors that provided general budget support, helped to improve budget allocation and budget execution.

The Public Sector Reform Project that started in early 2003 aimed to support the restructuring of the public sector, professionalization of public servants, and governance. After two and half years, the project had advanced little and its design and implementation problems had become evident. The project was extremely ambitious and lacking in realism. Key priorities were diffuse, intended outcomes were unclear. Finally, champions were missing. Disbursements fell far behind plans, and it became evident that the project was overfunded. The expected results of the project have not yet been achieved.

**In sum, the Bank has achieved its objective of improving budget allocation and execution.** The authorities have improved the budget system. Reforms of the system started with the introduction of the *Sistema de Administraço Financeira do Estado* (SISTAFE) after parliamentary approval of a new Public Finance Management Law in 2002. Later, the government installed e-SISTAFE, an electronic accounts system that provides full control and up-to-date information about expenditures and revenues.

Three main results from the changes introduced are relevant for the assistance. First, the funds managed off budget have decreased. The proportion of funds from Program Aid Partners going into the budget increased from zero in 2001 to 98 percent in 2007, and the proportion of the partners' ODA disbursed using government budget execution procedures increased from zero in 2001 to 61 percent in 2007. Second, all transactions of goods and services are now managed with e-SISTAFE. These transactions take place in real time and can be organized by main budget categories and sectors. Third, a Treasury Single Account (CUT) is operating for most goods and services. Despite progress, further improvements are needed to extend the coverage of e-SISTAFE to include funds managed off budget and enhance public expenditure efficiency. **The outcome of Bank assistance in this area is judged *satisfactory.***

## Stronger Government Monitoring and Evaluation Capacity

**The evaluation finds that the government has made progress in improving its monitoring capacity, but little has been achieved in enhancing its evaluation capacity** (table 5.6). The government produces several documents that constitute a planning and monitoring tool: an Economic and Social Plan (PES), a report on results of the PES known as *Balanço do PES* (BPES), the Budget, the Medium-Term Expenditure Framework (MTEF), and the PAF. These documents lay the foundation for meeting the goals established in the PARPA. The PARPA has been an important tool for the government, setting priorities, areas for intervention, and monitoring indicators (through the PAF), imposing some discipline to monitor and, eventually, evaluate the programs. The government participates in two annual reviews (Joint Review and Mid-year Review) with its Program Aid Partners (G19) that provide direct budget support. The Bank, as a member of the group, participates in these meetings. During the reviews, development partners and government agree on future annual targets for the PAF, analyze the government's performance in implementing the PARPA, and discuss other issues that development partners want the government to heed. The exercise, which started in 2004, has helped the government improve its monitoring capability.

**The numerous documents and the multitude of indicators in the PAF (52 for 2006 and 40 that are changed frequently for the 2007–09 PAF) suggest that the monitoring effort is probably overdone/not efficient, and that both development partners and government need to consider whether the intensity of monitoring is necessary and useful.**[9] Development partners use these documents extensively and demand a lot from the government in terms of reporting requirements. The focus on various aspects of monitoring and the frequent change of indicators appear to have undermined the role of evaluation and the importance of enhancing the government's capacity to evaluate its programs. This evaluation suggests that development partners and the government consider settling for a smaller number of indicators, perhaps one or two per element of the program, and agreeing on the result that they expect to achieve in the medium term. Doing so may lead to more effective monitoring, and, at the same time, to the creation of the evaluation capacity that the country needs.

Table 5.6 Outcomes and Indicators for Stronger Monitoring and Evaluation Capacity in Government

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met?* | *Baseline period* | *Results* | |
|---|---|---|---|---|---|
| | | | | *Period* | *Value* |
| 1. Intermediate indicators | | | | | |
| a. Annual *Balanço do PES* made principal PARPA monitoring tool | Yes | Yes | 2004 | 2005–08 | Annual reports |
| b. PAF matrix regularly updated, to keep PARPA relevant | Yes | Yes | 2004 | 2005–07 | Annual updates |
| 2. Outcome indicators | | | | | |
| a. PES better integrated with PARPA and MTEF (planning documents) | Yes | Yes | | | |
| b. Improved consistency between PARPA, MTEF, PES, and Budget (PAF #36) | CASPR 2006 | Inconclusive | | | |

*Source:* CAS 2003, October 20, 2003, Table 7 and Annex 1, pp. 24 and 51, and CASPR 2006 February 21, 2006, Annex II.
*Note:* CAS= Country Assistance Strategy; CASPR= Country Assistance Strategy Progress Report; PAF= Performance Assessment Framework; PARPA= Action Plan for the Reduction of Absolute Poverty, the Portuguese acronym for Poverty Reduction Strategy Paper-PRSP); PES= Economic and Social Plan; MTEF= Medium-Term Expenditure Framework.

**Little appears to have been achieved in terms of improving evaluation.** The 2009 BPES, an annual evaluation of the Economic and Social Plan, exemplifies the advances made in monitoring, but it also shows how little the government has been able to do to evaluate programs and policies. The BPES lists actions taken and outputs produced, but does not establish if the programs improve the standard of living of Mozambicans or if the resources devoted to the programs generate net benefits to the country. Still, there is room to improve the consistency between the PARPA, the MTEF, the PES, and the budget.[10] Despite the effort to reduce the gap between plans and actions, there are discrepancies between proposed and actual expenditure in priority sectors in 2007 and 2008. According to the BPES, the execution rate of the budget for priority sectors fell from 83.4 percent in 2007 to

70.4 percent in 2008, and the actual increase in expenditure was 11.7 percent and not the proposed budget increase of 31.7 percent.[11]

**The advances in planning, managing, and monitoring the budget have not yet translated into better government capacity to prepare and evaluate projects and programs.** Although the assistance did not envision e-SISTAFE as an M&E tool, this system may constitute the most significant step for improving the government's capacity to monitor and evaluate the impact of its programs and the foreign assistance received. E-SISTAFE does not yet cover all of the budget accounts, but it has already sufficient coverage of expenditures to be used as an M&E tool.

The Bank's influence in improving government monitoring and evaluation capacity took place largely through participation in the annual reviews that the government and the G19 conduct. This has helped the government improve its monitoring skills, which is evident in the government documents used as monitoring tools. The Bank's two PERs, produced in 2002 and 2003, helped to identify the problems in public expenditure management and possible solutions to these problems. Because the annual reviews pay attention to public expenditure management issues, the two reports helped to lay the foundation for these reviews and, indirectly, the government's monitoring capacity. **The outcome of Bank assistance is rated *moderately satisfactory*.**

## Reduced Corruption

**The objective of reducing corruption was not achieved, whether measured by intermediate or outcome indicators.** For the intermediate indicators, the survey for 2004/05 was completed, but no other governance and anticorruption survey has been carried out since 2005 (table 5.7).[12] In April 2006, the government prepared an anticorruption strategy for 2006–10, but it has not advanced much in implementing it. The government replaced the anticorruption unit in the attorney general's office with a Central Anti-Corruption Office and opened provincial offices. But "several factors…made it difficult to analyze the present stage of the implementation of the national and sector strategies in the fight against corruption, compromising the effectiveness of the established mechanisms."[13] An anticorruption strategy was formulated, but—owing largely to the lack of political will—has yet to be implemented. In terms of outcome indicators, the number of cases of corruption reported to the Gabinete Centraol de Anti-Corrupcao (GCCC) in the period up to 2007 was not reported in the 2008 Program Aid Partners Joint Review (table 5.7). There are some data available for 2008 and 2009, pointing at an acceleration in the number of proceedings related to cases of corruption, and a few trials have started.

Table 5.7 Outcomes and Indicators for Reduced Corruption

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met?* | *Baseline* | | *CAS goal* | *Results* | |
|---|---|---|---|---|---|---|---|
| | | | *Period* | *Value* | | *Period* | *Value* |
| 1. Intermediate indicators | | No | | | | | |
| a. Governance surveys completed and anticorruption action plan implemented by 2006 | Yes | No | 2004 | | Surveys in 2004, 2005 | 2005 | One in 2005 |
| b. Improvement in the scores for the government of the governance survey (in 2004 and 2005) | Yes | | 2004 | none | | | 21 over 100 [a] |
| 2. Outcome indicators | | No | | | | | |
| a. Proportion of cases of corruption reported to | CPR | No | 2004 | 0 | | 2007 | 0 [b] |

| | | | | | |
|---|---|---|---|---|---|
| the *Gabinete Central de Anti-Corrupçao* (GCCC) that are brought to a conclusion (PAF # 42) | 2006 | | | | |
| b. Higher government capacity to identify and address corruption issues | Yes | No evidence | 2004 | | |

*Source:* CAS 2003, October 20, 2003, pp. 24 and 51, and CASPR, February 21, 2006, Annex II, pp. 41-42 for intermediate and outcome indicators.
*Notes:* a. Austral Consultoria e Projectos Ltda, *Governance and Anti-Corruption Diagnostic Survey* (2005), Box 4A in page 127. The maximum value is 100, and this value measures the worst case of corruption.
b. Republic of Mozambique-Program Aid Partners, Joint Review 2008, Aide Memoire, 30 April 2008, p. 6, par. 22. PAF 42 states the result as "A significant increase in the number of serious cases that the GCCC has brought to a conclusion" (=fully investigated and, when relevant, judged).
*Note:* CAS= Country Assistance Strategy; PAF= Performance Assessment Framework.

**The evidence presented suggests that corruption is still a serious issue (see** box 5.1)**, and that dealing with it requires better tools and greater creativity than the Bank displayed in its assistance.**[14] The governance survey was a necessary step in learning about the status of corruption in Mozambique, but a survey alone cannot reduce corruption. The indicators the strategy identified are vaguely linked to solving problems (for example, prosecuting cases by the anticorruption office) in a country where petty corruption is widespread. **The outcome of Bank assistance is rated *unsatisfactory*.**

### Box 5.1 The Perception of Corruption Remains High

The 2004/05 governance survey found that many people considered corruption widespread. More than 30 percent of households believe there is corruption in the public sector; 60 percent of government officials believe there is; and more than 40 percent of those interviewed in enterprises think so. The cost of bribes was high. Expressed as a proportion of the reference salary for each group, low-income households paid 11 percent, average income households paid 7 percent, and high-income households paid 9 percent. Expressed in GDP per capita these numbers are higher because the reference salaries of the survey exceeded per capita GDP in 2004.

As the government carried out only one governance survey, there are no national data series to establish whether the scores on corruption improved. However, observers of corruption in Mozambique tend to agree that corruption is widespread, and that the levels of corruption have changed little over a decade. The table below summarizes indicators of corruption gathered by four different agencies. It illustrates corruption levels and trends since 2000.

According to the World Bank Institute, the control of corruption has shown some improvement since 2005 (though the change is not statistically significant). Conversely, the Ibrahim Index of Governance for African countries shows that Mozambique fell in terms of its index rating in 2008. The Corruption Perception Index of Transparency International shows little change in the absolute level of its index. Finally, the Political Risk Services International Country Risk Guide shows deterioration early in the decade and improvement since 2007, but no change between 2003 and 2007.

Corruption Indicators, 2000–08

| | *2000* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008* |
|---|---|---|---|---|---|---|---|---|
| 1. Control of Corruption (World Bank Institute) | | | | | | | | |
| a. Level of indicator ( -2.5 most corrupt; 2.5 least corrupt) | -0.68 | -0.72 | -0.69 | -0.74 | -0.67 | -0.66 | -0.62 | -0.55 |
| b. Percentile rank | 29.6 | 31.1 | 31.1 | 27.2 | 32.0 | 30.6 | 32.9 | 34.3 |
| 2. Ibrahim Index of Governance | | | | | | | | |
| a. Rank among 48 countries | 16 | 16 | 17 | 16 | 18 | 20 | 22 | 26 |
| b. Total index for Mozambique (0 lowest, 100 highest) | 53 | 53.3 | 53.3 | 53.8 | 53.4 | 53.8 | 53.8 | 52.4 |
| i. index for safety and rule of law, accountability and corruption | 44.5 | 44.5 | 47.0 | 47.4 | 47.0 | 46.9 | 50.2 | 50.3 |
| 3. Corruption Perception Index -Transparency International | | | | | | | | |
| a. CPI score (0 highly corrupt, 10 highly clean) | | | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 | 2.6 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| b. Ranking | | | 86 | 90 | 97 | 99 | 111 | 126 |
| c. Countries in ranking | | | 133 | 145 | 158 | 163 | 179 | 180 |
| d. Percentile rank | | | 35% | 38% | 39% | 39% | 38% | 30% |
| 4. International Country Risk Group Corruption Rating (1-6; 1 most corrupt) | 2.0 | 1.75 | 1.5 | 1.5 | 1.5 | 1.5 | 1.75 | 2.0 |

*Source:* 1. *World Bank control of corruption from http://info.worldbank.org/governance/wgi/index.asp; 2. The Ibrahim Index of Governance from http://www.moibrahimfoundation.org/; 3. Corruption perception index from http://www.transparency.org/*
*Note:* CPI= Corruption Perceptions Index.

## Increase Efficiency in the Provision of Services by the Justice System

**The Bank assistance did not achieve the expected results, whether measured by intermediate or outcome indicators.** Regarding the intermediate indicators, the government was unable to meet the schedule for the creation of judicial sections for commercial disputes and did not revise all the codes the assistance expected. However, the number of cases resulting in sentencing increased over the base period of 2002, indicating some productivity improvement. In terms of outcome indicators, neither the legal framework nor the efficiency of courts to solve business disputes improved. The evaluation cannot ascertain if the number of citizens with knowledge of their rights increased. The evaluation also lacks information to conclude that access to justice has increased (table 5.8).

Regarding the legal framework, the Bank sought to help bring about revisions to the Penal, Civil Procedure, and Civil Registry and Notary Codes that would strengthen the legal framework for businesses. However, only the Civil Registry and Notary Codes were revised.[15] The evidence on outcomes dealing with the legal framework points to a deterioration in the business environment as measured by the time required to complete certain business processes (for example, dealing with licenses and closing a business, as shown in table 5.8). This finding suggests that the revisions to the codes did not produce the expected results, or that some other factors offset the expected benefit from the revisions.

With respect to the resolution of business disputes, the Bank sought to help create judicial sections for commercial disputes in Maputo, Nampula, and Sofala that would lead to a reduction in the time required to resolve them. None of the PRSCs supported the creation of dedicated judicial sections for solving business disputes. PRSC 2 listed as a trigger for PRSC 3 the creation of the special section in the court of Nampula, but PRSC 3 dropped this as a prior action.[16] Moreover, the evidence on outcomes shows that the number of days required for enforcing contracts—the proxy indicator for the expected outcome of the assistance—almost doubled.

Regarding the productivity of the courts, the only part of the assistance that could be associated with it comes through the budget support via the PRSCs and the condition on a minimum budget for priority sectors.[17] Neither the strategies nor the PRSCs linked budget support to increases in productivity because the Bank's programmatic aid was not geared to support judicial aspects.[18] Regarding the Judicial Component of the Public Sector Reform Project, none of the results in table 5.8 can be associated with the project. This component, which closed at the end of 2009, disbursed only $1.1 million of the $4.9 million allocated to it. In summary, the project has not produced any significant results.[19] Therefore, it can be argued that Bank assistance, which sought to help reinforce the capacity of the judiciary, has had little influence. **Overall, the outcome of the assistance is rated *unsatisfactory.***

Table 5.8 Outcomes and Indicators for Increase Efficiency in Provision of Services by the Justice System

| *Outcomes and Intermediate Indicators* | *CAS 2003?* | *Met/Up?* | *Baseline* | | *CAS goal* | *Results* | |
|---|---|---|---|---|---|---|---|
| | | | *Period* | *Value* | | *Period* | *Value* |
| 1. Intermediate indicators | | | | | | | |
| a. Dedicated judicial sections for commercial disputes created in Maputo and Sofala by 2005 and Nampula by 2006 | Yes | Yes[c] | | | | | [a] |
| b. Codes revised by 2005: Penal, Civil Procedure, Registry and Notary | Yes | No | | | | 2006 | Civil, Notary [b] |
| c. Increase in the number of cases sentenced/closed (PAF # 45) | CPS 2006 | Yes | 2002 | | 50% over 2002 | 2006 | 109% |
| d. Increase in the number of citizens with knowledge of their rights and responsibilities. | CPS 2006 | No evidence | | | | | |
| 2. Outcome indicators | | | | | | | |
| a. Time required for judicial resolution of business disputes reduced | Yes | No | 2004 | 540 days | | 2007 | 1010 |
| Days required for enforcing contracts | | | 2005 | 580 | | 2007 | 1010 |
| b. Legal framework for business strengthened | Yes | No | | | | | |
| i. Days to start a business | | | 2004 | 153 | | 2007 | 113 |
| ii. Days to deal with licenses | | | 2006 | 212 | | 2007 | 364 |
| iii. Closing a business (years) | | | 2005 | 5 | | 2007 | 5 |
| c. Increase the productivity of the courts and prosecutor's office. | CPS 2006 | Yes | | | | | |
| i. Processes judged (*Procesos juzgados*) -average growth rate- | | | 2005 | | | 2007 | 20% |
| ii. Processes completed (*Procesos despachados*) | | | 2005 | 20,323 | | 2007 | 25,905 |
| d. Increase the number of judicial verdicts reached | CPS 2006 | Yes | See row 1c. | | | | See row 1c. |
| e. Increase access to justice for citizens through improved communications, information, and technology | CPS 2006 | No evidence | | | | | |

*Sources:* For a list of intermediate and outcome indicators (col. 1) CAS 2003, October 20, 2003, pp. 24 and 51; CASPR, February 21, 2006, Annex II, pp. 41-42. For processes judged and completed (rows 2di. and 2dii), Ministerio da Justiça, *Programa Quinquenal do Governo 2004-2009, Balanço Intermedio*, December 2008, p. 5. For indicators of business climate (rows 2a. and 2b), The World Bank, *Doing Business*, several years.

a. PRSC 1 program matrix reduced the scope of this indicator and restricted it to the creation of a commercial dispute resolution in Nampula. The matrix set it as a trigger measure for PRSC 3, but PRSC 3 did not take it as a prior action. b. Identified in PRSC 1 as a trigger for PRSC 2, and taken in PRSC 2 as prior action (PAF indicator # 49). c. As of September 2009 (outside of the evaluation period of this CPE), courts have been established in the main cities of Maputo, Beira, and Nampula, financed by the Bank's FSTAP project, see also footnote 16.

*Note:* CAS= Country Assistance Strategy; CPE= Country Program Evaluation; CPS= Country Partnership Strategy; PAF= Performance Assessment Framework; PRSC= Poverty Reduction Support Credit.

## Overall Rating for Pillar III

**In sum, the evaluation rates the overall outcome of Bank assistance under the governance pillar *moderately satisfactory*.** In reaching this conclusion, the evaluation placed greater weight on the results for the objective of improved budget allocation and execution for two reasons. First, this pillar directly covers an important part of the Bank's assistance, provided as budget support. Second, the budget represents about 28 percent of GDP, substantially above the norm for developing countries. Therefore, improvements in budget management and allocation constitute an important step in strengthening accountability and capacity in the public sector.  Eventually these improvements will also lead to a reduction in corruption through better control of the accounts and better tracking of where budgetary resources are being spent.  In other words, this evaluation stresses the importance of better budget institutions for resource allocation and accountability.

# Chapter 6
# Evaluation of IFC Activities in Mozambique, FY2001–08

## Developments Relating to the Private Sector

**Foreign-owned mega-projects have been important contributors to economic growth. However, private sector growth in other sectors has been limited.** The Mozambican economy has made impressive progress since the conflict ended in 1992. As indicated in table 3.2, GDP growth has averaged about 8 percent per year over the past decade, substantially above the Sub-Saharan African average of 5 percent.[1] Growth has been export-led with the export of goods and services increasing from 17.5 percent of GDP in 2000 to 39 percent in 2007. Over the same period, net FDI increased from 3.3 percent of GDP to 5.4 percent. However, several mega-projects account for most of the growth in output, exports, and FDI—in fact, four mega-projects account for about 13 percent of GDP, 71 percent of exports, and 0.4 percent of employment.[2,3] The rest of the private sector has experienced modest growth. The incidence of poverty remains high, and private sector capacity is low.

**Private sector development has been severely constrained by a weak business enabling environment.** Mozambique has considerable natural and mineral resources and is geographically close to South Africa, the largest market in Africa. The country's natural endowments offer potential for growth in the tourism, agriculture, transportation, mineral, and mining sectors. A major challenge to realizing the country's growth potential is the poor investment climate, including rigid labor laws, limited access to finance, and excessively bureaucratic procedures in establishing and operating businesses.[4] Access to finance, particularly for SMEs, has been limited and costly. There have been some reforms to improve the investment climate, but these have not yet resulted in significant improvement in the business regulatory environment. According to the Institutional Investor Country Credit Risk Ratings, the country is rated high risk, although its rating has improved in recent years. Much remains to be done on the investment climate to improve the conditions for private-sector growth.

**Although the global financial crisis has not had a direct impact on Mozambique, secondary effects may be significant.** Based on the latest Global Development Finance estimates, Mozambique's GDP growth is likely to drop by two percentage points in 2009 (from 6.4 percent to 4.5 percent), and then increase to 4.9 percent in 2010. However, because of the sharp decrease in private capital flows to developing countries as well as a possible decrease in donor support and weakened export markets, GDP growth prospects for the country are highly uncertain.

## IFC Objectives in Mozambique

Three joint CASs and two CASCRs have been presented to the Board since 2000. All CASs articulated similar broad strategic objectives. During the review period, IFC mainly sought to support Pillar I, particularly through the private sector development component. Its stated objectives were to: (i) enhance support to SMEs, including improving the enabling environment for private sector participation; (ii) promote tourism; (iii) develop infrastructure and mining; (iv) build and strengthen financial markets; (v) support health and education; and (vi) support agribusiness. Appendix A, table A.22, presents IFC's specific objectives and areas of support.[5]

**The IFC objectives identified in the CASs were relevant to country needs and in line with IFC's Africa Strategy.**[6] IFC's strategy not only sought to address Mozambique's weak private sector, particularly for SMEs, it also targeted sectors with clear growth and export potential, such as tourism and mining— sectors where impediments in the business enabling environment prevented this potential from being realized. Despite some progress, the country's business enabling environment has been weak. The government's action plan for the reduction of absolute poverty (PARPAs I and II) identified increasing economic opportunities by generating poverty-reducing and employment-creating growth through the private sector as one of its main priorities. Thus, IFC's areas of support and objectives were aligned with country needs and government strategy.

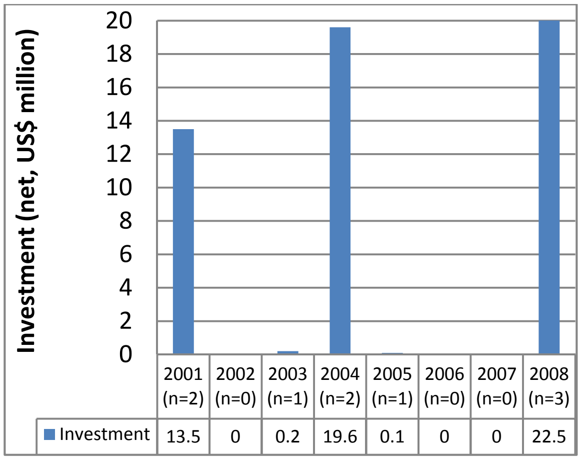
## IFC Activities during the CAS Period

### INVESTMENT OPERATIONS

From FY2001–08, IFC invested $56 million in nine projects in Mozambique (see figure 6.1). Three of these projects (16 percent by volume) were in financial markets, including a trade finance facility, and a credit line to a Mozambican bank under the Africa MSME (micro, small, and medium enterprise) program; three projects (27 percent by volume) were in agribusiness, supporting grain milling and storage; and one Small Enterprise Fund (SEF) project (1 percent by volume) was in the industrial sector (see figure 6.2).[7] The two other projects (57 percent by volume) were mega-projects in extractive industries. Additionally, IFC invested in a regional project, the Eastern African submarine cable system, which covers Mozambican coastal areas. In FY09, IFC made one investment in the mining sector.

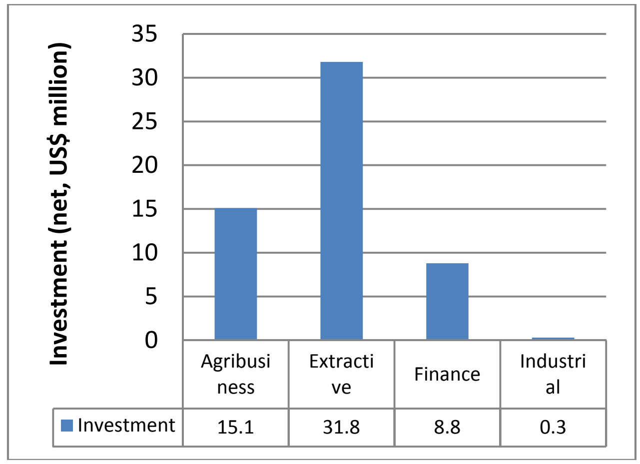
**In addition to these nine new projects from FY2001–08, IFC had 18 other active investments ($129 million net commitments) during the review period.** These investments were in agribusiness, tourism, metals, extractive industries, and financial markets. Out of 27 total active investments during the review period, 11 were under the SEF and Africa Enterprise Funds (AEF).[8] The active portfolio was dominated by two mega-projects: (i) a $121 million investment in the Mozal aluminum smelter plant—the single largest private sector investment in the country at the time; and (ii) an $18.5 million equity investment in the development of the Pande and Temane gas fields that delivers natural gas to South Africa.

Figure 6.1 Investments by Year, FY2001–08




*Source:* IFC database as of July 2009.

Figure 6.2 Investments by Sector, FY2001–08




*Note:* Extractive industries include metals.
*Source:* IFC database as of July 2009.

During the FY2001–08 period, the size of IFC investments ranged from $200,000 to $18.5 million, with an average investment size of $6.2 million. The investment volume, average commitment size, and IFC's investment commitment per capita in Mozambique were similar to IFC's experience in comparable regional countries, with the exception of Uganda (see table 6.1). During the review period, IFC had a total of 9 projects. However,IFC could generate new investments only in three years. Comparable countries such as Madagascar and Uganda also faced the same challenge.

Table 6.1 New Investments Benchmarked against Comparator Countries, FY2001–08

| | *Mozambique* | *Madagascar* | *Tanzania* | *Uganda** | *SSA* |
|---|---|---|---|---|---|
| Net IFC commitment volume (US$000) | 56,014 | 35,373 | 78,309 | 163,351 | 4,376,840 |
| Number of IFC projects committed | 9 | 8 | 9 | 7 | 246 |
| Average IFC commitment size (US$000) | 6,222 | 4,421 | 8,700 | 23,335 | 17,792 |
| Share of IFC commitments/FDI (%) | 3 | 2 | 2 | 8 | 4 |
| IFC investment commitments per capita FY01–08 (US$) | 2.01 | 1.95 | 2.09 | 5.83 | |

*The high volume in Uganda is due to the Bujagali hydropower project, without it IFC's investment in Uganda drops to just $1.7 per capita.
*Source:* IFC and World Bank Development Data Platform database as of July 2009.
*Note:* FDI= foreign direct investment; IFC= International Finance Corporation; SSA= Sub-Saharan Africa.

IFC was among several international financial institutions (IFIs) active in PSD in Mozambique during FY2001–08. Among the others, the European Investment Bank had the highest share of PSD investments in the country, followed by IFC (see Appendix A, table 22). The European Investment Bank's portfolio, like that of IFC, was dominated by mega-projects, including Mozal and Pande and Temane gas fields, which were cofinanced with IFC. The IFIs' portfolio totalled about $600 million, concentrating on energy, industry, the business enabling environment, SME development, and agriculture.

### ADVISORY SERVICES OPERATIONS

**IFC provided programmatic Advisory Services in SME linkages, SME capacity building, and tourism.** The projects implemented were in line with IFC's strategy for Mozambique. Twenty Advisory Services projects were implemented through the African Project Development Facility, the Private Enterprise Partnership (PEP) for Africa, and the Mozambique SME Initiative (MSI) for a total funding of $11 million during the review period.[9]

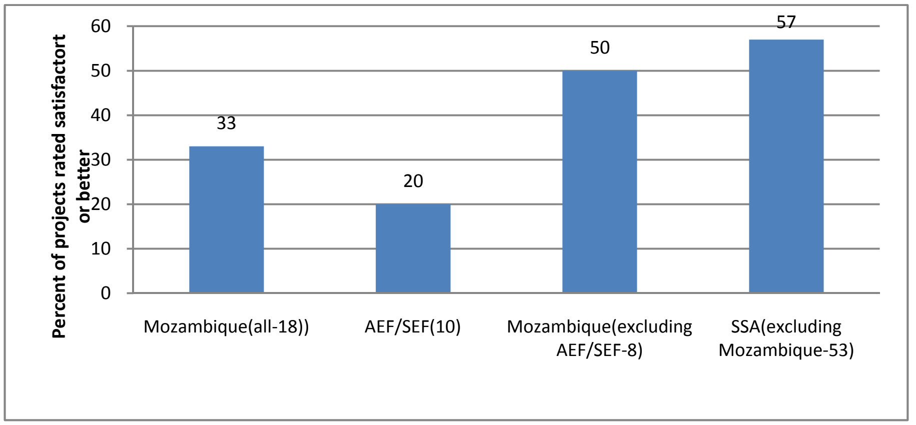
The operations were provided mainly to SME companies in the paper, food and beverages, manufacturing, and tourism sectors and to the government. More than half of these projects were programmatic and included developing linkages between mega-projects (Mozal) and local SMEs, capacity building to SMEs under MSI, and two advisory programs in the tourism sector. IFC advised the government of Mozambique in the Petromoc privatization effort and the selection of a developer for the Moatize coal mine. In addition, IFC provided financing for a feasibility study in the leasing sector, capacity building to a local bank for SME lending, advice on tax and administrative barriers, and the installation of pumps in primary schools in rural areas. In terms of coverage, one (5 percent) Advisory Services operation was economywide; four (21 percent) were sectorwide; four (21 percent) were connected to investments; seven (37 percent) were under MSI; and three (16 percent) were one-off projects.

Although some progress was made through the achievement of short and mid-term targets in some of the advisory services provided, none of these projects has achieved real long-term impact yet. Details of project achievements are explained next in the contributions to private sector development.

## Investment Outcomes

**IFC's investment results in Mozambique were mostly below the market benchmark for financial rates of return.** Thirty-three percent (92 percent by volume) of the 18 mature projects (including AEF/SEF projects) had satisfactory or better investment outcomes. The combination of low investment outcomes by number of projects with high investment outcomes by volume indicates that most of the unsuccessful project outcomes were in small projects. The projects with successful investment outcomes had an average commitment of $24 million, and unsuccessful investments had an average commitment of $1 million. Small investments tend to be correlated with high risk factors. The low outcomes were mainly AEF/SEF project loans, none of which were equity investments. Eight out of 10 AEF/SEF projects failed. The reasons for the low investment outcomes of these projects were weak sponsors, poor management, and inadequate IFC appraisal and supervision.[10] Given the high risk profile of these investments, a more appropriate instrument could have been equity rather than loan. IFC has since changed its approach and no longer invests in AEF/SEF-type small projects and instead reaches SMEs through financial intermediaries. The investment outcomes of the rest of the projects were somewhat lower than Sub-Saharan African results (see figure 6.3).

Figure 6.3 Investment Success Results




*Source:* IEG-IFC.
*Note:* AEF= Africa Enterprise Fund; SEF= Small Enterprise Fund;SSA= Sub-Saharan Africa.

**Compared to past years, IFC's portfolio quality has improved.** As of June 2009, the quality of IFC's investment portfolio in Mozambique remained mostly healthy. IFC's loan and equity credit risk ratings as of June 2009 indicated that the Mozambique portfolio had a low risk of loss compared to comparator countries (see table 6.2).[11] There is a contrast between the investment outcomes over the review period and the current quality of the portfolio. The current portfolio has improved since most of the unsuccessful projects have been closed, and the current portfolio includes bigger and less risky investments.

Table 6.2 Health of IFC's Portfolio

| *Loan/equity risk type* | *Mozambique* | *Madagascar* | *Tanzania* | *Uganda* |
|---|---|---|---|---|
| Good | 7 | 3 | 7 | 4 |
| Poor | 3 | 6 | 5 | 3 |
| Watch list | | 15 | 4 | 2 |
| Total number of investments | 10 | 24 | 16 | 9 |

*Source:* IFC database as of July 2009.
*Note:* Good – low risk of loss; Poor – high risk of loss; Watch list – medium risk of loss.
*Note:* IFC= International Finance Corporation

## IFC's Contributions to Private Sector Development

In Mozambique, IFC, together with IBRD and MIGA, promoted private sector development by helping to improve foreign investors' perception of Mozambique through: (i) mega-projects that led to follow-on projects; (ii) improvements in the capacity of some SME firms; (iii) provision of advise on privatization efforts to support private ownership; (iv) help to improve the business enabling environment in the tourism sector; and (v) support for SME linkages with large projects (although on a narrow basis). IFC's efforts to help develop the private sector were not as effective as intended in increasing access to finance for SMEs, improving corporate governance of some enterprises, expanding the positive investment climate that was created for mega-projects to the entire economy, l enabling environment for private business, and supporting agribusiness, health, and education.

ENHANCING SUPPORT TO SMALL AND MEDIUM ENTERPRISES

*Table 6.3 Bank Credit to Private Sector as a Ratio to GDP (percentage)*

| *Country* | *2000* | *2007* |
|---|---|---|
| Mozambique | 1.5 | 1.2 |
| Madagascar | 8.1 | 9 |
| Tanzania | 3.9 | 12.4 |
| Uganda | 5.5 | 9.6 |

*Source:* www.imfstatistics.org.

**The Mozambican investment climate remains one of the most difficult in the world.** In Mozambique, nearly 90 percent of the companies are small enterprises.[12] However, they accounted for just one-third of total sales (see Appendix A, table A.23). Despite some government and donor efforts, access to finance remains a major constraint for SME growth. For example, bank credit to the private sector has not improved over time, and has been far below levels in neighboring countries (see table 6.3). Some of the factors behind this low reach of the banking sector are discussed in chapter 3.

**IFC supported SMEs substantially through direct financing, SME linkages, the Mozambique SME initiative, and the Africa MSME initiative (AMSME) during the review period. However, outcomes have been below target.** IFC's direct support to SMEs was unsuccessful in most cases, although IFC reached a greater number of SMEs through indirect support.

*Direct Support to SMEs:* Direct financing of SMEs was an important element of IFC's investments in the Africa region in the 1990s. During the review period, IFC supported local SMEs with loan and equity investments through AEF and SEF.[13] These investments were mainly in the agribusiness, tourism, and industrial sectors. Even though the projects had promising investment and development prospects at appraisal, the results were disappointing.[14] In 2004, IFC, along with other donors (Swiss Economic Co-operation and the government of Finland), established the MSI, which sought to provide both SME financing and Advisory Services. The program is about to close. Eighteen companies received Advisory Services, but only a few received both financing and Advisory Services through the program.

Overall, the program's achievements have been below target. It has not been cost-efficient, and it faced significant delays in implementation. In addition, it dropped some of its originally planned activities. Among the reasons for low achievements were (i) constant changes of the program team; (ii) a shortage of qualified consultants; (iii) clients' weak financial and accounting systems; and (iv) the small number of firms who received Advisory Services that eventually received investment financing as well. IFC now plans to transfer management of the program to BPI international.

*Indirect Support to SMEs:* In 2001, in addition to providing financing for the expansion of Mozal, IFC launched a SME linkages program to improve linkages between Mozal and local SMEs. Twenty-five contracts worth over $5.0 million in total were awarded to SMEs through the first Mozal SME linkages program.[15] In addition, the program facilitated training for 33 SMEs. However, the program's sustainability remained a challenge as skill transfer was limited. The program provided Advisory Services to a relatively small number of firms, and in some cases the same firm received several contracts for goods and services. As a result, only a limited number of suppliers were supported rather than having capacity developed among a larger group of local SMEs.[16]

In 2007, IFC launched a new SME linkages program, Mozlink II, to increase the level of SME participation in the procurement supply chain of large industries. The program also included a "wellness" component (malaria, tuberculosis, and HIV/AIDS) integrated into part of the program. Instead of one partner, as in previous programs, the program has had four big corporate partners. Thus far, the program has provided some training and mentoring services to 45 SMEs. Some components of the project are on target, although access to finance, the number of trainers trained, the value of SME contracts signed, and some HIV/AIDS-related components are below target levels. In sum, it appears that strengthening the linkages between large companies and local SMEs in the country through capacity building is a challenging, long-term task requiring sustained involvement. In FY08, IFC extended a loan to a bank under the AMSME program that targets the growth of credit availability to MSMEs in Mozambique. However, it is too early to determine program results.

*WB-IFC-IDA Support to SMEs:* The World Bank also supported SMEs during the review period. There have been some efforts to increase the collaboration on SMEs between the two institutions in the past couple years. During the review period, the Financial Sector and Private Sector Development Group (a joint IFC-WB unit) conducted two enterprise surveys that focused on the factors that shape firms' decisions to invest. In FY09, IDA/IFC initiated a project to improve the business environment and enhance the competiveness of SMEs.

### PROMOTING TOURISM

**Although Mozambique has valuable tourism assets, such as coastal and marine resources, biodiversity, and cultural sites, the tourism sector has not developed as expected.** In 2004, 20 percent of all arrivals to Mozambique were for tourism, and in neighboring countries the average was about 70 percent. In 2003, tourism accounted for 1.2 percent of the country's GDP, far below the Sub-Saharan average of 6.9 percent. Difficulty with land acquisition and the lengthy and often opaque land application and licensing procedures have been important impediments to development of the sector.

**IFC's approach to advisory services in the tourism sector has evolved, but has yet to bear fruit.** In the 1990s, IFC invested in several tourism projects. However, starting in the early 2000s, it shifted its involvement in the sector from investment operations to advisory services. IFC's first program, the South East African Tourism Investment Program, was launched in 2003. The program was one of the first donor-supported programs in Mozambique to focus entirely on the development of tourism. It analyzed the enabling environment for tourism and identified the issues and complexities in the sector. However, the program did not deliver any tangible outcomes, and there were no investments made through the program.

In 2006, at the request of the Ministry of Tourism, IFC launched the Mozambique Tourism Anchor Investment Program, a project development facility aimed at creating investment opportunities. The program has achieved many of its objectives, such as identifying and securing anchor investment sites, conducting an international tourism investment promotion program, and drafting new legislation. However, no investments have been generated in anchor sites as originally intended. As a result, no SME linkages and local community capacity-building program were realized since these activities were designed around the new investments. The current global crisis and upcoming elections have contributed to delays in program implementation.

In addition to these two investment programs, the Foreign Investment Advisory Service (FIAS) prepared a value chain analysis in the tourism sector and presented the findings and recommendations for policy reforms to the government in a workshop. IFC activities helped the tourism sector to understand the issues impeding its development and to address some of the issues identified. However, the programs could not reach their main objective of stimulating new investments in the sector.

#### DEVELOPING INFRASTRUCTURE AND MINING

**IFC supported two government privatization efforts, one of which reached financial closure.** During the review period, the government requested IFC assistance with the privatization of Petromoc (the state-owned petroleum distributor), and the awarding of the Moatize coal mine to a coal developer. Regarding the Petromoc privatization, IFC was responsible for defining the transaction structure, marketing the transaction, and advising the government through the closing of the transaction. IFC prepared four studies—legal, technical, environmental, and accounting due diligence—and recommended strategies for the divestiture. However, the privatization did not proceed since the government never passed the resolution for privatization. In the case of Moatize coal, IFC helped select a coal developer, and the transaction was successfully concluded. The coal mine is located in one of the least developed and most densely populated regions of the country. If the expected investment, development, and social programs are realized, the project has the potential to make a significant impact on the region and the country.

**IFC participated in enclave projects that generated significant growth, but the extent of their development impact has been limited.** The Mozal aluminum smelter was the largest private sector industrial project to ever be implemented in Africa, outside of South Africa, and one of the largest investments ever approved by IFC for a single country at that time. The project tripled the country's total exports and contributed to the country's industrialization. It complies with applicable World Bank Group environmental and social safeguard policies and guidelines. The project helped enhance foreign investors' perception of Mozambique, created some employment, generated government revenues, and contributed to social and development programs. At the same time, preferential treatment and weak linkages with local enterprises have limited the project's contribution to the domestic economy.

IFC also had an equity investment in the development of the Pande and Temane gas fields and the construction of the central processing facility through the Southern Africa Regional Gas Project. The project created an opportunity for the development of Mozambique's domestic gas market. It has generated revenues for the government, had minimal environmental and social impact. The project also has a social development fund that has sponsored numerous local initiatives. The development impact of the project could be enhanced further by supporting value-added activities based on domestic processing of the gas from the fields. Recently the operator started to collaborate with IFC on an Against HIV/AIDS program and SME linkages. IFC also supported the efforts of CMH, a subsidiary of the Mozambican national oil company, to obtain financing to exercise its 25 percent equity option in ROMPCO, the gas pipeline company holding the pipeline portion of the assets of the Southern Africa Regional Gas Project. Overall, although the mega-projects have had a significant impact on the growth of the economy, they have not generated as many domestic benefits as expected due to generous incentive packages and weak linkages with the local economy.

### BUILDING AND STRENGTHENING FINANCIAL MARKETS

**IFC had a limited role in and impact on the financial markets.** During the review period, IFC played a limited role in the development of financial markets—it provided financing to three banks. IFC made an equity investment in the first microfinance bank in the country. However, the bank could not survive financially by lending exclusively to micro-enterprises, so it started to lend to SMEs and up-scale commercial businesses. IFC also provided a global trade finance facility to a bank. However, the partner bank found IFC's pricing high and did not use the facility. IFC recently provided a subordinated loan to a bank under the Africa MSME program. With IFC's combined financing and advisory services support, the bank intends to expand its MSME business.

Regarding advisory services, IFC conducted a leasing study to evaluate the current status of the leasing industry in Mozambique and its development potential to increase access to finance for local SMEs. The study found that any IFC efforts would have limited impact in the leasing sector—specifically the increase in access to finance options for SMEs—due to the current legal and market environment. Although overall the financial sector improved in the country during the period, IFC's contribution to its development was limited.

### OTHER SECTORS

**There was no investment in the health and education sectors.** The 2000 and 2003 CASs indicated that IFC would support the expansion of private medical services and support private education, focusing on the tertiary level. However, it did not provide any financing or advisory services in either sector.

**Agribusiness.** Agriculture, mostly private, is a key sector for Mozambique's growth. Toward the end of FY08, IFC made two investments in flour milling and wheat milling companies. Although IFC contributed to the agribusiness sector with these investments by supporting the expansion of an existing client in the national market—and a south-south investment that increased the wheat storage capacity—it did not realize its intended CAS objective in agribusiness, which had sought to help agricultural firms with export potential gain access to export markets.

## IFC Additionality and Performance

**IFC contributed to the development of the private sector as a long-term finance provider, catalyst, and honest broker.** IFC, together with MIGA and IDA, participated in the Mozal project. IFC's role in Mozal was to provide long-term financing, sending a positive signal to potential investors. The project was the largest investment in the country at the time of approval. In addition to providing financing, IFC played a coordinating role for lenders in the structuring and financing of the project. Mozal had minimal linkages with local SMEs during the first phase, so IFC helped initiate an SME linkages program in the expansion phase.

Although the project has its weaknesses, it was effective in generating some linkages between Mozal and local enterprises. Although further improvements can be made, this program had a demonstration effect in the country and has been replicated in other parts of Africa.[17] IFC's latest SME linkages program went beyond Mozal and included other big companies, such as Sasol, *Cervejas de Moçambique* (CDM), and Coca Cola. Regarding the Southern African Regional Gas project, the WBG (IFC, MIGA, and IBRD) played a catalytic role in helping Mozambique establish a record of private sector participation. The WBG has effectively deployed its multiproduct capabilities in support of the project and continues to coordinate on project monitoring. IFC also made an important contribution as an "honest broker" in the awarding of the Moatize coal mine concession.

IFC financed small, high-risk AEF/SEF projects in an environment where financing was not available. However, impact in this area was limited. Better coordinated IFC and IDA support to SMEs could increase WBG's additionality. During the FY2004–07 CAS period, the WBG did not meet government expectations with respect to SME support.[18] IFC and IDA recently improved their coordinated efforts to support SME development. As for tourism, IFC improved its assistance by becoming more focused and selective. It undertook substantial advisory services, although there have not been any investments through these Advisory Services' projects as yet. In the future, considering the low access to finance, high-risk business climate, and IFC's familiarity and experience with Mozambique's SME, tourism, infrastructure, and metals sectors, there appears to be a significant continued role for IFC in the country.

## Lessons and Challenges

**Broadening the benefits of growth is a challenge in Mozambique.** Although the Mozambican economy has grown significantly in the past 10 years, growth has been substantially driven by aid inflows and mega-projects in the extractive industries sectors. The role and contribution of the domestic private sector and other sectors of the economy has been limited. Expanding the role of the domestic private sector and stimulating growth in other areas of the economy remains a critical challenge for sustained, broad-based growth.

**IFC needs to focus more on improving the overall business enabling environment in Mozambique.** IFC strategy has identified improving the business enabling environment as one of its objectives, and has tried to improve it through industry-specific projects.

However, during the review period, IFC provided just one Advisory S to help improve the business enabling environment. The country still has a weak business environment, which limits IFC's potential contributions through further investments. In addition to industry-specific business enabling environment support, IFC could also provide Advisory Services that aim to improve the overall business environment in Mozambique.

**IFC's several operations supporting SMEs showed that even among the most promising of them, lack of capacity and know-how are critical constraints to SME growth.** Several AEF/SEF-financed projects failed due to lack of management capacity. The MSI program has been unable to realize its original targets partly because of the low financial and accounting capacity of enterprises. When dealing with SMEs in frontier and post-conflict countries where small businesses are not developed, IFC would benefit from maximizing its advisory services presence.

**IFC should seek to build broader partnerships with relevant stakeholders to enhance the impact of its advisory services.** IFC's first tourism sector program was very comprehensive by design. The original concept addressed broad issues such as marketing, institutional coordination, planning, investment promotion, and community participation, and proposed programs to address weaknesses. However, many of the activities originally targeted were outside of IFC's core competencies. In such cases, IFC could benefit from building partnerships to help address broader issues that are beyond its capacity and strengths.

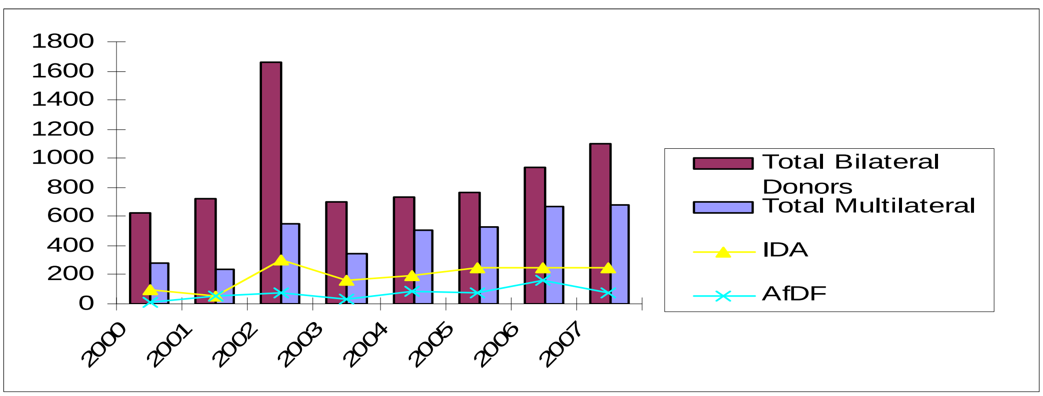
**IFC should seek to attain long-term sustainability of linkages programs in the country.** IFC developed an appropriate programmatic approach to support SME linkages in a low-income country, where the challenges are deep and require sustained, long-term engagement. To date, the approach has improved local linkages between Mozal and local SMEs. However, substantial challenges remain in expanding linkages to a broader range of SMEs, building capacity in SMEs, and ensuring the financial sustainability of relationships to ensure the linkages can continue without IFC assistance.

# Chapter 7
# Partnership and Harmonization

## Aid Flows and Modalities

Net ODA disbursement to Mozambique almost doubled from $963 million in 2001 to $1.772 billion in 2007, making the country highly aid-dependent. More than 40 development partners provide assistance to Mozambique, including more than 25 bilateral and 16 multilateral agencies. During the evaluation period, the bilateral partners provided about two-thirds of the funds, and multilaterals one-third (figure 7.1). IDA is the single largest development partner, providing about 14 percent of total ODA disbursements during the review period. Other major development partners include the European Commission, the United States, and AfDB.[1]

Figure 7.1Total Bilateral and Multilateral Net ODA Disbursements (in US$ million)




*Source:* OECD Development Assistance Committee (DAC), IDA, AfDB, March 2009.
*Note:* AfDF= African Development Fund; IDA= International Development Association; OECD= Organisation for Economic Co-operation and Development.

**The volume of IDA lending for infrastructure outweighed that of lending to the social sectors.** Looking at the sectoral composition of IDA's funds to Mozambique, this emphasis became more pronounced after FY03 (figure 7.2). , However, total development assistance from all development partners showed an increasing share of support going to the social sectors, and a declining share to infrastructure starting in 2003 (figure 7.3). This latter pattern is typical of trends across Sub-Saharan Africa. It reflects the greater capacity of the Bank to finance large infrastructure projects, and the capacity of other development partners to support smaller social sector projects.[2]

As there is a large and increasing number of development partners with a substantially increased aid flow, there are several different aid modalities (tied and untied aid) being used (for example, project, sector, SWAp, and general budget support). At the same time, since the late 1990s, the World Bank and other development partners have made substantial changes to the way external development assistance is provided to Mozambique, with shifts toward direct budget support and greater harmonization between development partners, as well as alignment of development partner plans with government priorities.

Figure 7.2 Trends in the Share of IDA Investments in Social and Infrastructure Sectors (percent)

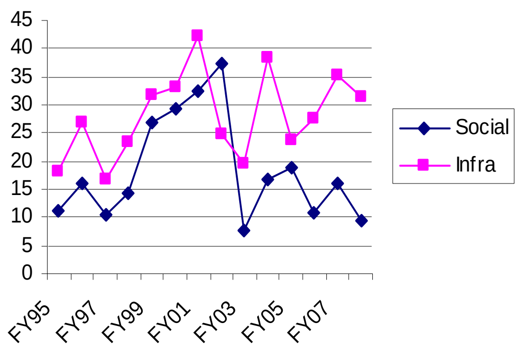
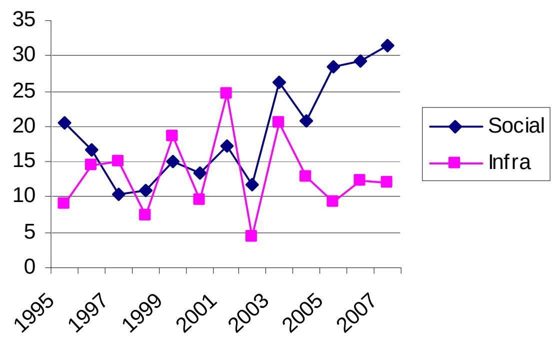



Figure 7.3 Trends in the share of Investments by all Development Partners in Social and Infrastructure Sectors (percent)




*Source:* World Bank internal database and OECD DAC.[3]
*Note:* IDA= International Development Association; Infra= infrastructure

**General budget support to Mozambique from all sources is increasing, although project support remains dominant.** Budget support has its roots in the import/balance of payments support programs that began in the early 1990s. It has increased, particularly over the past five years, since the development of Mozambique's PARPA. The number of development partners providing budget support has gradually increased to the current 19, and the total amount provided has also increased. A Memorandum of Understanding (MOU) was signed between all budget support partners and the government, and sets out the framework, obligations, and mechanisms for budget support. The Bank signed the MOU in 2004, committing itself to harmonizing PRSC support with budget support provided by the other development partners. In 2000, the share of ODA allocated to general budget support was 3 percent, although in 2007 it was 23 percent (equivalent to about $400 million), as shown in table 7.1.

Table 7.1 ODA and Budget Support (US$ million)

| | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* | *2008** |
|---|---|---|---|---|---|---|---|---|---|
| ODA net flows | 905.8 | 962.5 | 2,217.9 | 1,048.8 | 1,243.4 | 1,289.9 | 1,604.7 | 1,772.4 | |
| G19 total net flows | 662.3 | 771.5 | 1,932.3 | 801.6 | 1,035.8 | 1,136.2 | 1,300.3 | 1,459.3 | |
| IDA disbursements | 97.5 | 51.6 | 297.6 | 160.1 | 197.0 | 247.1 | 251.9 | 251.7 | 280.0 |
| AfDB disbursements | 13.3 | 56.5 | 73.1 | 31.9 | 91.4 | 73.4 | 162.1 | 79.6 | |
| General budget support (GBS) total | 29.5 | 88.2 | 100.7 | 153.7 | 215.9 | 277.4 | 352.3 | 403.2 | 435.1 |
| PRSCs | | | | | 60 | 60 | 60 | 70 | 70 |
| PRSCs as % of IDA disbursements | | | | | 30.5 | 24.3 | 23.8 | 27.8 | 25.0 |
| PRSCs as % of GBS total | | | | | 27.8 | 21.6 | 17.0 | 17.4 | 16.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| GBS as % of ODA net flows | 3.3 | 9.2 | 4.5 | 14.7 | 17.4 | 21.5 | 22.0 | 22.7 |
| GBS as % of G19 total net flows | 4.5 | 11.4 | 5.2 | 19.2 | 20.8 | 24.4 | 27.1 | 27.6 |

*Source:* PEFA 2006, 2007, Ministry of Finance Budget Execution Reports, OECD-DAC Development Database, and Client Connection.
*Note:* *Figures for 2008 are commitments rather than actual disbursements.
*Note:* AfDB= African Development Bank; GBS= general budget support; IDA= International Development Association; ODA= official development assistance; PRSC= Poverty Reduction Support Credit.

**However, the move toward more coordinated funding is not consistent across development partners.There is a continued reliance on project financing.** Although the Netherlands provides about 74 percent of its support to Mozambique through coordinated modalities, the equivalent share for Japan is zero. Some of the major development partners, including Japan (Japan International Cooperation Agency-JICA) and the United States (USAID) prefer to use project support modalities. Even for the 19 principal direct budget support development partners (G19), the overall share of project support in total disbursements is substantial (estimated at some 40 percent in 2006).[4]

Although the Bank was the largest provider of budget support in 2004, by 2008 its relative importance in providing budget support in financial terms gradually decreased from 28 percent of general budget support in 2004 to 16 percent in 2008—reflecting an increase in the contribution by other development partners (table 7.1).

## The Paris Declaration on Aid Effectiveness Dimensions: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability

***Ownership.*** Under the Paris Declaration, ownership refers to the extent to which a country has an operational development strategy with which development partners can align their assistance. Mozambique has made progress toward ownership in this respect because the PARPA is widely accepted as a sound framework for collaboration. There is agreement on the general relevance of the PARPA and on the logic of using it as Mozambique's own over-arching framework for its development efforts. Hence, its use as point of departure for joint collaboration is widespread and generally accepted as the most effective way of supporting sustainable poverty reduction. By aligning its strategy and assistance with the PARPA, the Bank response ensured ownership. **Although the PARPA has become the accepted framework for development partner collaboration, its broad perspective is not ideal for the prioritization of practical guidance and strategic choices for development partner support to various programs.**

***Alignment.*** The Paris Declaration also aims at greater alignment of aid with national development strategies and plans, greater predictability of aid, and greater use of national systems (and support of capacity building for those systems). The Bank's assistance strategies adopted PARPA's pillars focusing on growth, social development, and governance. This strategy was reinforced through the alignment of the outcome indicators in the FY04 CAS with the Performance Assessment Framework (PAF) of the Memorandum of Understanding agreed among budget support development partners and the government. Further alignment took place through the choice of prior actions and triggers in the Bank's budget support through PRSCs, all of which were aligned with the PARPA results matrix. Since PRSC 2, all prior actions and triggers have been drawn from the PAF.

**Disbursements from PRSCs are more regular and predictable.** Starting with the second tranche of PRSC 2, disbursements from PRSCs were made in the first quarter of the budget year, as preferred by the government. This was an improvement from disbursements under the adjustment operations, which were not planned in line with the government's budget cycle. Moreover, these were seriously delayed in a number of instances because of delays in obtaining tranche release authorizations caused by difficulties in complying with the Bank's conditionalities for adjustment operations.

The use of country systems is linked to PRSCs. However, the proportion of development assistance channeled through budget support, SWAps, or other such arrangements was less than 50 percent of total aid in 2008.[5] The perception of the government and development partners of the Bank's use of country systems is discussed in box 7.1.

### Box 7.1 Perceptions of World Bank Effectiveness

A recent survey by the Multilateral Organization Performance Assessment Network (MOPAN) assessed the perception of the government (the client) and donors of the work of the World Bank in Mozambique in 2009.[a] The assessment concluded that the World Bank was on average perceived to perform strongly or adequately on most of the 15 key performance indicators by the client and donors. This average conceals the fact that the scores for 4 out of 6 indicators which focused on the Bank's operational management were the highest scores from the survey. In addition, the government had a uniformly more favorable perception of the Bank's performance than the donors, although an average of 16 percent of the time, donors claimed not to know the answers to specific questions about Bank activities. There were, however, three indicators against which, on average, the Bank was perceived to perform inadequately – namely delegating decision making, using country systems, and adjusting procedures.

Donors' perceived the Bank as weak on "delegating decision-making" authority on projects and project management to the country office. However, the government respondents rated the decision-making power of the country office significantly higher than donors and rated it adequate. This evaluation notes that, although the country office is a core decision- making unit for most operational activities (which received generally high scores in the MOPAD survey), most policy decisions with substantial financial implications are typically made in Washington.

It was the perception of clients and donors alike that on a range of issues from procurement to auditing to mutual accountability that the Bank does not use "country systems." This report notes that in the light of the Bank's responsibility for good stewardship of IDA resources and this evaluation that corruption and the justice system in Mozambique are serious weaknesses, there is substantial justification for caution on the Bank's side in the use of country systems. At the same time, the facts about the Bank's use of country systems for procurement may not be well known. First, general budget support, which accounts for just over 20 percent of IDA net flows, is all disbursed using country systems. Second, the Bank has recently made substantial changes to procurement guidelines for projects in Mozambique allowing a much greater use of national competitive bidding (country systems) for procurement in investment projects. As for auditing, the Bank allows national independent auditors. For mutual accountability, the PAF is used as a joint monitoring system between the government and development partners.

The perception of clients and donors are different with respect to "adjusting procedures." According to the survey, clients are notably more confident that the Bank uses procedures that can be easily understood and followed, and that the time taken to complete these procedures does not negatively affect implementation. Donors are critical of the Bank's lack of flexibility, although this criticism may be mainly directed at investment lending since there was an acknowledgment that for PRSCs the Bank had shown its ability to adjust quickly *a*: Multilateral Organization Performance Assessment Network, MOPAN Common Approach, *World Bank in Mozambique 2009*, February 2010. There were 13 government (client) respondents (69 percent of whom claimed to interact with the WB either daily or weekly) and 17 donor respondents (59 percent of whom claimed to interact with the WB either daily or weekly) who participated in the survey.

***Harmonization***. In accordance with the Paris Declaration, harmonization refers to the existence of common arrangements, as well as the coordination of missions and country analysis. As a common arrangement, the Memorandum of Understanding among the G19 encouraged harmonization of fast-disbursing support around a common set of principles. It is based on several key principles, including: (i) a three-year PAF subscribed to by all budget support financiers and the government, consisting of a collection of target indicators the government is expected to meet in the PARPA; (ii) joint monitoring of progress against the agreed upon PAF and unified reporting to all development partners; (iii) alignment with domestic processes; (iv) predictability of financing; and (v) a table of indicators against which donor performance will be measured. In addition to the PRSCs, the Bank collaborated in a number of other program support activities such as SWAps that involved several development partners. For instance, the PROAGRI involved 16 bilateral and multilateral partners and included harmonized performance targets.

**By avoiding a separate policy dialogue with each development partner and by working through the G19 processes and its (sector) working groups, the established budget support framework has effectively helped the government focus its efforts on operationalizing the implementation of the PARPA.** The framework has allowed for strong coordination and alignment of general budget support partners with the government's program as outlined in the PARPA strategic indicators matrix. Government officials interviewed during the mission unanimously supported the alignment of the Bank's PRSCs with the G19 budget support system, pointing out that the Bank's convening power provides credibility to the programs.

For the government, general budget support is the preferred aid modality. Government counterparts indicated unequivocally that they prefer the PRSCs to adjustment operations for three reasons. First, the prior actions and triggers are derived from the PAF matrix, which is the government's document, derived from the PARPA— even though the measures selected for inclusion in the PAF are the result of negotiation with all Memorandum of Understanding participants. Second, the conditionalities are generally more process oriented and manageable than those included in the World Bank's adjustment operations. Third, government officials praised the greater predictability and regularity of disbursements for budget support.

Since 2004, the Bank's harmonization and close collaboration with other budget support development partners was facilitated by the presence of the PRSC task team leaders in the Country Office. According to Bank staff in Maputo, the G19 process, and embedding the PRSC therein, has helped bring government counterparts together across sectors in ways that would not have occurred in the absence of the PRSCs. Still, much remains to be done to improve the dialogue and collaboration between sector ministries and the Ministries of Finance and Planning, which (in the words of one former senior government official) still "speak different languages."

**Within the Bank, the PRSC process appears to be strengthening cooperation within the country team.** Initially, PRSCs were essentially viewed as Poverty Reduction and Economic

Management (PREM)/PSD instruments, focusing on macroeconomic, public financial management, private sector development, and investment climate issues.[6] Although sector specialists felt marginalized in the beginning, they have since come to appreciate that the PRSCs and the national policy dialogue has, in a number of cases, generated more effective sector policy dialogue with the government and development partners—particularly in relation to the allocation of public expenditures.

**However, the integration of the PRSCs into the general budget support structure has also entailed some costs, mainly restricted flexibility.** The need to reach agreement among G19 partners to align the PAF with the PARPA matrix may have resulted in compromises by development partners around the lowest common denominator. In addition, the PRSCs lost the ability to flexibly embrace emerging core policy issues that had not already been identified in the three-year PAF when it was negotiated. The main flexibility under the PRSC is the adjustment of specific PAF targets over time in the context of annual midterm reviews, rather than in embracing and specifying policy measures as the dialogue develops. As a result of these constraints, some of the Bank's dialogue and actions on policy issues occurs outside the PRSC through sector-specific operations. The Bank even relied on the IMF to integrate contemporary policy concerns into its program.[7]

**In addition, it is not clear whether the harmonized framework has reduced overall transaction costs for the government.** Some government officials pointed out that the working group arrangement and the semi-annual reviews require substantial time commitments, even if the overall processes are relatively well aligned with the government's internal reporting and budget preparation processes. Currently, the policy dialogue takes place through 71 separate working groups, 29 of which require government participation. This arrangement requires substantial time commitments from general budget support partners, including Bank staff.

A more streamlined and prioritized approach to the (sector) working groups could decrease transaction costs and improve efficiency. Moreover, the requirement to be a general budget support partner to earn "a seat at the table" and thereby exercise some leverage in the country's reform agenda may be too constraining. Therefore, any move to increase the voice among non-budget support partners should be considered against the need for higher efficiency in the conduct of policy dialogue.

***Managing for results.*** The Paris Declaration calls for the establishment of a cost-effective, results-oriented assessment of a country's development and poverty reduction program. This evaluation finds that the government and the G19 improved the national monitoring capacity, but fell short of achieving improvements in evaluation capacity.

**The PARPA sets priorities, areas for intervention, and monitoring indicators (through the PAF), imposing some discipline on the monitoring and, eventually, evaluating of the programs.** In addition, the government and the G19 participate in two annual reviews (the Joint Review and Mid-year Review) that focus on, for example, setting future annual targets for the PAF and assessing the progress in implementing the PARPA. These consultations have helped the government to improve its monitoring skills. The current monitoring structure meets several of its objectives, including increasing transparency and communication. However, it does not fully achieve its goal of reducing transaction costs as the intensity of monitoring places a burden on the government and its partners.

The BPES, the annual evaluation of the preceding year's annual plan (the PES), lists actions taken and outputs produced, but does not attempt to assess whether the programs help to improve the standard of living of Mozambicans or if the resources devoted to the program generate net benefits to the country. The Poverty Observatories aim to involve civil society in the review of progress on poverty reduction. However, concerns remain, such as the Poverty Observatories' relation to other monitoring and evaluation institutions and the absence of a clearly delineated legal standing for them. (Appendix A, table A.12).

***Mutual Accountability***. The Paris Declaration calls for development partners and partner countries to jointly assess (through existing country-level mechanisms) progress in implementing agreed commitments on aid effectiveness. Although the government and the G19 regularly review progress on budget support using the PAF as the main mutual assessment tool, the exercise has not yet engaged all development partners or covered all aid modalities. This evaluation considers that Mozambique has a well-developed system of mutual accountability.

## Cooperation with the IMF

**Bank-IMF cooperation has been particularly noteworthy, and has been described as "excellent" by the staff of their respective offices in Maputo.** The IMF's operational program consisted of two Poverty Reduction and Growth Facility (PRGF) arrangements during the periods July 1999–June 2003 and June 2004–June 2007. In addition, a Policy Support Instrument (PSI) was approved in June 2007. By mutual agreement with the Bank, the IMF has taken the lead on monetary, fiscal, and foreign exchange policies and has played a major role in other areas of macroeconomic policy, as well as in financial sector development. The Bank has provided support in some key areas (such as trade, public expenditures, and some public revenue-enhancing measures). The cooperation has been particularly close and fruitful in FSD, with the Bank and the IMF conducting joint Financial Sector Assessments, providing technical assistance, and using policy conditionality in programs to support mutual objectives. Finally, the IMF encourages the Bank to focus more on large public enterprises over which the government does not have sufficient oversight and that could be a liability to the budget.

## Cooperation with the African Development Bank

**The World Bank and AfDB assisted Mozambique with external debt consolidation and reduction.** The World Bank provided technical support for Mozambique's Paris Club debt-rescheduling agreements (the fifth such agreement was concluded in November 1996) and started work that led to the approval of a HIPC debt-reduction package that concluded in June 1999. The completion point for debt relief under the enhanced HIPC debt reduction package was reached in 2001, and Mozambique also qualified for the MDRI in 2006. Between 2004 and 2007 Mozambique HIPC and MDRI debt relief totaled more than $2.4 billion (table 7.2), including more than $1.3 billion from IDA and about $450 million from AfDB. All outstanding debt to the IMF, the World Bank, and the AfDB was cancelled under the MDRI initiative.

Table 7.2 Mozambique Debt Relief under HIPC and MDRI

| | *2004* | *2005* | *2006* | *2007* | *Total* |
|---|---|---|---|---|---|
| HIPC, total | 135.2 | 135.8 | 130.9 | 130.0 | 532.0 |
| Of which IDA | 8.9 | 9.7 | 9.8 | 10.6 | 39.0 |
| Of which AfDB | 2.6 | 2.5 | 2.6 | 2.9 | 10.6 |
| MDRI, total | | | 1,916.8 | | 1,916.8 |
| Of which IDA | | | 1,319.0 | | 1,319.0 |
| Of which AfDB | | | 447.8 | | 447.8 |
| Total HIPC and MDRI | 135.2 | 135.8 | 2,047.7 | 130.0 | 2,448.8 |

*Source:* World Bank data (2007 CPS).
*Note:* AfDB= African Development Bank; HIPC= Highly-Indebted Poor Country IDA= International Development Association; MDRI=Multilateral Debt Relief Initiative.

During the evaluation period, the World Bank and AfDB participated in three closely coordinated sector programs: the Health Sector Recovery Program, the Education Sector Strategic Program, and PROAGRI (table 7.3). These were sectorwide approaches, although some exceptions, for example, procurement kept some of these from being "classic" SWAps.[8] Unlike IDA, which withdrew from the second phase of these programs, AfDB continued support through this modality in agriculture and education. Regarding investment projects, the World Bank and AfDB complemented each other in several sectors, including energy and domestic water supply. In the energy sector, contracts for grid intensification are currently underway in Central and Northern Mozambique, financed by the AfDB, and in Southern Mozambique and Maputo City, financed by IDA. In the water and sanitation sector, where the World Bank has a heavy urban bias, the AfDB focuses on rural areas.

Table 7.3 Projects Cofinanced or financed in parallel with the AfDB

| *FY* | *Project number* | *Project* | *AfDB amount* |
|---|---|---|---|
| 1992 | P001790 | First Road and Coastal Shipping | 21.5 |
| 1994 | P001804 | Road and Coastal 2 | 35.5 |
| 1996 | P001792 | Health Sector Recovery SIL | 10.8 |
| 1999 | P001786 | Education Sector Strategic Program | 16.4 |
| 1999 | P001799 | PROAGRI | 18.0 |
| 1999 | P052240 | National Water 2 | 29.0 |
| 2001 | P001808 | Mineral Resources Management Capacity Development | 3.5 |
| 2004 | P069183 | Energy Reform and Access APL-1 | 15.2 |
| 2006 | P086169 | Financial Sector TA Project | 10.2 |
| 2007 | P083325 | Roads and Bridges APL-2 | 45.0 |

*Source:* World Bank internal database, March 2009, and AfDB databases.
*Note:* AfDB= African Development Bank; APL= Adaptable Program Loan; PROAGRI= Agricultural Sector Public Expenditure Program; SIL= Specific Investment Loar

The two Banks provided budget support that is monitored though the Memordanum of Understanding, and their strategies are aligned with the PARPA. However, no joint country assistance strategy exists, unlike in Tanzania and Uganda.[9] The 2007 CPS indicates that development partners had considered preparing joint strategies but believed that—provided they each supported the PARPA and took into account the peer review recommendations, especially in areas of development partner concentration and collaboration—this was as significant a degree of harmonization as could reasonably be expected of a joint strategy. It was also considered achievable with considerably less bureaucracy, time, and effort.

**During IEG's mission to Maputo, some government officials voiced concern about the difficulty of having to adhere to the differing procurement guidelines of the AfDB and the World Bank.** According to OECD's 2008 Survey on Monitoring the Paris Declaration, the amount of total funding from development partners using country procurement systems rose from 38 to 54 percent between 2005 and 2007. The AfDB's use rose from 38 percent in 2005 to 44 percent in 2007, and the World Bank's figures actually fell from 28 to 26 percent in the same period.

However, these numbers do not capture the use of National Competitive Bidding (NCB) that occurs through the Bank's investment lending projects. In addition to their contributions to budget support, the AfDB and World Bank have made increasing use of country systems. The World Bank assisted the government in preparing the 2005 procurement code with the aim of aligning it with international norms. In the light of improvements to the code, the World Bank agreed in mid-2009 to the greater use of NCB by substantially increasing the threshold for International Competitive Bidding (ICB) for all new World Bank financed projects as well as for selected existing projects in Mozambique.

Differences between national and World Bank procurement guidelines have remained, however, particularly in the areas of anticorruption guidance, debarment policy, sanctions policy, the right to audit, and the approach to obstructive practices. These make it difficult for the Bank to enter into arrangements such as pooled fund projects that use national procurement procedures. The World Bank continues to work with other multilateral development banks and the OECD to harmonize procurement guidelines. It should also be noted that the AfDB Board of Governors adopted a resolution to remove the requirement to restrict procurement only to its member countries for African Development Fund -financed projects and programs, effective March 2009.

**In sum, the Bank's efforts to roll out the main provisions of the Paris Declaration in Mozambique have yielded some favorable results. However, it has also exposed some notable limitations for the Bank.** On the favorable side, the main gains have included greater predictability of resource transfers in line with an agreed schedule, and a more structured dialogue with the Mozambican authorities through coordination and alignment of the general budget support partners with the government's PARPA. The current donor harmonization centered on the Memorandum of Understanding has restricted flexibility. For instance, the Bank (and other development partners) have not always been able to embrace relevant policy issues (and include these as prior actions in budget support operations) if these were not foreseen when the PAF indicators were agreed.

The Bank's participation in the high number of (sector) working groups involves significant transaction costs. A more streamlined and prioritized approach to these could improve efficiency of the policy dialogue. At the same time, some hold the view that a mechanism needs to be found to give voice to a broader range of development partners. However, any move to increase the voice among non-budget support partners should be considered against the need for higher efficiency in the conduct of policy dialogue.

# Chapter 8
# Conclusions, Lessons, and Recommendations

## Overall Assessment

**The Bank's assistance strategy was relevant and consistent with the development priorities outlined in Mozambique's PRSPs.** The Bank focused initially on economic growth and the social sectors, seeking to maintain a stable macroeconomic environment, promote financial and private sector development, enhance agriculture and infrastructure development, and support education, health, and water services. The increased focus on public sector reform and governance in the latter part of the review period was also appropriate. Analytical work delivered by the Bank laid the foundation for the CASs covering the review period and provided the underpinnings for the operational work.

**The outcome of Bank assistance under the stabilization and growth pillar has been *moderately satisfactory*.** Overall growth has been impressive and underlying macroeconomic performance satisfactory. A significant part of the strong growth is being driven by foreign-financed mega-projects and foreign aid inflows. The continued interest in mega-projects in new areas such as coal, a natural gas pipeline, and possibly petroleum is likely to be beneficial for the economy, particularly if supply chain linkages to the domestic economy are strengthened as planned.

However, creating a significant volume of new employment in SMEs, in both urban areas and the rural hinterland (but particularly the latter), remains a major challenge. This emphasizes the importance of PSD as the foundation for future sustained growth and employment generation. Despite continued challenges such as access to credit for smaller borrowers and the need to geographically spread and diversify the range of financial services, there was good overall performance and results in financial sector development. In contrast, partial and limited progress and associated results were attained in PSD. Results were also below expectations in rural development and the sustainable management of natural resources.

**The overall outcome under the poverty and human development pillar is rated *moderately satisfactory*.** Quantitative measures show progress over the review period. A substantial reduction in poverty during the first three years and improved access to health and education services are to some extent attributable to the Bank's assistance program. Although access to education improved, concerns accumulated regarding its quality. Design limitations and weak government capacity affected outcomes for Bank support for HIV/AIDS. Although the incidence of poverty declined, it remains high and predominantly rural, and the rate of decline in absolute poverty may be slowing.

Bank-assisted projects to improve water supply and sanitation focused mainly on urban areas. Efforts to develop effective public institutions and to involve the private sector in retail water distribution in large cities were successful.

*Governance.* **Under the governance pillar the outcome of Bank support has been *moderately satisfactory*.** With Bank support, reforms have been carried out to improve budget allocation and execution and to strengthen government capacity to monitor programs and, to a lesser extent, evaluate them. Limited progress has been made on reducing corruption and improving the justice system. Because of the large size of the Mozambican public sector and the importance of good budget institutions for resource allocation and accountability, the evaluation assigns a large weight to the budget allocation and execution objective (an important part of the Bank's assistance).

*Overall rating.* **This CPE rates the overall outcomes against the Bank's strategic objectives in Mozambique during the evaluation period as *moderately satisfactory*.** This rating reflects results achieved under each of the three pillars that can plausibly be attributed, at least in part, to the Bank's program. This is consistent with the ratings of moderately satisfactory that each pillar received. However, results varied across subpillars. In particular, this CPE identifies macroeconomic management and budget allocation and execution as subpillars that stood out positively and are rated satisfactory.

However, in four subpillars the outcomes of Bank assistance were below expectations. Under the first pillar, private sector development and rural development— including sustainable management of natural resources— are both rated moderately unsatisfactory. Under the third pillar, reducing corruption and improving the justice system are rated unsatisfactory. In sum, although outcomes and the accompanying ratings were, on balance, positive, the indicated subpillars are areas of concern.

## Risk to Development Outcome

**There are a number of moderate risks to the development outcome of the Bank's program.** There is some potential for macroeconomic instability as a result of exogenous factors, for example, the fragile performance of the financial sector, or an unsustainable accumulation of new external debt. Although serious exogenous shocks cannot be ruled out— particularly since the recent swings in the global price of foodstuffs, as well as the global financial crisis of 2008/09— the country had been able to weather some of these shocks in previous years and is likely to remain capable of doing so, at least for moderate shocks. As for the financial sector, prudential and other measures implemented under Bank and IMF support have already reduced the share of poorly performing loans in bank portfolios and moderated the risk of accumulating high shares in the future. Regarding external debt, the IMF and the Bank continue to assist the government in conducting annual debt sustainability analyses, designed to forewarn of any adverse developments and allow for remedial action, as well provide direct debt relief under the HIPC and MDRI initiatives.

**In addition, disbursements by development partners may become unpredictable, particularly in view of the global financial crisis.** This risk has been significantly mitigated by the strong degree of development partner coordination and harmonization achieved through the Memorandum of Understanding and the regular Joint Reviews and Mid-Year

Reviews. The development partners have welcomed the government's increased ownership since April 2005, which has also consolidated mutual trust.

The government has recently improved domestic resource mobilization by raising domestic revenues. However, weak capacity to implement reforms may end up delaying the reform process or compromising its development impact. To mitigate this risk, the government and the development partners agreed to create an integrated strategy for capacity development in public financial management and to strengthen the management of reforms. Finally, there is a distinct potential for deterioration in governance that could compromise economic reforms, growth, and efforts to reduce poverty. For example, legal and judicial reforms have not kept pace as planned. Still, the G19 continues to support the government in its efforts to improve governance and to press it to keep up the pace.

Regarding the overall strategic and policy level: (i) the government has demonstrated its commitment to following through with reforms in its policy dialogue with, and to the satisfaction of, its development partners; (ii) the political climate has been stable and is likely to remain so for the foreseeable future; and (iii) a number of key pieces of legislation have been passed and institutions, processes, and frameworks set up which are unlikely to be reversed. **On balance, therefore, the overall risk to development outcome is considered *moderate.***

## Lessons

*Macroeconomic policy*. The very good macroeconomic performance sustained by Mozambique over the past two decades suggests that as long as the country is following prudent and effective macroeconomic stabilization and management policies in the context of ongoing IMF programs, it is sufficient for the Bank's assistance program to base its assessment of macroeconomic developments on the IMF's assessment. This has been done in the context of the budget support or DPL-type operations, and in ancillary support (such as in trade policy, public expenditure allocation, and some specific revenue-enhancing measures), without devoting major extra efforts across the whole spectrum within this policy area.

*Bringing in the private sector*. The main lesson from a review of the infrastructure sector is that the application to Mozambique of policies that have proved successful in other developing and emerging countries cannot be done uncritically (without ensuring that the local conditions are appropriate for the application of the policy). This is clear from the experience with rail concessions, and with the unbundling of the energy sector to bring in private operators. As long as Mozambique's electricity system is small-scale and inefficiently operated, it will not be a good candidate for unbundling. A number of preconditions are necessary before attempting to again unbundle the electricity sector, including strengthening existing operators and improving their efficiency through closely-monitored corporatization and performance contracts, and setting up a well-run regulatory agency while waiting for a substantial increase in the size of the market.

Regarding railways, although a concession is better than continuing state-operated services, more effort is needed to research experiences in countries with similar conditions and to sharpen the design of the concession. Thus ample time and analysis should be dedicated to the preparation for concessioning railway systems, as they are significantly more difficult and prone to failure.

*Urban focus*. In several sectors, the use of private sector contracts to provide services led to a focus on Mozambique's urban areas, where consumers are highly concentrated. This has indeed been the pattern for power supply, water, transport, and telecommunications. Services in rural areas—the establishment of which is difficult and less profitable than in urban areas—received less attention than those in urban areas. The lesson is that, in these sectors, there is scope for the Bank to refocus its strategy to include the analysis of cost-effective options for improving services in rural areas, where the majority of the population resides.

*Monitoring and evaluation and a results-based approach to Bank assistance.* There were many occasions in Bank programs when M&E systems were weak or nonexistent, which made it difficult to evaluate results. For example, the M&E system for the agricultural SWAp (PROAGRI) was weak and offered very little evidence on outcome and impact. Bank programs under the governance pillar lacked well-defined indicators for outcomes, especially under the 2000 CAS. The PRSCs' impact on poverty reduction is far from clear because specific indicators to monitor poverty reduction were not defined, and when they were defined, they were often changed from one PRSC to the next. The lesson is that quality M&E continues to be a vital part of program implementation and the core basis for a results-based approach to Bank assistance.

*The Bank's efforts to roll out the main provisions of the Paris Declaration in Mozambique* have yielded some favorable results. Some notable limitations for the Bank have also emerged. The main gains have included greater predictability of resource transfers in line with an agreed schedule, and a more structured dialogue with the Mozambican authorities through coordination and alignment of the general budget support partners with the government's PARPA. The current donor harmonization centered on the MOU has restricted flexibility. For instance, the Bank and other development partners have not always been able to embrace relevant policy issues (and include these as prior actions in budget support operations) if these were not foreseen when the PAF indicators were agreed. In addition, the Bank's participation in the high number of (sector) working groups involves significant transaction costs. A more streamlined and prioritized approach to these could improve efficiency of the policy dialogue. Some hold the view that a mechanism needs to be found to give voice to a broader range of development partners. However, any move to increase voice among non-budget support partners should be considered against the need for higher efficiency in the conduct of policy dialogue.

## Recommendations

Based on the findings of this evaluation, IEG recommends that the Bank:

- *Help the country sustain high growth, but modify its pattern to make significant gains in employment and poverty reduction.* Although Mozambique has experienced strong growth, poverty and inequality remain high. A key strategic objective of the country and its development partners is to promote more sustainable, employment-generating growth. However, growth in the past decade has been concentrated at one end of the productive spectrum: foreign-owned, capital intensive, export-oriented mega-projects, which have had limited impact on employment creation and productivity spillovers. At the other end are the vast majority of firms, primarily SMEs, which sell mostly to the local market, face severe resource constraints, and contribute only modestly to economic growth and exports. Sustained and broad-based growth in output requires diversification of production and exports, and the creation of a better business environment for greater participation of this part of the private sector in the country's economic activity. The evaluation recommends that the Bank give even higher priority to assisting the country's efforts to modify its growth pattern by providing for more evenly distributed, employment-generating, and poverty-reducing growth. This suggests a need to focus on:

- Making credit more accessible to SMEs and the agricultural/rural sector by developing financial intermediation in these areas, including through the promotion of non-banking institutions and systems such as the network of traders that had operated before independence.

- Simplifying and streamlining business procedures and regulations to create a better business environment for the broader-based, smaller domestic businesses and to deal more creatively with the problem of collateral.

- Ensuring a firm basis for increased productivity in the agriculture sector, as well as to supporting services, as well as better market access to smallholders in poor rain-fed rural areas. Strategic options need to be explored as to how to sustainably increase yields and expand markets for crops produced by small-scale farmers to improve production, incomes, and employment.

- *Strengthen its knowledge of the infrastructure and social sectors.* The fact that no formal ESW on infrastructure was conducted over the past decade, and that the proposed infrastructure review was dropped, is worrisome, especially given that the Bank is one of the major lenders in this sector. The problems with electricity sector reform and railway concessions illustrate the need for in-depth analysis. This evaluation also found that for projects in the social sectors and water supply the Bank had conducted only a modest amount of analytical work, including some on education conducted in collaboration with the government. There were knowledge gaps in crucial areas such as improving the quality of basic education, constraints in the battle against the spread of HIV infections, and priority actions to improve rural water supply. In collaboration with the government and other stakeholders, areas of focus would include:

  - Reinstating the infrastructure review, covering sectors that are likely to continue receiving assistance from the Bank.

- Analyzing constraints to improving the quality of basic education, including training, incentives for, and accountability of teachers and school administrators, reducing the waste of instruction time, and increasing the availability of textbooks, particularly in rural areas.

- Designing improved technical and institutional strategies to reduce the incidence and spread of HIV infection, as well as the treatment and mitigation of AIDS.

- Exploring technical solutions to find the most cost-effective improvements in the domestic water system for poor rural households, and helping the government to formulate a strategy that will create incentives for major private manufacturing, industrial, and service industries to invest in rural areas to reduce the pressure on urban water supplies and diversify the resource base for rural water supplies.

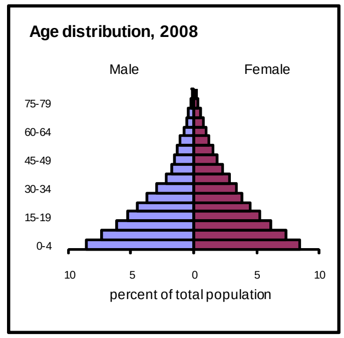
- *Help the government improve public expenditure efficiency.* The Bank's assistance strategy did not explicitly state the need to improve the efficiency of government expenditures as an objective, although the Bank's analytic work identified sectors (including education, health, roads, and water) where efficiency could be enhanced. Improving efficiency is critical because: government expenditure, at about 30 percent of GDP, is high. Despite the increase in domestic revenues supported by the Bank and other development partners, government revenues remained at half the level of public expenditures. In addition, grants from the development partner community finance about one-third of public expenditure. However, the sustainability of the high level of grants is unclear, given recent global financial developments. Gains in the efficiency of public expenditure can help improve the quality of social services. These factors suggest a need to focus on the following:

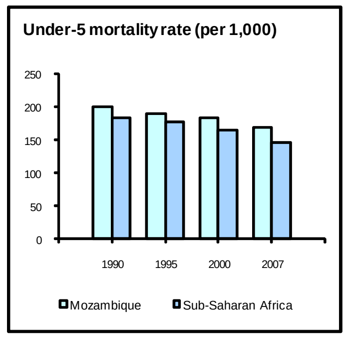
Supporting improvement in the efficiency of public expenditures that analytic work has identified as areas of deficiency. The government allocates a high share (65 percent) of its budget to priority/social sectors. However, despite progress on the social front, the high level of absolute poverty and low levels of social indicators indicate a need to further improve the efficiency of expenditures to make room for improved quality of social services, particularly in rural areas. Reinstating PERs alongside the PFM work would help serve the objective of rationalizing public expenditures.

## Appendix A: Statistical Supplement

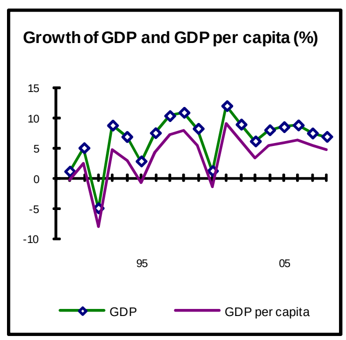
### Table A.1. Mozambique at a Glance

| **Key Development Indicators** | Mozambique | Sub-Saharan Africa | Low income |
|---|---|---|---|
| ***(2008)*** | | | |
| Population, mid-year (millions) | 21.8 | 818 | 973 |
| Surface area (thousand sq. km) | 799 | 24,242 | 19,310 |
| Population growth (%) | 1.9 | 2.5 | 2.1 |
| Urban population (% of total population) | 37 | 36 | 29 |
| GNI (Atlas method, US$ billions) | 8.4 | 885 | 510 |
| GNI per capita (Atlas method, US$) | 390 | 1,082 | 524 |
| GNI per capita (PPP, international $) | 770 | 1,991 | 1,407 |
| GDP growth (%) | 6.8 | 5.0 | 6.4 |
| GDP per capita growth (%) | 4.8 | 2.5 | 4.2 |
| ***(most recent estimate, 2003–2008)*** | | | |
| Poverty headcount ratio at $1.25 a day (PPP, %) | 75 | 51 | .. |
| Poverty headcount ratio at $2.00 a day (PPP, %) | 90 | 73 | .. |
| Life expectancy at birth (years) | 42 | 52 | 59 |
| Infant mortality (per 1,000 live births) | 115 | 89 | 78 |
| Child malnutrition (% of children under 5) | 21 | 27 | 28 |
| Adult literacy, male (% of ages 15 and older) | 57 | 71 | 72 |
| Adult literacy, female (% of ages 15 and older) | 33 | 54 | 55 |
| Gross primary enrollment, male (% of age group) | 119 | 103 | 102 |
| Gross primary enrollment, female (% of age group) | 103 | 93 | 95 |
| Access to an improved water source (% of population) | 42 | 58 | 67 |
| Access to improved sanitation facilities (% of population) | 31 | 31 | 38 |




| **Net Aid Flows** | **1980** | **1990** | **2000** | **2008** [a] |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Net ODA and official aid | 167 | 998 | 906 | 1,777 |
| *Top 3 donors (in 2007):* | | | | |
| European Commission | 7 | 81 | 79 | 240 |
| United States | 9 | 62 | 116 | 153 |
| United Kingdom | 11 | 43 | 83 | 116 |
| Aid (% of GNI) | 4.7 | 43.0 | 22.5 | 24.2 |
| Aid per capita (US$) | 14 | 74 | 50 | 83 |




| **Long-Term Economic Trends** | 1980 | 1990 | 2000 | 2008 | 1980–90 | 1990–2000 | 2000–08 |
|---|---|---|---|---|---|---|---|
| | | | | | *(average annual growth %)* | | |
| Consumer prices (annual % change) | *4.2* | 43.7 | 12.7 | 10.3 | | | |
| GDP implicit deflator (annual % change) | *4.1* | 34.1 | 12.0 | 7.7 | | | |
| Exchange rate (annual average, local per US$) | 0.0 | 0.9 | 15.4 | 24.3 | | | |
| Terms of trade index (2000 = 100) | 87 | 112 | 100 | 119 | | | |
| Population, mid-year (millions) | 12.1 | 13.5 | 18.2 | 21.8 | 1.1 | 3.0 | 2.2 |
| GDP (US$ millions) | 3,526 | 2,463 | 4,249 | 9,846 | -0.1 | 6.1 | 8.0 |
| | | *(% of GDP)* | | | | | |
| Agriculture | 37.1 | 37.1 | 24.0 | 28.6 | *6.6* | 5.2 | 7.8 |
| Industry | 34.4 | 18.4 | 24.5 | 24.3 | *-4.5* | 12.3 | 10.1 |
| Manufacturing | .. | 10.2 | 12.2 | 13.9 | .. | *10.2* | 9.4 |
| Services | 28.5 | 44.5 | 51.5 | 47.1 | *6.5* | 5.0 | 7.2 |
| Household final consumption expenditure | 96.7 | 92.3 | 79.5 | 81.7 | -1.1 | 5.8 | 7.6 |
| General gov't final consumption expenditure | 12.2 | 13.5 | 9.0 | 12.1 | -6.7 | 3.2 | -7.0 |
| Gross capital formation | 7.6 | 22.1 | 31.0 | 18.5 | 4.1 | 8.6 | 3.3 |
| Exports of goods and services | 10.9 | 8.2 | 17.5 | 33.3 | -6.8 | 13.1 | 16.5 |
| Imports of goods and services | 27.4 | 36.1 | 37.0 | 45.7 | -3.8 | 7.6 | 6.7 |
| Gross savings | .. | .. | .. | .. | | | |

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.

a. Aid data are for 2007.

Development Economics, Development Data Group (DECDG). 2/25/2010

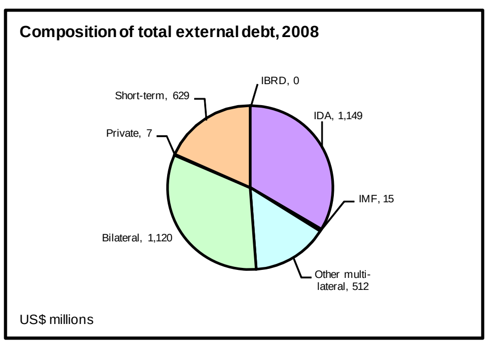
## Appendix Table A.1: Mozambique at a Glance (continued)

*Mozambique*

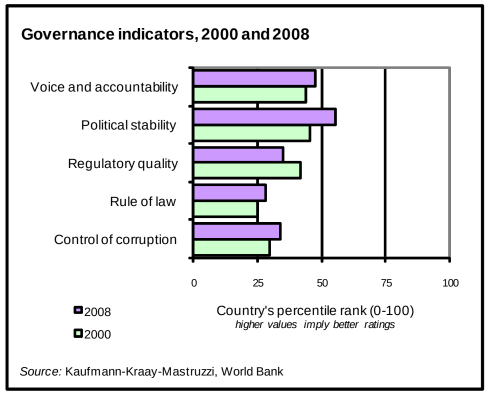
| **Balance of Payments and Trade** | **2000** | **2008** |
|---|---|---|
| *(US$ millions)* | | |
| Total merchandise exports (fob) | 364 | 2,653 |
| Total merchandise imports (cif) | 1,163 | 3,804 |
| Net trade in goods and services | -815 | -1,223 |
| | | |
| Current account balance | -1,042 | -2,021 |
| as a % of GDP | -24.5 | -20.5 |
| | | |
| Workers' remittances and | | |
| compensation of employees (receipts) | 37 | 116 |
| | | |
| Reserves, including gold | 745 | 1,605 |

| **Central Government Finance** | | |
|---|---|---|
| *(% of GDP)* | | |
| Current revenue (including grants) | 15.2 | 19.7 |
| Tax revenue | 10.5 | 14.2 |
| Current expenditure | 11.7 | 15.7 |
| | | |
| Overall surplus/deficit | -8.4 | -7.9 |
| | | |
| Highest marginal tax rate (%) | | |
| Individual | 20 | *32* |
| Corporate | 35 | *32* |

| **External Debt and Resource Flows** | | |
|---|---|---|
| *(US$ millions)* | | |
| Total debt outstanding and disbursed | 7,247 | 3,432 |
| Total debt service | 96 | 43 |
| Debt relief (HIPC, MDRI) | 2,992 | 1,057 |
| | | |
| Total debt (% of GDP) | 170.6 | 34.9 |
| Total debt service (% of exports) | 12.5 | 1.3 |
| | | |
| Foreign direct investment (net inflows) | 139 | 587 |
| Portfolio equity (net inflows) | 0 | 0 |




| **Private Sector Development** | **2000** | **2008** |
|---|---|---|
| Time required to start a business (days) | – | 26 |
| Cost to start a business (% of GNI per capita) | – | 22.9 |
| Time required to register property (days) | – | 42 |
| | | |
| Ranked as a major constraint to business | **2000** | **2008** |
| (% of managers surveyed who agreed) | | |
| n.a. | .. | .. |
| n.a. | .. | .. |
| | | |
| Stock market capitalization (% of GDP) | .. | .. |
| Bank capital to asset ratio (%) | *8.2* | *6.4* |




| **Technology and Infrastructure** | **2000** | **2008** |
|---|---|---|
| Paved roads (% of total) | 18.7 | .. |
| Fixed line and mobile phone | | |
| subscribers (per 100 people) | 1 | 21 |
| High technology exports | | |
| (% of manufactured exports) | 9.3 | *2.3* |

| **Environment** | | |
|---|---|---|
| Agricultural land (% of land area) | 61 | *62* |
| Forest area (% of land area) | 24.8 | *24.5* |
| Nationally protected areas (% of land area) | .. | *5.8* |
| | | |
| Freshwater resources per capita (cu. meters) | *5,242* | *4,693* |
| Freshwater withdrawal (billion cubic meters) | 0.6 | .. |
| | | |
| CO2 emissions per capita (mt) | 0.07 | *0.09* |
| | | |
| GDP per unit of energy use | | |
| (2005 PPP $ per kg of oil equivalent) | 13 | *17* |
| | | |
| Energy use per capita (kg of oil equivalent) | 397 | *420* |

| **World Bank Group portfolio** | **2000** | **2008** |
|---|---|---|
| *(US$ millions)* | | |
| IBRD | | |
| Total debt outstanding and disbursed | 0 | 0 |
| Disbursements | 0 | 0 |
| Principal repayments | 0 | 0 |
| Interest payments | 0 | 0 |
| | | |
| IDA | | |
| Total debt outstanding and disbursed | 760 | 1,149 |
| Disbursements | 97 | 255 |
| Total debt service | 6 | 8 |
| | | |
| IFC *(fiscal year)* | | |
| Total disbursed and outstanding portfolio | 99 | 84 |
| of which IFC own account | 99 | 84 |
| Disbursements for IFC own account | 49 | -2 |
| Portfolio sales, prepayments and | | |
| repayments for IFC own account | 3 | 18 |
| | | |
| MIGA | | |
| Gross exposure | 114 | 228 |
| New guarantees | 74 | *50* |

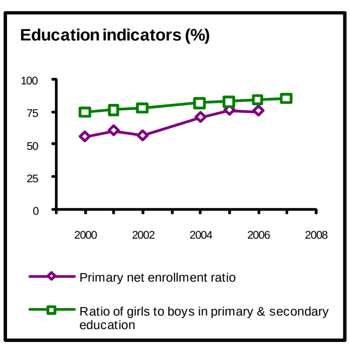
Note: Figures in italics are for years other than those specified. 2008 data are preliminary. 2/25/10
.. indicates data are not available. – indicates observation is not applicable.
Development Economics, Development Data Group (DECDG).

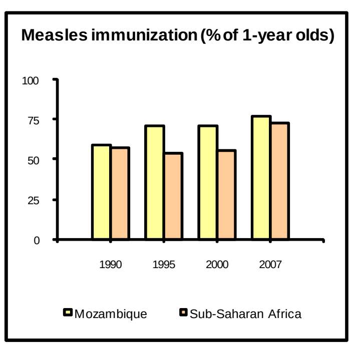
*Note:* CO2= carbon dioxide; GDP= gross domestic product; GNI= gross national income; HIPC= Highly-Indebted Poor Country; IBRD= International Bank for Reconstruction and Development; IDA= International Development Association; IFC= International Finance Corporation; MDRI=Multilateral Debt Relief Initiative; MIGA= Multilateral Investment Guarantee Agency;ODA= official development assistance; PPP= purchasing power parity.

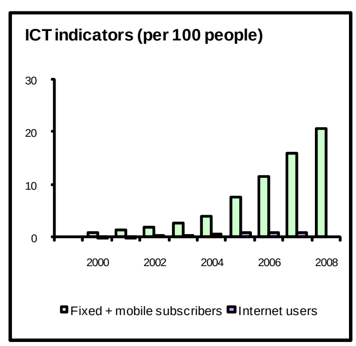
## Appendix Table A.2: Millennium Development Goals

*With selected targets to achieve between 1990 and 2015*
*(estimate closest to date shown, +/- 2 years)*

| | Mozambique | | | |
|---|---|---|---|---|
| **Goal 1: halve the rates for extreme poverty and malnutrition** | **1990** | **1995** | **2000** | **2008** |
| Poverty headcount ratio at $1.25 a day (PPP, % of population) | .. | *81.3* | .. | *74.7* |
| Poverty headcount ratio at national poverty line (% of population) | .. | *69.4* | .. | *54.1* |
| Share of income or consumption to the poorest qunitile (%) | .. | *5.6* | .. | *5.4* |
| Prevalence of malnutrition (% of children under 5) | .. | *28.1* | .. | *21.2* |
| **Goal 2: ensure that children are able to complete primary schooling** | | | | |
| Primary school enrollment (net, %) | *42* | .. | 56 | *76* |
| Primary completion rate (% of relevant age group) | 26 | 26 | 16 | *46* |
| Secondary school enrollment (gross, %) | 7 | 7 | 6 | *18* |
| Youth literacy rate (% of people ages 15-24) | .. | *47* | .. | *53* |
| **Goal 3: eliminate gender disparity in education and empower women** | | | | |
| Ratio of girls to boys in primary and secondary education (%) | *71* | .. | 75 | *85* |
| Women employed in the nonagricultural sector (% of nonagricultural employment) | 11 | .. | .. | .. |
| Proportion of seats held by women in national parliament (%) | 16 | *25* | *30* | 35 |
| **Goal 4: reduce under-5 mortality by two-thirds** | | | | |
| Under-5 mortality rate (per 1,000) | 201 | 190 | 184 | *168* |
| Infant mortality rate (per 1,000 live births) | 135 | 128 | 125 | *115* |
| Measles immunization (proportion of one-year olds immunized, %) | 59 | 71 | 71 | *77* |
| **Goal 5: reduce maternal mortality by three-fourths** | | | | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | .. | .. | *520* |
| Births attended by skilled health staff (% of total) | .. | *44* | .. | *48* |
| Contraceptive prevalence (% of women ages 15-49) | .. | *6* | .. | *17* |
| **Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases** | | | | |
| Prevalence of HIV (% of population ages 15-49) | 1.4 | 4.5 | 9.5 | *12.5* |
| Incidence of tuberculosis (per 100,000 people) | 181 | 262 | 378 | *431* |
| Tuberculosis cases detected under DOTS (%) | .. | 59 | 47 | *49* |
| **Goal 7: halve the proportion of people without sustainable access to basic needs** | | | | |
| Access to an improved water source (% of population) | 36 | 39 | 41 | *42* |
| Access to improved sanitation facilities (% of population) | 20 | 22 | 27 | *31* |
| Forest area (% of total land area) | 25.4 | 25.1 | 24.8 | *24.5* |
| Nationally protected areas (% of total land area) | .. | .. | .. | *5.8* |
| $CO_2$ emissions (metric tons per capita) | 0.1 | 0.1 | 0.1 | *0.1* |
| GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent) | 0.9 | 1.0 | 1.3 | *1.7* |
| **Goal 8: develop a global partnership for development** | | | | |
| Telephone mainlines (per 100 people) | 0.4 | 0.4 | 0.5 | 0.4 |
| Mobile phone subscribers (per 100 people) | 0.0 | 0.0 | 0.3 | 20.2 |
| Internet users (per 100 people) | 0.0 | *0.0* | 0.1 | 1.6 |
| Personal computers (per 100 people) | .. | *0.1* | 0.3 | *1.4* |




Note: Figures in italics are for years other than those specified. .. indicates data are not available. 2/25/10
Development Economics, Development Data Group (DECDG).

*Note:* $CO_2$= carbon dioxide; DOTS= Directly Observed Treatment Short Course (for tuberculosis); GDP= gross domestic product; HIV= human immondeficiency virus; ICT= information and communications technologies; PPP= purchasing power parity.

## Appendix Table A.3 Economic and Social Indicators, 2000-2008

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Mozambique | Uganda | Zambia | Tanzania | Rwanda | Cambodia | SSA | Low Income |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | 2000-2008 average | | | | | | | |
| Growth and Inflation | | | | | | | | | | | | | | | | | |
| GDP growth (annual %) | 1.1 | 11.9 | 8.8 | 6.0 | 7.9 | 8.4 | 8.7 | 7.0 | 6.5 | 7.4 | 7.3 | 5.1 | 6.6 | 7.4 | 9.1 | 4.8 | 5.6 |
| GDP per capita growth (annual %) | -1.4 | 9.1 | 6.1 | 3.5 | 5.4 | 6.0 | 6.4 | 5.0 | 4.5 | 4.9 | 3.9 | 2.6 | 3.8 | 4.3 | 7.2 | 2.3 | 3.3 |
| GNI per capita, Atlas method (current US$) | 230.0 | 230.0 | 230.0 | 230.0 | 260.0 | 290.0 | 310.0 | 340.0 | 370.0 | 276.7 | 301.1 | 496.7 | 327.8 | 265.6 | 415.6 | 695.5 | 366.4 |
| GNI per capita, PPP (current international $) | 420.0 | 460.0 | 520.0 | 550.0 | 580.0 | 630.0 | 670.0 | 730.0 | 770.0 | 592.2 | 865.6 | 1,008.9 | 964.4 | 756.7 | 1,285.6 | 1,595.9 | 1,082.8 |
| Inflation, consumer prices (annual %) | 12.7 | 9.0 | 16.8 | 13.4 | 12.7 | 7.2 | 13.2 | 8.2 | 10.3 | 11.5 | 5.7 | 17.7 | 5.7 | 7.9 | 5.8 | .. | .. |
| Composition of GDP | | | | | | | | | | | | | | | | | |
| Agriculture, value added (% of GDP) | 24.0 | 22.5 | 27.8 | 28.0 | 27.4 | 27.0 | 27.6 | 27.6 | 28.3 | 26.7 | 26.2 | 22.0 | 45.3 | 38.0 | 33.4 | 16.8 | 29.2 |
| Industry, value added (% of GDP) | 24.5 | 25.8 | 23.1 | 26.1 | 27.4 | 25.3 | 26.6 | 25.7 | 25.6 | 25.6 | 24.4 | 30.9 | 16.5 | 13.5 | 25.8 | 30.6 | 25.7 |
| Services, etc., value added (% of GDP) | 51.5 | 51.7 | 49.0 | 45.9 | 45.2 | 47.7 | 45.8 | 46.7 | 46.1 | 47.7 | 49.4 | 47.1 | 38.3 | 48.5 | 40.8 | 52.6 | 45.1 |
| External Accounts | | | | | | | | | | | | | | | | | |
| Exports of goods and services (% of GDP) | 17.5 | 24.6 | 28.3 | 29.0 | 32.1 | 32.9 | 39.9 | 37.6 | 32.0 | 30.4 | 13.3 | 33.6 | 19.2 | 9.1 | 59.5 | 32.8 | 28.7 |
| Imports of goods and services (% of GDP) | 37.0 | 40.9 | 43.4 | 45.2 | 40.7 | 42.3 | 45.7 | 44.3 | 42.0 | 42.4 | 26.6 | 38.7 | 26.2 | 26.6 | 68.3 | 34.0 | 37.3 |
| Current account balance (% of GDP) | -18.0 | -16.1 | -20.7 | -17.5 | -10.7 | -11.6 | -10.9 | -9.8 | -10.0 | -13.9 | -4.7 | -10.8 | -5.0 | -4.9 | -4.7 | .. | .. |
| Total debt service (% of GNI) | 2.4 | 2.4 | 1.9 | 1.9 | 1.4 | 1.4 | 0.8 | 0.6 | .. | 1.6 | 1.2 | 5.9 | 1.1 | 1.2 | 0.5 | 3.3 | 2.4 |
| Total reserves in months of imports | 5.1 | 4.6 | 3.7 | 4.7 | 5.0 | 4.0 | 3.5 | 4.1 | .. | 4.3 | 6.4 | 2.0 | 6.4 | 6.2 | 3.3 | 7.0 | 4.9 |
| Other Macroeconomic Indicators | | | | | | | | | | | | | | | | | |
| Gross domestic savings (% of GDP) | 11.5 | 3.7 | 14.9 | 6.1 | 10.0 | 9.3 | 12.8 | 11.9 | 13.0 | 10.4 | 7.7 | 17.2 | 10.6 | 2.3 | 10.0 | 16.6 | 14.5 |
| Gross fixed capital formation (% of GDP) | 31.0 | 20.0 | 30.0 | 22.3 | 18.7 | 18.7 | 18.6 | 18.7 | 23.0 | 22.3 | 20.8 | 21.4 | 17.5 | 19.7 | 18.5 | 18.2 | 22.7 |
| Fiscal Accounts | | | | | | | | | | | | | | | | | |
| Revenue, excluding grants (% of GDP) | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 11.4 | 17.8 | .. | .. | 9.8 | .. | .. |
| General government final consumption expenditure (% of GDP) | 9.0 | 9.1 | 9.4 | 10.2 | 10.8 | 10.4 | 10.7 | 11.8 | 12.3 | 10.4 | 14.4 | 11.5 | 13.8 | 11.7 | 4.6 | 16.1 | 10.2 |
| Gross national expenditure (% of GDP) | 119.5 | 116.2 | 115.1 | 116.2 | 108.6 | 109.4 | 105.8 | 106.7 | 110.0 | 11 2.0 | 113.3 | 105.1 | 107.0 | 117.5 | 108.8 | .. | .. |
| Cash surplus/deficit (% of GDP) | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | -1.9 | 0.0 | .. | .. | -2.3 | .. | .. |
| Social Indicators | | | | | | | | | | | | | | | | | |
| Health | | | | | | | | | | | | | | | | | |
| Life expectancy at birth, total (years) | 44.9 | .. | 44.0 | .. | .. | 42.8 | 42.5 | 42.1 | .. | 43.3 | 50.4 | 43.9 | 53.9 | 47.7 | 58.0 | 50.8 | 57.2 |
| Immunization, DPT (% of children ages 12-23 months) | 68.0 | 70.0 | 72.0 | 72.0 | 72.0 | 72.0 | 72.0 | 72.0 | .. | 71.3 | 60.9 | 79.8 | 88.3 | 91.4 | 71.4 | 63.0 | 72.9 |
| Impr. water source (% of population with access) | 41.0 | .. | .. | .. | .. | .. | 42.0 | .. | .. | 41.5 | 60.0 | 56.0 | 54.0 | 65.0 | 51.5 | 56.5 | 64.6 |
| Impr. sanitation facilities, rural (% of rural pop. with access) | 16.0 | .. | .. | .. | .. | .. | 19.0 | .. | .. | 17.5 | 33.0 | 49.0 | 34.5 | 22.0 | 14.0 | 23.4 | 30.9 |
| Mortality rate, infant (per 1,000 live births) | 124.9 | .. | .. | .. | .. | 119.0 | 117.1 | 115.4 | .. | 119.1 | 86.1 | 105.3 | 80.1 | 110.7 | 73.5 | 92.3 | 81.9 |
| Education | | | | | | | | | | | | | | | | | |
| School enrollment, preprimary (% gross) | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 3.2 | .. | 28.5 | 2.5 | 8.7 | 15.0 | 14.4 |
| School enrollment, primary (% gross) | 74.9 | 81.3 | 84.7 | .. | 95.0 | 102.0 | 104.8 | 111.0 | .. | 93.4 | 123.9 | 99.5 | 97.5 | 115.9 | 119.6 | 88.7 | 90.4 |
| School enrollment, secondary (% gross) | 6.1 | 6.8 | 8.4 | .. | 10.8 | 13.2 | 15.5 | 18.3 | .. | 11.3 | 18.5 | 29.5 | .. | 13.4 | 27.7 | 28.9 | 39.2 |
| Population | | | | | | | | | | | | | | | | | |
| Population growth (annual %) | 2.5 | 2.5 | 2.5 | 2.5 | 2.4 | 2.2 | 2.1 | 1.9 | 1.9 | 2.3 | 3.2 | 2.4 | 2.7 | 3.0 | 1.8 | 2.5 | 2.2 |
| Population, total (million) | 18.2 | 18.7 | 19.1 | 19.6 | 20.1 | 20.5 | 21.0 | 21.4 | 21.8 | 20.0 | 27.9 | 11.5 | 38.1 | 8.9 | 13.7 | 742.9 | 895.0 |
| Urban population (% of total) | 30.7 | 31.5 | 32.2 | 33.0 | 33.7 | 34.5 | 35.3 | 36.1 | 36.8 | 33.8 | 12.5 | 35.0 | 23.9 | 16.5 | 19.2 | 34.6 | 27.2 |

*Source: World Bank World Development Indicators (September 2009).*

Note 1: Some of these indicators are not available on an annual basis, so some averages are based on fewer observations.

Note 2: Some data for recent years are still estimates.

*Note:* DPT= diphtheria, pertussis, and tetanus; GDP= gross domestic product; GNI= gross national income; PPP= purchasing power parity; SSA= sub-Saharan Africa.

Appendix Table A.4 Approved Projects, FY2000–08

| Project | Approval FY | IDA amount (US$) |
|---|---|---|
| Mineral Resources Management Capacity Building | 2001 | 18.0 |
| Roads and Bridges Management and Maintenance | 2002 | 162.0 |
| Municipal Development SIL | 2002 | 33.6 |
| Higher Education SIM | 2002 | 60.0 |
| Communications Sector Reform | 2002 | 14.9 |
| Economic Management and Private Sector Operation (EMPSO) | 2003 | 120.0 |
| Public Sector Reform | 2003 | 25.6 |
| HIV/AIDS Response SIL | 2003 | 55.0 |
| Decentralized Planning and Finance SIL | 2004 | 42.0 |
| Energy Reform and Access APL-1 | 2004 | 40.3 |
| National Water Development Project II - Supplemental Credit | 2004 | 15.0 |
| PRSC | 2005 | 60.0 |
| Beira Railway SIL | 2005 | 110.0 |
| PRSC 2 | 2006 | 120.0 |
| Transfrontier Conservation Area and Tourism Development | 2006 | 20.0 |
| Financial Sector TA Project | 2006 | 10.5 |
| Technical and Vocational Education and Training | 2006 | 30.0 |
| Market-Led Smallholder Development | 2006 | 20.0 |
| Roads and Bridges APL2 | 2007 | 100.0 |
| PRSC 3 DPL - 1st in new series | 2007 | 70.0 |
| Maputo Municipal Development Program | 2007 | 30.0 |
| PRSC 4 - intermediate | 2008 | 60.0 |
| Water Services and Institutional Support | 2008 | 15.0 |
| Higher Education SIL - Additional Financing | 2008 | 15.0 |
| Total | | 1,246.9 |

*Notes:* In FY2004, the Southern African Regional Gas Project was approved, with partial risk guarantees of up to US$30 million, and IFC equity investment of up to US$18.5 million.

APL – Adaptable Program Loan; DPL – Development Program Loan; FY= fiscal year; IDA= International Development Association; PRSC= Poverty Reduction Support Credit; HIV/AIDS= Human immunodeficiency virus-acquired immune deficiency syndrome; SIL= Specific Investment Loan; SIM= Sector Investment and Maintenance Loan; TA= technical assistance;

## Appendix Table A.5 World Bank Commitments by Sector Board (US$ million)

| Sector | FY01 | FY02 | FY03 | FY04 | FY05 | FY06 | FY07 | FY08 | FY2001–08 |
|---|---|---|---|---|---|---|---|---|---|
| Agriculture and Rural Development | | | | | | 20.0 | | | 20.0 |
| Education | | 60.0 | | | | 30.0 | | 15.0 | 105.0 |
| Energy and Mining | 18.0 | | | 40.3 | | | | | 58.3 |
| Environment | | | | | | 20.0 | | | 20.0 |
| Economic Policy | | | 120.0 | | | | | 60.0 | 180.0 |
| Financial and Private Sector Development | | | | | | 10.5 | | | 10.5 |
| Global Info/Communications Technology | | 14.9 | | | | | | | 14.9 |
| Health, Nutrition, and Population | | | 55.0 | | | | | | 55.0 |
| Public Sector Governance | | | 25.6 | 42.0 | | | | | 67.6 |
| Poverty Reduction | | | | | 60.0 | 120.0 | 70.0 | | 250.0 |
| Transport | | 162.0 | | | 110.0 | | 100.0 | | 372.0 |
| Urban Development | | 33.6 | | | | | 30.0 | | 63.6 |
| Water | | | | 15.0 | | | | 15.0 | 30.0 |
| Total Commitments | 18.0 | 270.5 | 200.6 | 97.3 | 170.0 | 200.5 | 200.0 | 90.0 | 1,246.9 |

*Source:* World Bank internal database. March 2010.

## Appendix Table A. 6 FY2001 and FY04 CAS-Proposed Nonlending Program and Actual Deliveries

| Programmed | Planned FY | Delivered FY |
|---|---|---|
| Rural Development Strategy | Ongoing at time of CAS | Dropped |
| Growth Prospects (CEM) | Ongoing at time of CAS | 2000 |
| Financial Sector Study | Ongoing at time of CAS | 2001 |
| PRSP Support | ---- | 2002 |
| Enhanced HIPC Completion Report | 2001 | ---- |
| Public Expenditure Review (2 volumes) | 2001 | 2003-04 |
| Public Sector Reform Study | 2001 | 2000 |
| Environment Critical Pressures | 2002 | ---- |
| Constraints to Private Sector Development | 2002 | 2003 |
| Legal and Judicial Assessment | 2002 | 2003 |
| HIV/AIDS and Growth Linkages | Ongoing at time of CAS | 2003 |
| Private Sector Competitiveness | Ongoing at time of CAS | 2004 |
| Private Sector Conference TA | Ongoing at time of CAS | 2000-02 |
| Financial Sector Advice | Ongoing at time of CAS | 2001 |
| Regional Energy and Megaprojects Advice (integrated in Maputo Corridor) | Ongoing at time of CAS | n.a. |
| Maputo Corridor | Ongoing at time of CAS | n.a. |
| Regional Trade | Ongoing at time of CAS | Dropped |
| Environmental Framework Assessment | 2001 | Not completed |
| Disaster Mitigation and Management | Ongoing at time of CAS | Not completed |
| HIV/AIDS | Ongoing at time of CAS | n.a. |
| Agriculture Poverty and Social Impact Analysis (PSIA) | 2004 | Dropped |
| Country Status Report on Health | 2004 | 2005 |
| Public expenditure review (PER) | 2004 | Dropped |
| Country Procurement Assessment Review (CPAR) | 2004 | Dropped |
| Legal and Judicial Assessment | 2004 | 2003 |
| Rural/Agriculture Strategy | 2005 | 2005 |
| Private Sector Competitiveness | 2005 | 2005 |
| Labor Markets and Technical and Vocational Education | 2005 | 2004 |
| Poverty Update | 2005 | Dropped |
| Institutional Governance Review | 2005 | 2005 |
| PER | 2005 | 2005 |
| Country Economic Memorandum (CEM) | 2006 | 2006 |
| HIV/AIDS Retrospective Review | 2006 | Dropped |
| Water Management | 2006 | 2005 |
| PER TA | 2006 | 2006 |
| Infrastructure Assessment | 2007 | dropped |
| PER | 2007 | dropped |

| | | |
|---|---|---|
| Pay reform PSIA | 2007 | dropped |

| Actual (not included in the CAS) | Planned FY | Delivered FY |
|---|---|---|
| Cost and Financing of Education | | 2002 |
| Country Procurement Assessment Review (CPAR) | | 2000 |
| Country Financial Accountability Assessment (CFAA) | | 2002 |
| Country Portfolio Performance Review (CPPR) | | 2001,2003 |
| Financial Sector Assessment Program | | 2003 |
| Technical and Vocational Education | | 2004 |
| Contract Farming and Supply Chain Financing | | 2005 |
| Impacts of Extension Services | | 2005 |
| PSIA Reducing Primary School Fees in Mozambique | | 2005 |
| Natural Resources in Mozambique | | 2005 |
| Marginal Budgeting through Bottlenecks TA | | 2006 |
| Achieving the Health MDGs (Health Status Report) | | 2006 |
| Public Financial Management Assessment (PEFA) | | 2006 |
| Decentralization and Local Service Delivery Policy Note | | 2006 |
| Mining Policy TA | | 2006 |
| Country Environmental Assessment/Country Social Assessment | | 2007 |
| Value Chain Analyses | | 2007 |
| Rural Strategy (Horticulture Development Sector Study) | | 2007 |

*Sources:* Mozambique CAS 2001, 2003, World Bank internal databases as of April 23rd, 2007.

*Note:* CAS= Country Assistance Strategy; CEM= Country Economic Memorandum; CFAA= Country Financial Accountability Assessment; CPAR= Country Procurement Assessment Review; CPPR= Country Portfolio Performance Review; FY= fiscal year; HIPC= Highly-Indebted Poor Country; HIV/AIDS= human immunodefiency virus-acquired immune deficiency syndrome; MDG= Millennium Development Goal; PEFA= Public Expenditure Framework Assessment; PER= Public Expenditure Review; PRSP= Poverty Reduction Strategy Paper; PSIA= Poverty and Social Impact Analysis;TA= technical assistance.

Appendix Table A.7 Project Ratings by IEG, Exit FY2001–08

| Exit FY | Approval FY | | IEG outcome | IEG sustainability* | IEG institutional development impact* | IEG risk to development objective* |
|---|---|---|---|---|---|---|
| 2001 | 1993 | Rural Rehabilitation | Moderately satisfactory | Likely | Modest | ---- |
| | 1994 | Finance Sector Capacity | Satisfactory | Likely | Substantial | ---- |
| 2002 | 1993 | Capacity Building Human Development Project | Satisfactory | Likely | Substantial | ---- |
| | 2000 | Flood Emergency Recovery Project | Satisfactory | Non-evaluable | Negligible | ---- |
| 2003 | 1994 | Gas Engineering (Energy) | Moderately satisfactory | Likely | Modest | ---- |
| | 1994 | Road and Coastal 2 | Satisfactory | Likely | Substantial | ---- |
| 2004 | 1997 | Global Environment Facility (GEF) Transborder Parks SIL (FY97) | Moderately satisfactory | Unlikely | Modest | ---- |
| | 1996 | Health Sector Recovery SIL (FY96) | Satisfactory | Likely | Substantial | ---- |
| | 2003 | EMPSO | Moderately satisfactory | Likely | Modest | ---- |
| 2005 | 2005 | PRSC (FY05) | Satisfactory | Likely | Substantial | ---- |
| 2006 | 1999 | Education Sector Strategy Program (ESSP) TAL (FY99) | Moderately satisfactory | ---- | ---- | Moderate |
| | 1998 | National Water 1 (FY98) | Satisfactory | Likely | Substantial | ---- |
| | 2000 | Enterprise Development (FY00) | Moderately satisfactory | ---- | ---- | Moderate |
| | 2006 | PRSC 2 (FY06) | Satisfactory | Likely | Substantial | ---- |
| 2007 | 2002 | Roads & Bridges Management and Maintenance (FY02) | Satisfactory | ----- | ---- | Moderate |
| | 1999 | Agriculture Sector PEP (FY99) | Moderately unsatisfactory | ---- | ---- | Moderate |
| | 2002 | Municipal Development SIL (FY02) | Moderately satisfactory | ---- | ---- | Significant |
| | 2001 | Mineral Resources Management Capacity Development (FY01) | Satisfactory | ---- | ---- | Moderate |
| | 2000 | Coastal and Marine Biodiversity Management (FY00) | Moderately unsatisfactory | ---- | ---- | High |

*Note:* EMPSO= Economic Management and Private Sector Operation; ESSP= Education Sector Strategy Program; FY= fiscal year; GEF= Global Environment Facility; IEG= Independent Evaluation Group; PEP= ; PRSC= Poverty Reduction Support Credit; SIL= Specific Investment Loan; TAL= Technical Assistance Loan.

Appendix Table A.8 IEG Project Ratings

| 2001–08 | | | | | 2001–06 | | | | 2006–08 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total evaluated | | Outcome % satisfactory | | Institutional development impact % substantial * | | Sustainability % likely * | | Risk to development outcome % moderate or lower satisfactory* | |
| | ($m) | (No.) | ($m) | (No.) | ($m | (No.) | ($m) | (No.) | ($m) | (No.) |
| Mozambique | 1,117.2 | 19 | 97.0 | 89.5 | 72 | 58.3 | 100.0 | 90.9 | 88.3 | 71.4 |
| Africa Region | 22,000.0 | 514 | 72.3 | 67.3 | 43 | 43.6 | 68.7 | 63.0 | 53.3 | 52.6 |
| Bank wide | 149,375.0 | 2,142 | 82.4 | 77.4 | 56 | 52.2 | 82.5 | 77.0 | 76.3 | 66.7 |

*Sustainability and Impact were rated until around FY06. Risk to Development Objective is rated in projects from FY07 onwards.
*Source:* World Bank internal database. March 2010.

## Appendix Table A.9 Portfolio Status Indicators (US$ million)

| Country | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|
| Mozambique | | | | | | | | |
| Number of projects | 14 | 15 | 16 | 16 | 17 | 18 | 15 | 16 |
| Net commitment amount | 756.9 | 943.7 | 931.4 | 810.0 | 920.0 | 867.5 | 748.3 | 778.3 |
| Number of projects at risk | 1 | 3 | 2 | 1 | 5 | 3 | 3 | 1 |
| Percent at risk | 7.1 | 20.0 | 12.5 | 6.3 | 29.4 | 16.7 | 20.0 | 6.3 |
| Commitment at risk | 71.0 | 151.6 | 80.6 | 55.0 | 161.8 | 100.9 | 85.9 | 55.0 |
| Percent of commitment at risk | 9.4 | 16.1 | 8.7 | 6.8 | 17.6 | 11.6 | 11.5 | 7.1 |
| Uganda | | | | | | | | |
| Number of projects | 24 | 23 | 21 | 19 | 20 | 21 | 18 | 17 |
| Net commitment amount | 1,209.6 | 864.5 | 961.2 | 886.9 | 1,030.5 | 1,113.9 | 1,292.8 | 1,224.2 |
| Number of projects at risk | 1 | 2 | 1 | 6 | 7 | 1 | 2 | 6 |
| Percent at risk | 4.2 | 8.7 | 4.8 | 31.6 | 35.0 | 4.8 | 11.1 | 35.3 |
| Commitment at risk | 158.0 | 95.0 | 20.0 | 260.6 | 336.1 | 91.0 | 161.0 | 326.2 |
| Percent of commitment at risk | 13.1 | 11.0 | 2.1 | 29.4 | 32.6 | 8.2 | 12.5 | 26.6 |
| Zambia | | | | | | | | |
| Number of projects | 16 | 12 | 14 | 14 | 12 | 9 | 9 | 11 |
| Net commitment amount | 779.5 | 463.2 | 567.7 | 604.9 | 498.1 | 287.4 | 320.4 | 363.4 |
| Number of projects at risk | 5 | 9 | 2 | 1 | 6 | 1 | 2 | 0 |
| Percent at risk | 31.3 | 75.0 | 14.3 | 7.1 | 50.0 | 11.1 | 22.2 | 0.0 |
| Commitment at risk | 241.6 | 341.2 | 27.8 | 25.0 | 255.9 | 28.2 | 51.2 | 0.0 |
| Percent of commitment at risk | 31.0 | 73.7 | 4.9 | 4.1 | 51.4 | 9.8 | 16.0 | 0.0 |
| Tanzania | | | | | | | | |
| Number of projects | 18 | 22 | 24 | 23 | 21 | 26 | 23 | 23 |
| Net commitment amount | 907.0 | 1,233.0 | 1,418.7 | 1,444.5 | 1,333.0 | 1,894.5 | 1,893.6 | 1,984.9 |
| Number of projects at risk | 1 | 2 | 2 | 0 | 4 | 4 | 1 | 2 |
| Percent at risk | 5.6 | 9.1 | 8.3 | 0.0 | 19.0 | 15.4 | 4.3 | 8.7 |
| Commitment at risk | 41.2 | 71.1 | 17.0 | 0.0 | 133.4 | 425.6 | 31.1 | 103.5 |
| Percent of commitment at risk | 4.5 | 5.8 | 1.2 | 0.0 | 10.0 | 22.5 | 1.6 | 5.2 |
| Rwanda | | | | | | | | |
| Number of projects | 10 | 8 | 9 | 9 | 10 | 11 | 11 | 11 |
| Net commitment amount | 291.9 | 186.3 | 296.8 | 311.8 | 271.8 | 290.2 | 302.6 | 286.6 |
| Number of projects at risk | 0 | 1 | 0 | 2 | 1 | 2 | 0 | 0 |
| Percent at risk | 0.0 | 12.5 | 0.0 | 22.2 | 10.0 | 18.2 | 0.0 | 0.0 |
| Commitment at risk | 0.0 | 48.0 | 0.0 | 68.0 | 48.0 | 40.9 | 0.0 | 0.0 |
| Percent of commitment at risk | 0.0 | 25.8 | 0.0 | 21.8 | 17.7 | 14.1 | 0.0 | 0.0 |
| Cambodia | | | | | | | | |
| Number of projects | 12 | 14 | 16 | 14 | 13 | 12 | 11 | 14 |
| Net commitment amount | 267.4 | 298.6 | 337.1 | 314.7 | 270.5 | 256.2 | 229.1 | 333.0 |
| Number of projects at risk | 2 | 3 | 4 | 3 | 2 | 3 | 5 | 3 |
| Percent at risk | 16.7 | 21.4 | 25.0 | 21.4 | 15.4 | 25.0 | 45.5 | 21.4 |
| Commitment at risk | 47.4 | 78.8 | 80.2 | 22.4 | 26.6 | 62.6 | 79.7 | 86.4 |
| Percent of commitment at risk | 17.7 | 26.4 | 23.8 | 7.1 | 9.8 | 24.4 | 34.8 | 25.9 |
| Africa Region | | | | | | | | |
| Number of projects | 359 | 355 | 343 | 334 | 334 | 351 | 364 | 388 |
| Net commitment amount | 14,408.9 | 15,182.1 | 15,793.2 | 16,387.7 | 16,364.8 | 18,310.4 | 20,737.7 | 22,896.6 |
| Number of projects at risk | 53 | 93 | 65 | 76 | 97 | 77 | 77 | 87 |
| Percent at risk | 14.8 | 26.2 | 19.0 | 22.8 | 29.0 | 21.9 | 21.2 | 22.4 |
| Commitment at risk | 2,429.8 | 4,088.2 | 2,937.3 | 3,174.5 | 4,300.9 | 3,241.0 | 3,881.6 | 5,827.3 |
| Percent of commitment at risk | 16.9 | 26.9 | 18.6 | 19.4 | 26.3 | 17.7 | 18.7 | 25.5 |
| Bank-wide | | | | | | | | |
| Number of projects | 1457 | 1428 | 1395 | 1346 | 1,332 | 1,345 | 1,347 | 1,384 |
| Net commitment amount | 106,640.7 | 102,601.3 | 94,772.5 | 92,554.3 | 93,211.7 | 92,888.8 | 97,790.5 | 104,145.2 |
| Number of projects at risk | 184 | 272 | 218 | 228 | 224 | 188 | 224 | 250 |
| Percent at risk | 12.6 | 19.0 | 15.6 | 16.9 | 16.8 | 14.0 | 16.6 | 18.1 |
| Commitment at risk | 12,539.2 | 17,385.4 | 14,141.5 | 14,742.1 | 12,552.7 | 10,849.8 | 15,175.6 | 18,179.3 |
| Percent of commitment at risk | 11.8 | 16.9 | 14.9 | 15.9 | 13.5 | 11.7 | 15.5 | 17.5 |

*Source:* World Bank internal database, 2010.

Appendix Table A.10 Disbursements (US$ million)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|
| Number of projects | 14 | 15 | 16 | 16 | 17 | 18 | 15 | 16 |
| Commitment amount | 756.9 | 948.8 | 931.4 | 810.0 | 920.0 | 867.5 | 748.3 | 778.3 |
| Commitment at risk | 71.0 | 151.6 | 80.6 | 55.0 | 161.8 | 100.9 | 85.9 | 55.0 |
| Commitment IP/DO problem | 71.0 | 151.6 | 5.6 | 55.0 | 130.6 | 100.9 | 85.9 | 55.0 |
| Undisbursed balance at FY | 461.9 | 407.7 | 625.9 | 661.6 | 662.5 | 578.9 | 431.9 | 465.2 |
| Total undisbursed balance | 392.3 | 617.0 | 708.5 | 666.4 | 609.8 | 503.6 | 438.3 | 365.3 |
| Total disbursed | 3,173.8 | 3,139.2 | 2,582.1 | 2,148.0 | 3,778.63 | 4,360.9 | 3,611.0 | 4,933.2 |
| Disbursed in FY | 86.9 | 67.5 | 133.8 | 97.6 | 163.0 | 157.6 | 124.4 | 132.2 |
| Total cancelled | 0.0 | 5.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cancelled in FY | 0.0 | 5.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

*Source:* World Bank internal database March 2010.
*Note:* DO=development objective; FY= fiscal year; IP= implementation progress.

## Appendix Table A.11 External Assistance, Total Net ODA Disbursements (US$ Million)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Australia | 9.5 | 5.8 | 6.8 | 4.6 | 2.0 | 0.7 | 1.7 | 2.8 | 2.9 |
| Austria | 5.1 | 2.0 | 21.4 | 3.4 | 5.2 | 4.3 | 7.0 | 3.8 | 12.7 |
| Belgium | 2.5 | 9.5 | 2.8 | 8.7 | 10.6 | 12.2 | 12.8 | 23.4 | 25.9 |
| Canada | 8.0 | 13.9 | 9.0 | 26.7 | 27.3 | 56.2 | 49.4 | 57.3 | 77.2 |
| Czech Republic | .. | .. | .. | 0.01 | 0.01 | 0.01 | 0.01 | 0.06 | 0.01 |
| Denmark | 46.85 | 48.32 | 51.93 | 66.43 | 67.42 | 64.87 | 71.07 | 92.39 | 87.28 |
| Finland | 11.6 | 10.6 | 11.8 | 22.0 | 25.7 | 24.8 | 28.4 | 32.9 | 40.2 |
| France | 16.1 | 15.3 | 431.6 | 16.6 | 14.6 | 13.7 | 9.0 | 25.7 | 12.3 |
| Germany | 47.8 | 40.7 | 156.9 | 37.9 | 38.7 | 42.6 | 64.9 | 61.8 | 74.9 |
| Greece | .. | .. | .. | .. | .. | .. | .. | .. | 0.04 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | 17.7 | .. |
| Iceland | 1.16 | 1.3 | 1.07 | 1.02 | 1.24 | 1.56 | 2.52 | 3.33 | 3.57 |
| Ireland | 15.39 | 18.7 | 29.37 | 39.9 | 48.69 | 48.31 | 53.81 | 68.72 | 74.18 |
| Italy | 13.09 | 13.08 | 446.46 | 15.09 | 26.99 | 21.56 | 30.24 | 42.58 | 34.55 |
| Japan | 20.0 | 33.5 | 69.7 | 35.3 | 19.4 | 14.8 | 106.8 | 27.8 | 23.7 |
| Korea | 0.05 | 0.06 | 0.04 | 0.1 | 0.05 | 0.16 | 0.13 | 0.21 | 0.98 |
| Luxembourg | 1.5 | 0.3 | 0.4 | 0.7 | 0.4 | 1.4 | 1.5 | 0.7 | 0.2 |
| Netherlands | 61.6 | 86.6 | 52.0 | 47.3 | 54.7 | 64.5 | 59.7 | 80.7 | 105.7 |
| New Zealand | 0.58 | 0.42 | 0.19 | 0.61 | 0.43 | 0.48 | 0.23 | 0.21 | 0.2 |
| Norway | 38.2 | 32.6 | 38.7 | 54.1 | 61.1 | 67.9 | 64.3 | 80.1 | 96.7 |
| Poland | 0.03 | 0 | 0.02 | .. | .. | .. | .. | .. | .. |
| Portugal | 32.8 | 34.3 | 23.9 | 19.1 | 24.3 | 22.6 | 21.7 | 21.6 | 25.1 |
| Slovak Republic | .. | .. | .. | 0.18 | 0.2 | 0.1 | 0.2 | 0.14 | 0.15 |
| Spain | 23.5 | 11.7 | 33.5 | 22.6 | 32.5 | 29.4 | 33.6 | 53.8 | 78.5 |
| Sweden | 46.3 | 42.6 | 45.3 | 56.5 | 67.9 | 79.3 | 91.8 | 103.6 | 119.6 |
| Switzerland | 25.09 | 23.37 | 21.64 | 20.82 | 27.65 | 24.61 | 22.43 | 24.23 | 23.85 |
| Turkey | 0.07 | .. | .. | .. | .. | .. | .. | 0.05 | 0.15 |
| United Kingdom | 82.7 | 185.2 | 48.0 | 63.4 | 65.9 | 80.8 | 99.4 | 115.7 | 197.9 |
| United States | 115.52 | 91.84 | 159.68 | 135.4 | 109.96 | 85.36 | 108.85 | 153.38 | 226.66 |
| Arab countries | -1.3 | 2.9 | 1.2 | 1.6 | 2.4 | -0.4 | 0.3 | -0.7 | -0.9 |
| Other donor countries | 0.0 | 0.0 | .. | .. | .. | .. | 0.2 | 1.6 | 0.0 |
| Total Bilateral Donors | 623.5 | 724.5 | 1,663.3 | 700.0 | 735.1 | 761.7 | 941.6 | 1,095.6 | 1,344.2 |
| AfDF (African Dev. Fund) | 13.3 | 56.5 | 73.1 | 31.9 | 91.4 | 73.4 | 162.1 | 79.6 | 67.4 |
| Arab agencies | 5.4 | 12.9 | 1.4 | 11.6 | 15.6 | 14.7 | 1.9 | 8.7 | 13.7 |
| EC | 78.81 | 73.62 | 137.76 | 90.17 | 151.1 | 162.57 | 174.58 | 235.4 | 161.39 |
| GEF | .. | .. | 3.7 | .. | 0.2 | 10.4 | .. | 7.5 | 6.9 |
| Global Fund (GFATM) | .. | .. | .. | .. | 16.4 | .. | 23.4 | 42.3 | 53.7 |
| IDA | 93.7 | 53.0 | 297.2 | 159.1 | 194.2 | 242.7 | 244.4 | 251.7 | 279.7 |
| IFAD | 4.3 | 4.9 | 6.6 | 6.0 | 7.0 | 6.2 | 8.5 | 5.2 | 4.3 |
| SAF+ESAF+PRGF (IMF) | 60.1 | 11.0 | 5.9 | 3.1 | -6.7 | -9.8 | 4.8 | 5.0 | .. |
| Nordic Dev. Fund | 1.2 | 0.1 | 4.1 | 7.0 | 7.8 | 5.4 | 9.1 | 7.5 | 13.1 |
| UNAIDS | .. | .. | .. | .. | .. | 0.7 | 0.9 | 1.5 | 0.6 |
| UNDP | 5.5 | 6.5 | 4.0 | 8.9 | 8.5 | 7.4 | 7.0 | 8.1 | 9.1 |
| UNFPA | 3.4 | 5.8 | 5.9 | 9.0 | 3.8 | 2.9 | 3.0 | 3.8 | 5.9 |
| UNHCR | 0.8 | 1.1 | 1.9 | 1.5 | 2.2 | 0.7 | 0.6 | 1.0 | 1.0 |
| UNICEF | 7.1 | 8.4 | 6.5 | 7.8 | 8.5 | 8.7 | 9.5 | 14.3 | 15.7 |
| UNTA | 2.2 | 1.3 | 2.8 | 2.9 | 2.4 | 2.8 | 1.3 | 2.4 | 0.8 |
| WFP | 3.4 | 2.3 | 5.7 | 8.8 | 5.2 | 6.4 | 8.5 | 8.4 | 10.1 |
| DAC Countries, Total | 623.5 | 720.2 | 1,661.0 | 697.1 | 731.3 | 760.2 | 938.3 | 1,073.2 | 1,340.3 |
| G7, Total | 303.0 | 393.5 | 1,321.4 | 330.3 | 302.9 | 315.0 | 468.5 | 484.3 | 647.3 |
| DAC EU Members, Total | 406.7 | 518.8 | 1,355.3 | 419.6 | 483.4 | 510.1 | 584.7 | 727.3 | 889.0 |
| Multilateral, Total | 279.3 | 237.3 | 556.5 | 347.9 | 507.6 | 535.3 | 659.5 | 682.4 | 649.6 |
| All Donors, Total | 902.8 | 961.8 | 2,219.8 | 1,047.9 | 1,242.7 | 1,297.0 | 1,601.0 | 1,778.0 | 1,993.8 |

*Source: OECD DAC 2a as of March 2010.*

*Note:* AfDF= African Development Fund; DAC= Development Assistance Committee of OECD; EC= European Commission; EU= European Union; ESAF= Enhanced
GEF= Global Environment Facility; GFATM=Global Fund to Fight AIDS, Tuberculosis and Malaria; IDA= International Development Assocation; IFAD= International F
IMF= International Monetary Fund; ODA= official development assistance; OECD= Organisation for Economic Co-operation and Development; PRGF= Poverty Redu
SAF=Structural Adjustment Facility; UNAIDS=Joint United Nations Programme on HIV/AIDS; UNDP= United Nations Development Programme; UNFPA= United Nati

UNHCR= United Nations High Commissioner for Refugees; UNICEF=United Nations Children's Fund; UNTA=United Nations Transitional Authority; WFP= Worl

### Appendix Table A.12 World Bank Lending for Macroeconomic Management, Financial Sector Development, and Private Sector Development

| FY2001–08 | Board Approval Date | US$ million |
|---|---|---|
| Enterprise Development Project | 11/27/00 | 26 |
| Economic Management and Private Sector Operation | 08/29/02 | 120 |
| PRSC 1 | 07/06/04 | 60 |
| PRSC 2 | 09/13/05 | 120 |
| Financial Sector TA Project | 11/03/05 | 10.5 |
| PRSC 3 | 01/25/07 | 70 |
| PRSC 4 | 03/31/08 | 60 |
| FY09 | | |
| PRSC 5 | 11/04/08 | 100 |
| Competitiveness and PSD Project | 02/12/09 | 25 |

*Source:* World Bank documents.
*Note:* FY= fiscal year; PRSC= Poverty Reduction Support Credit; PSD= private sector development.

### Appendix Box A.1 Poverty Observatories

On April 28, 2003, the Government of Mozambique formally established the Poverty Observatory (*Observatorio da Pobreza*) with advice and financial support from UNDP. It was established because of concern that PARPA I had not been developed with adequate consultations.

The main goal for the Poverty Observatory was to monitor and evaluate PARPA's implementation performance of consultations between the government, the private sector, trade union confederations, civil society, and development partners. The Poverty Observatory was expected to make suggestions to the government to maximize the impact of PARPA implementation, to ensure transparent interaction between the government and its partners, and effective dissemination of information on the poverty reduction process.

The Poverty Observatory has an ad hoc advisory group of 60 (the Opinion Council) with equal representation from the central government, international development partners, and civil society. Provincial Poverty Observatories (or their equivalent) were established in all provinces, and six national consultations have been held.

A number of concerns have been raised about the Poverty Observatories. Civil society has raised questions about the definition of Poverty Observatory roles and responsibilities, their relation to other monitoring and evaluation systems and to the development partnership architecture, and the inclusiveness of civil society participation. Others have questioned the clarity of the guidelines for the Poverty Observatory and whether there is any feedback between the Poverty Observatory and the government. In addition, the provincial Poverty Observatories have felt that their concerns have not been adequately accommodated by the central Poverty Observatory.

A broader and practical issue overhanging these concerns is that the government allocation of budget resources to PARPA priorities emerges from the annual development partner-focused Joint Review of the Performance Assessment Framework (PAF) organized through the joint government-development partner sector working groups. PARPA II was approved by the national assembly making the legal connection between PARPA and the national budget. In contrast, the Poverty Observatories have no legal standing and no mechanism for feeding their recommendations into the government's poverty planning and programming cycle.

The World Bank's poverty, gender, and social assessment (*Beating the Odds: Sustaining Inclusion in Mozambique's Growing Economy*) recommended two main actions: (a) increasing the effectiveness of the Poverty Observatories through the greater and deeper involvement of civil society; and (b) legalizing the Poverty Observatory as a formal institution supporting PARPA to ensure that PARPA principles of accountability and transparency can be adhered to.

*Source:* World Bank 2008d, pages 168 to 178.

Appendix Table A. 13. Poverty Measures for Urban and Rural Areas (1997 and 2003)

| Area/Province | Incidence of Poverty a/ | | | Poverty Gap b/ | | | Squared Poverty Gap c/ | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 (percent) | 2003 | Change | 1997 | 2003 | Change | 1997 | 2003 | Change |
| Mozambique | 69.4 | 54.1 | -22.0 | 29.2 | 19.9 | 31.8 | 15.5 | 9.9 | -36.1 |
| Area | | | | | | | | | |
| Urban | 63.9 | 51.6 | -19.2 | 27.2 | 18.9 | -30.5 | 14.8 | 9.0 | 39.1 |
| Rural | 71.6 | 55.2 | -22.9 | 30.0 | 20.4 | -32.0 | 15.8 | 10.3 | -34.8 |
| Province | | | | | | | | | |
| Niassa | 69.9 | 49.5 | -29.2 | 29.1 | 14.5 | -50.2 | 15.3 | 6.2 | -59.5 |
| Cabo Delgado | 56.8 | 62.8 | 10.6 | 19.2 | 20.8 | 8.3 | 8.8 | 8.9 | 1.1 |
| Nampula | 68.7 | 53.6 | -22.0 | 28.0 | 18.7 | -33.2 | 14.7 | 8.6 | -41.5 |
| Zambezia | 68.0 | 45.0 | -33.8 | 25.2 | 13.4 | -46.8 | 11.7 | 5.6 | -52.1 |
| Tete | 80.3 | 58.7 | -26.9 | 38.5 | 25.7 | -33.2 | 22.2 | 14.9 | -32.0 |
| Manica | 62.3 | 44.4 | -28.7 | 23.3 | 16.8 | -27.9 | 11.1 | 9.1 | -18.0 |
| Sofala | 88.2 | 34.1 | -61.2 | 49.9 | 10.1 | -79.3 | 31.8 | 4.1 | -87.1 |
| Inhambane | 83.8 | 81.1 | -3.2 | 37.4 | 42.1 | 12.6 | 20.2 | 25.8 | 27.7 |
| Gaza | 65.4 | 59.7 | -8.7 | 23.2 | 19.9 | -14.2 | 11.1 | 8.8 | -20.7 |
| Maputo | 64.8 | 71 | 9.6 | 27.4 | 30.9 | 12.8 | 14.5 | 16.9 | 16.6 |
| Maputo City | 47.3 | 53.2 | 12.5 | 12.5 | 15.7 | 20.1 | 28.0 | 7.3 | 9.8 |

*Notes:* urban and rural definitions as at 2003

a/ Proportion of the population below the poverty line.

b/ Aggregate poverty deficit of the poor relative to the poverty line.

c/ Severity of poverty.

The detailed definitions for these money-metric poverty measures and a discussion of their usefulness can be found in Martin Ravallion, "*Poverty Comparisons," Fundamentals of Pure and Applied Economics* 56, Harwood Academic Publishers, 1994.

*Source:* IAF data for 1997 and 2003.

### Appendix Box A.2 Primary Schools Enrollment and Retention – Impact of School Fees (2005)

The core of this report, based on a number of surveys of education staff, communities, and households, was an econometric analysis of the impact of fees on the enrollments and drop-out rates of children at the EP1 level (lower primary school; grades 1-5). The report found that, as overall enrollment rates at this level are already close to 100 percent, school fees alone (which in any case are very low and do not include unrecorded costs such in-kind fees, extra payments, and personal favors to teachers) had a limited statistically significant impact on either enrollments or drop-out rates. However, in urban areas in the center of the country, such as the poor province of Zambezia, higher school fees would be expected to lower enrollments. Although the wealth of a district as a whole did not seem to affect the enrollment and drop-out rate, for large families the total cost of schooling is an important issue since the data showed that families sending two of three students to school would only be more likely to send the third student to school if average fees were reduced by 200 percent.

The impact of the cost of informal payments and other incidental costs associated with attending school at the EP1 level could not be assessed because of the lack of data about these costs in the surveys. However, the information obtained did show that the cost of uniforms was associated with a positive effect on enrollments in EP1 because the use of uniforms had an important egalitarian impact masking differences in social status. It was clear from the data that the greater the distance from school, the more likely a child will not attend school. Finally, the personal characteristics of a child (age, sex, and vulnerability status) affect the probability of enrollment and dropping out. For example, the probability that a child will attend EP1 increases with age, but at a declining rate. Also, a child's gender will affect enrollment and drop-outs, with girls less likely to be enrolled than boys.

Following the availability of the evidence of the impact of fees on the enrollments and drop-outs of primary school children, the government decided to abolish the need for parents to pay contributions, fees, and levies for primary school education as of the start of the 2005 academic year. Although the decree allowed parents and communities to contribute to the cost of schooling, all payments should be voluntary. The report, therefore, had an impact on government school fee policy.
*Source:* World Bank 2005a.

### Appendix Box A.3 Health: Country Status Report (2004) and Better Spending to Reach the Millennium Development Goals (2006)

The purpose of the status report was to provide an up-to-date overview of the status of Mozambique's health sector, with a focus on sector performance. The report on the Millennium Development Goals (MDGs) reviewed public expenditures on health programs in the context of the challenges facing health services in Mozambique.

The first report was written in the context of the preparation for the first Poverty Reduction Strategy Credit. Because of budgetary and time constraints, it was not possible to do a deep analysis of socioeconomic and bio-demographic factors for health, nutrition, and population outcomes in Mozambique. The report was therefore largely descriptive. It listed several key policy issues facing the health sector: (i) lack of household knowledge about health issues; (ii) low efficiency and equity in the health sector; (iii) financial constraints that resulted in limited sustainability, efficiency, and little protection of the poor; and (iv) lack of an overall strategy.

The report did not attempt to craft a health strategy because available data were inadequate for in-depth analysis of the issues. On balance, this seemed like a missed opportunity to propose a strategy, but the pressures to deliver information for the PRSC probably overwhelmed any attempt to undertake data collection and substantial analysis. Nevertheless, the first PRSC did include targets for the health sector, and they were achieved.

The second report, having reviewed the public expenditures on health services, focused on four options for scaling up healthcare services and estimated their costs and impact. The options were: (i) strengthening outreach mechanisms to further improve population-based preventive services; (ii) scaling-up community-based services; (iii) improving facility-based care; and (iv) providing healthcare services through an outreach strategy.

The report concluded that implementation of these service delivery options would require the following reforms in Mozambique's health system: (i) integrating isolated vertical service programs to create horizontal collaboration at both the facility and community levels; (ii) establishing measures to improve the efficiency and effectiveness of service delivery; (iii) establishing strategic and decentralized planning and financing mechanisms to provide resources to implement service delivery; and (iv) upgrading and training professionals so they have the right skills to deliver health services.

The report also did not reflect any discussions with the government on the issues covered. Nevertheless, it drew attention to the need for increased and more strategic public health expenditures as an important start to tackling the substantial challenges of meeting the MDGs.
*Source:* World Bank, internal country health review; and World Bank 2006a.

### Appendix Box A.4 Country Water Resources Assistance Strategy: Making Water Work for Sustainable Growth and Poverty Reduction (2007)

The Bank prepared this report in consultation with the National Water Department of the Ministry of Public Works and in collaboration with water supply institutions such as the Water Supply Investment and Asset Fund. The objectives of the report were to review Mozambique's water resources, analyze water-related challenges, identify measures to mitigate the negative and enhance the positive impacts of water on growth and poverty reduction, and to recommend priority interventions for all development partners for the period 2008-11.

More than half of Mozambique's water resources originate from outside of its borders since it is a downstream riparian on eight of the country's nine major rivers. These rivers have a "torrential regime," and Mozambique has no control of the flow of rivers that originate outside its borders (except for the Cahora Bassa Dam on the Zambezi river, which is used for power(?) generation). These rivers, along with substantial variations in annual rainfall in Mozambique's watersheds, cause extensive and damaging floods, particularly in the south. Bank analysis has concluded that between 1981 and 2003, annual GDP growth was typically reduced by 5.6 percent as a result of major water shocks.

Further development of the hydropower sector planned by the government will lead to substantial water supply potential for multipurpose dams. These dams could supply controlled amounts of water to urban areas and to agriculture. In the case of agriculture only 4 percent of a potential 2.7 million hectares of arable land have been developed for irrigation, but there are plans for additional irrigation development through a Bank-financed project. However, as the report notes, there is no culture of irrigation in Mozambique, so additional irrigation development will probably be an arduous undertaking.

The broader issue facing the water development sector is the uneven distribution and quality of water supplies between rural and urban areas. Rural areas have only rudimentary safe water supplies for 30 percent of the population where surface and underground water is distributed at pumps located at strategic points in towns and villages. However, about 70 percent of high income urban areas in major cities and large towns are well served with water supplies. The policy issue has been framed as a choice between improving water supplies in rural areas, and thereby enhancing social welfare and supporting decentralized development— or increasing the availability of water in urban areas and providing a higher coverage for urban households to support the development of industry, manufacturing, and services. Choosing between these priorities is complicated by the conclusion in this report that the current water supply capacity for Maputo is inadequate to meet projected demand beyond 2012.
*Source:* World Bank 2007b.

| Appendix Table A. 14 World Bank Governance Indicators | | | | | |
|---|---|---|---|---|---|
| Governance Indicator | Sources | Year | Percentile Rank (0-100) | Governance Score (-2.5 to +2.5) | Standard Error |
| Voice and Accountability | 16 | 2008 | 47.6 | -0.02 | 0.11 |
| | 9 | 2003 | 44.2 | -0.1 | 0.17 |
| | 5 | 2000 | 44.2 | -0.2 | 0.22 |
| Political Stability | 10 | 2008 | 55.5 | 0.29 | 0.21 |
| | 8 | 2003 | 48.6 | 0.04 | 0.22 |
| | 5 | 2000 | 45.7 | -0.02 | 0.3 |
| Government Effectiveness | 13 | 2008 | 42.7 | -0.38 | 0.17 |
| | 11 | 2003 | 34.1 | -0.56 | 0.15 |
| | 5 | 2000 | 42.7 | -0.36 | 0.2 |
| Regulatory Quality | 12 | 2008 | 35.3 | -0.47 | 0.15 |
| | 11 | 2003 | 39 | -0.39 | 0.17 |
| | 6 | 2000 | 42 | -0.19 | 0.24 |
| Rule of Law | 19 | 2008 | 28.2 | -0.66 | 0.13 |
| | 13 | 2003 | 23.8 | -0.86 | 0.14 |
| | 8 | 2000 | 25.2 | -0.81 | 0.16 |
| Control of Corruption | 16 | 2008 | 34.3 | -0.55 | 0.14 |
| | 10 | 2003 | 31.1 | -0.69 | 0.17 |
| | 6 | 2000 | 29.6 | -0.68 | 0.23 |
| | | | | | |

*Source:* D. Kaufmann, A. Kraay, and M. Mastruzzi 2008, Governance Matters VII: Governance Indicators for 2000-2008.

*Note:* The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen, and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, nongovernmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The indicators are not used by the World Bank Group to allocate resources or for any other official purpose.

Appendix Table A.15 Transparency International Corruption Perception Index

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| CPI score | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 | 2.6 |
| Rank/total | 86/133 | 90/145 | 97/158 | 99/163 | 111/174 | 126/180 |
| Surveys used | 5 | 7 | 5 | 7 | 8 | 7 |
| Confidence range | 2.0-3.1 | 2.4-3.1 | 2.4-3.1 | 2.5-3.0 | 2.5-3.1 | 2.4-2.9 |

*Source:* Transparency International.
*Note:* CPI= Corruption Perception Index

Appendix Table A.16 Governance Pillar III-Objective 1: Improved Budget Allocation and Budget Execution—Results Indicators

| Intermediate Indicators (in CAS 2003 and CPS 2006 ) | Outcomes/indicators | | |
|---|---|---|---|
| | CAS 2000 | CAS 2003 | CASPR 2006 |
| 1. Poverty-Reducing Expenditures | | | |
| Pro-poor spending 67% of budget | | Identification of poverty-reducing expenditures done | Budget allocation and budget execution of PARPA priority areas in accordance with targets set by PARPA (PAF 25) |
| | | Sustained poverty-reducing expenditure maintained | Budget execution rates for recurrent expenditure on goods and services in priority sectors greater than rate in non-priority sectors (PAF 26) |
| 2. Off-budget Transactions | | | |
| Off-budget revenues reported to Ministry of Planning and Finance by ministries, and development partner funding also reported | | Off-budget transactions eliminated | Increased government revenues included in the budget (PAF 28) |
| | | Data on development partner financing collected/reported | Increase number of external funds that are on CUT (PAF 29) |
| 3. Budget Formulation and Evaluation | | | |
| SISTAFE introduced in 2004/05, with functional classification | | Classification of budget transactions done | |
| | | Classification used for budget tracking | |
| 4. Budget Execution | | | |
| Outturn close to budget (e.g., measured by budget deviation index, i.e., sum of shortfalls and overruns as percentage of budget) | | Reliability of budget transactions improved | |
| 5. Creating Organizations and Building Capacity | | | |
| Revenue authority created<br>*Conta unica de tesouro fisica* implemented<br>Accounting, auditing capacity developed | | | |

*Source:* CAS 2003, October 20, 2003, Table 7 and Annex 1, pp. 24 and 51, and CASPR 2006 February 21, 2006, Annex II. The CAS 2000 did not define results indicators.
*Note:* CAS= Country Assistance Strategy; CASPR= Country Assistance Strategy Progress Report; CPS= Country Partnership Strategy; CUT= Treasury Single Account; PAF= Performance Assessment Framework; PARPA= Action Plan for the Reduction of Absolute Poverty, the Portuguese acronym for Poverty Reduction Strategy Paper (PRSP); SISTAFE= State Financial Administrative System.

Appendix Table A.17 World Bank Assistance Program for Governance Pillar (FY2001–08)

| | US$ Million | Dates (Board, year of report) |
|---|---|---|
| A. Lending | | |
| Economic Management Reform Operation | 150 | 12/10/1998 |
| Economic Management and Private Sector Operation | 120 | 08/29/2002 |
| Public Sector Reform Project | 25.6 | 03/18/2003 |
| Decentralized Planning and Financing Project | 42 | 11/20/2003 |
| PRSC 1 | 60 | 07/06/2004 |
| PRSC 2 | 120 | 09/13/2005 |
| B. Analytical Work | | |
| CEM: Growth Prospects and Reform Agenda | | 2001 |
| Public Expenditures Management Review (Phase I) | | 2001 |
| Financial Accountability Assessment | | 2002 |
| Country Procurement Assessment | | 2002 |
| Public Expenditures Management Review (Phase II) | | 2003 |
| Legal and Judicial Sector Assessment | | 2004 |
| CEM: Sustaining Growth and Reducing Poverty | | 2005 |
| Beating the Odds: Sustaining Inclusion in Mozambique's Growing Economy | | 2008 |

*Source:* World Bank internal database March 2010.
*Note:* CEM= Country Economic Memorandum; PRSC=Poverty Reduction Support Credit.

Appendix Table A.18 Mozambique and Comparators—Cost of Operations, FY2001–08 (US$ 000s)

| | Project supervision | Lending | AAA | | | | Other country services | Total country services |
|---|---|---|---|---|---|---|---|---|
| | | | ESW | TA | Other | Total | | |
| Mozambique | 17,863.9 | 12,215.6 | 4,904.9 | 1,617.2 | 304.5 | 6,826.6 | 4,468.4 | 41,374.5 |
| Uganda | 19,886.0 | 14,418.4 | 8,910.6 | 824.9 | 158.7 | 9,894.2 | 2,558.8 | 46,757.3 |
| Zambia | 14,294.1 | 8,819.1 | 5,317.0 | 2,477.8 | 437.8 | 8,232.6 | 4,012.5 | 35,358.4 |
| Tanzania | 21,910.0 | 16,317.7 | 10,779.6 | 891.5 | 89.9 | 11,761.1 | 3,634.1 | 53,622.8 |
| Rwanda | 9,959.1 | 7,626.5 | 2,884.4 | 534.5 | 32.5 | 3,451.4 | 1,607.5 | 22,644.6 |
| Cambodia | 10,683.0 | 11,330.5 | 6,298.1 | 1,711.7 | 431.3 | 8,441.1 | 4,075.4 | 34,530.0 |
| Africa Region | 373,087.1 | 300,567.8 | 188,195.8 | 80,590.2 | 9,332.6 | 278,118.6 | 236,577.6 | 1,188,351.1 |
| Bank-wide | 1,428,377.7 | 1,123,334.4 | 868,241.7 | 331,817.1 | 18,556.0 | 1,218,614.8 | 806,349.0 | 4,576,676.0 |

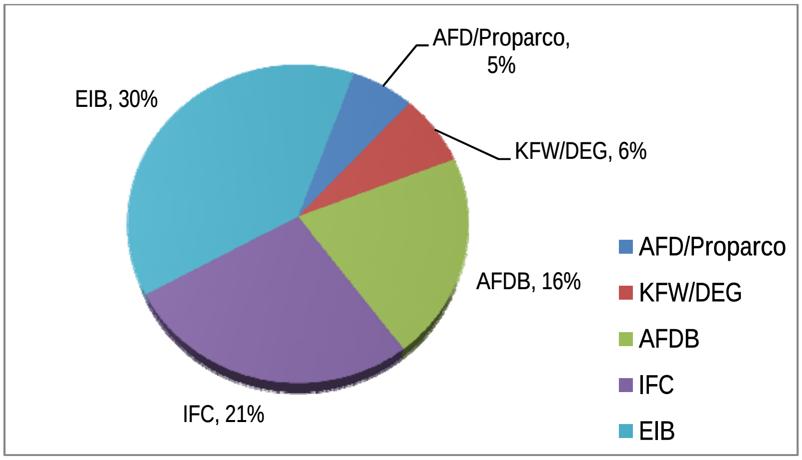
*Source:* World Bank internal database. June 10, 2009.
*Note:* AAA = analytic and advisory activities, ESW = economic and sector work, TA = technical assistance

Appendix Table A.19 IFC's Areas of Support and Objectives

| *Areas of support* | *Objectives* |
|---|---|
| *Enhance support to small and medium enterprises* | • Provide advisory assistance, capacity building, and financing support to SMEs, concentrating on the agribusiness and tourism sectors.<br>• Support Mozambique through a new joint IDA-IFC initiative for MSME development.<br>• Work with IDA on the assistance to SMEs with HIV/AIDS education programs. |
| *Promote tourism sector* | • Ensure that tourism and conservation area initiatives would be bankable for private sector participation.<br>• Promote conservation tourism of Mozambique through public and private investment, facilitated by IDA, IFC, and MIGA, in high-quality tourism infrastructure. |
| *Develop infrastructure and mining* | • Selectively review megaprojects with IDA and MIGA for their viability and potential support from the World Bank Group.<br>• Examine further financing of Mozal for its expansion.<br>• Seek opportunities to finance private infrastructure projects, including development of industrial parks and transport corridors.<br>• Support the privatization of Petromoc (the state-owned petroleum distributor).<br>• Explore opportunities to provide assistance to the government on the Sena railway concession.<br>• Review strategic options for the future development of the Moatize coal mine.<br>• Address the energy needs of the mega-projects with IDA, including those connected with the Moatize coal project.<br>• Support government with policy advice to find strategic investors for airports and the national airline.<br>• Discuss with the national telecommunications company possibly to support its privatization. |
| *Build and strengthen financial markets* | • Provide additional equity investments, term resources, and institution building for banks.<br>• Stimulate competition and intermediation through the establishment of new non-bank financial institutions, particularly in leasing, insurance, housing finance, and microfinance, which would help increase access to financial services for the poor. |
| *Support health and education* | • Support the expansion of private medical services.<br>• Support private education, focusing on the tertiary level. |
| *Support agribusiness* | • Help agricultural firms with export potential to gain access to export markets through adopting modern farming techniques and ensuring high-quality handling along the entire supply chain. |

Note: IDA= International Development Assocation; HIV/AIDS= human immunodeficiency syndrome-acquired immune defiency syndrome; IFC= International Finance Corporation; MIGA= Multilateral Investment Guarantee Agency; MSME= micro, small and medium enterprise; SME= small and medium enterprise.

Appendix Figure A.1 Bilateral and Multilateral Development Agencies 2001-08 Portfolio in Mozambique




*Source:* IFI Web pages.
*Note:* AFD= Agence Francaise de Developpement; AfDB= African Development Bank; DEG=Deutsche Investitions- und Entwicklungsgesellschaft; EIB= European Investment Bank; IFC= International Finance Corporation; KfW= Kreditanstalt für Wiederaufbau (Germany); Proparco=Promotion et Participation pour la Coopération économique (private sector arm of AFD).

Appendix Table A.20 List of IFC Investments in Mozambique, FY2001–FY08 (US$000)

| Project ID | Project name | Approval FY | Commitment FY | Project status | Sector | Original commitment | Net loan | Net equity | Total net commitment |
|---|---|---|---|---|---|---|---|---|---|
| IFC INVESTMENTS MADE IN FY2001–08 | | | | | | | | | |
| 10323 | Mozal II | 2001 | 2001 | Active | Metals | 25,000 | 13,321 | - | 13,321 |
| 10692 | SEF Grand Prix | 2001 | 2003 | Closed | Industrial | 444 | 250 | - | 250 |
| 10983 | ENH Eqty Finance Southern Africa Regional Gas Project) | 2004 | 2004 | Active | Extractive | 18,500 | - | 18,500 | 18,500 |
| 20980 | SEF Merec II | 2004 | 2004 | Active | Agribusiness | 1,195 | 1,136 | - | 1,136 |
| 21074 | Novobanco RI | 2003 | 2003 | Closed | Finance | 200 | - | 200 | 200 |
| 25207 | GTFP BDC | 2005 | 2006 | Closed | Finance | 107 | 107 | - | 107 |
| 25610 | AMSME BCI | 2008 | 2009 | Active | Finance | 8,500 | 8,500 | - | 8,500 |
| 25934 | Merec Expansion | 2008 | 2009 | Active | Agribusiness | 7,000 | 7,000 | - | 7,000 |
| 27398 | BGM Mozambique | 2008 | 2009 | Active | Agribusiness | 7,000 | 7,000 | - | 7,000 |
| PRIOR INVESTMENTS ACTIVE DURING FY2001–08 | | | | | | | | | |
| 864 | Lomaco Farming | 1986 | 1987 | Closed | Agribusiness | 2,743 | 2,743 | - | 2,743 |
| 3157 | Polana Hotel | 1992 | 1993 | Closed | Tourism | 3,500 | 3,500 | - | 3,500 |
| 5094 | AEF-Bonar | 1995 | 1996 | Closed | Agribusiness | 300 | 300 | - | 300 |
| 7473 | AEF Cahora Bassa | 1996 | 1996 | Closed | Agribusiness | 205 | 205 | - | 205 |
| 7524 | BIM | 1996 | 1998 | Closed | Finance | 5,000 | - | 5,000 | 5,000 |
| 7616 | Agrimo | 1997 | 1997 | Closed | Agribusiness | 2,000 | 2,000 | - | 2,000 |
| 7764 | MOZAL | 1997 | 1998 | Active | Metals | ----------- | ----------- | - | --------- |
| 7881 | SEF CTOX | 1997 | 1998 | Closed | Tourism | 726 | 726 | - | 726 |
| 8021 | SEF CPZ | 1997 | 1998 | Active | Agribusiness | 1,000 | 1,000 | - | 1,000 |
| 8529 | SEF Joao Jamal | 1998 | 1999 | Closed | Metals | 242 | - | - | - |
| 8901 | SEF Robeira | 1999 | 1999 | Closed | Infrastructure | 227 | 227 | - | 227 |
| 9081 | BIM-Invest | 1998 | 1999 | Closed | Finance | 300 | - | 300 | 300 |
| 9115 | Maragra Sugar | 1999 | 2000 | Closed | Agribusiness | 10,300 | - | - | - |
| 9636 | SEF Cabo Caju | 2000 | 2000 | Closed | Agribusiness | 576 | 506 | - | 506 |
| 9997 | SEF Ausmoz | 2000 | 2001 | Active | Agribusiness | 715 | 715 | - | 715 |
| 10069 | NovoBanco | 2000 | 2001 | Closed | Finance | 200 | - | 200 | 200 |
| 10119 | BIM-RI | 2000 | 2000 | Closed | Finance | 2,555 | - | 2,555 | 2,555 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 10185 | SEF Merec | 2000 | 2001 | Closed | Agribusiness | 1,300 | 1,300 | - | 1,300 |

*Source:* Internal World Bank database as of July, 2009.

## Appendix Table A. 21 List of IFC Advisory Services in Mozambique, FY01–FY08 (US$000)

| *Project Name* | *IFC 1st Level Sector* | *Primary Business Line* | *Total Funding* |
|---|---|---|---|
| SGL-Printing Shop HIV/AIDS | J - Pulp & Paper | Corporate Advice | 9,530 |
| MSI programme-New Tintas 2000 | G - Chemicals | Corporate Advice | 88,000 |
| AMSMETA BCI | O - Finance & Insurance | Access To Finance | 1,000,000 |
| Mozambique Leasing Study | O - Finance & Insurance | Access To Finance | 80,000 |
| South East African Tourism Investment Program (SEATIP) | U - Accommodation & Tourism Services | Business Enabling Environment | 358,750 |
| ENH/CMG Pipeline | B - Oil, Gas and Mining | Infrastructure | 101,552 |
| Mozambique SME Linkage Development Programme - MozLink II | B - Oil, Gas and Mining | Corporate Advice | 1,179,424 |
| MOZ Impact of tax on business and Admin barriers | X - Other (For Non-Investment Projects) | Business Enabling Environment | 151,000 |
| MSI- Program Nkwichi Lodge | U - Accommodation & Tourism Services | Corporate Advice | 89,250 |
| Mozambique Tourism Anchor Investment Program | U - Accommodation & Tourism Services | Business Enabling Environment | 2,002,201 |
| MSI Program - DEJA VU | F - Food & Beverages | Corporate Advice | 160,000 |
| MSI Program - TCT Industrias Florestais, Lda | M - Industrial & Consumer Products | Corporate Advice | 140,000 |
| MSI Pre Investment Technical Assistance FY 07-09 | X - Other (For Non-Investment Projects) | Corporate Advice | 1,725,000 |
| Tourism Sector Study | X - Other (For Non-Investment Projects) | Business Enabling Environment | 226,355 |
| MSI Pre-Investment Technical Assistance FY05-06 | X - Other (For Non-Investment Projects) | Corporate Advice | 52,794 |
| LKG:MOZAL | I - Primary Metals | Corporate Advice | 1,295,000 |
| MSI Program - Spectrum Graphics Limitada (Printing Shop) | J - Pulp & Paper | Corporate Advice | 70,000 |
| Rndabt Playpumps | C - Utilities | Infrastructure | 1,558,877 |
| Petromoc | B - Oil, Gas and Mining | Infrastructure | 220,000 |
| Moatize | B - Oil, Gas and Mining | Infrastructure | 700,000 |

*Source:* IFC

.

## Appendix Table A.22 Formal Private Sector Employment

| Size | Number of companies | % | Sales Billions MT | % |
|---|---|---|---|---|
| Large | 396 | 1.4 | 38843 | 58.5 |
| Medium | 2621 | 9.1 | 11649 | 17.5 |
| Small | 25853 | 89.5 | 15952 | 24 |
| Total | 28870 | 100 | 66444 | 100 |

*Source:* INE, CEMPRE 2004.

# Appendix B
# Guide to IEG-WB's Country Program Evaluation Methodology

This methodological note describes the key elements of IEG-WB's Country Program evaluation (CPE) methodology.[1]

***CPEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress***

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by development partners, stakeholders, and the government itself. In CPEs, IEG-WB rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CPEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CPEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

***Assessments of assistance program outcome and Bank performance are not the same***

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG-WB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities (AAA), the consistency of the Bank's lending with its nonlending work and with its safeguard policies, and the Bank's partnership activities.

**Rating Assistance Program Outcome**

In rating the outcome (expected development impact) of an assistance program, IEG-WB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The Country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG-WB's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and nonlending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other development partners, the government and exogenous factors.

Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

*Ratings Scale*

IEG-WB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

| | |
|---|---|
| *Highly Satisfactory:* | The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified. |
| *Satisfactory:* | The assistance program achieved acceptable progress |

| | |
|---|---|
| | toward all major relevant objectives. No best practice achievements or major shortcomings were identified**.** |
| *Moderately Satisfactory:* | The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified. |
| *Moderately Unsatisfactory:* | The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation. |
| *Unsatisfactory:* | The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation. |
| *Highly Unsatisfactory:* | The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation. |

The **institutional development impact (IDI)** can be rated at the project level as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

the soundness of economic management;
the structure of the public sector, and, in particular, the civil service;
the institutional soundness of the financial sector;
the soundness of legal, regulatory, and judicial systems;
the extent of monitoring and evaluation systems;
the effectiveness of aid coordination;
the degree of financial accountability;
the extent of building capacity in nongovernmental organizations; and,
the level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

**Sustainability** can be rated at the project level as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

technical resilience;
financial resilience (including policies on cost recovery);
economic resilience;
social support (including conditions subject to safeguard policies);

environmental resilience;
ownership by governments and other key stakeholders;
institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

**Risk to Development Outcome.** According to the 2006 harmonized guidelines, sustainability has been replaced with a "risk to development outcome," defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable.*

## Appendix C  List of People Met

<u>Ministry of Finance</u>

| | |
|---|---|
| Mr. Augusto Sumburane | National Director, Research Unit |
| Mrs. Isabel Maria Sumar | Deputy National Director, Research Unit |
| H.E. Mr. Paolo Manique | Permanent Undersecretary |

<u>Ministry of Agriculture</u>

| | |
|---|---|
| Mr. Soares B. Nhaca | Minister of Agriculture |
| Mr. Victorino Xavier | Director of Agriculture – Economics |
| Mr. Ventura Macamo | Adviser of the Minister |
| Mrs. Florencia Cipriano | Director, Veterinary Services |
| Mrs. Albertina Alage | Deputy Director |

<u>Ministry of Mineral Resources</u>

| | |
|---|---|
| Mr. Mario Marques | Advice to the Minister |
| Mr. Elias Daudi | Direcção Nacional de Geologia |
| Mr. Carlos Zacarias | National Petroleum Institute |
| Mr. António Cumbane | Mines National Directorate |
| Mr. Luis Jossene | Adviser to the Minister |
| Mr. Pedro Langa | Directorate of Planning and Development |
| H.E. Esperança Bias | Minister of Mineral Resources |

<u>Ministry of Public Works and Housing</u>

| | |
|---|---|
| Mr. Julião Alferes | National Directorate of Water |
| Mr. Nelson Beete | Fundo de Investimento e Património do Abastecimento de. Água (FIPAG) |
| Mr. Mateus Jaksson | ANE |

<u>Ministry of Higher Education & Science and Technology</u>

| | |
|---|---|
| Mr. Aires B. B Ali | Minister of Education and Culture |
| Ms. Estrela Chungana | |
| Ms. Helena Fernandes | |
| Mr. Domingos Colasso | |
| Mr. Rafique Cassamo | |
| Mr. Nadir Hassane | |
| Mr. Anastacio Maheche | |

<u>Ministry of State Administration</u>

| | |
|---|---|
| H.E. Lucas Chomera | Minister |
| Lourenço Chipenembe | Permanent Secretary |
| Mr. Casimiro Macumbi | Director of Autarkic (Autarquico) Development |
| Mr. Carlos Buchil | Deputy Director – Directorate of Institutional Development Planning |
| Dr. Basa Novela | Technician |
| Dr. Abel Saul | Technician |

<u>Ministry of Energy</u>

| | |
|---|---|
| Mr. Jaime Himede | Vice Minister |
| Ms. Telma Matavel | Lawyer, International Relations Department |
| Ms. Laura Nhacale | Head of Department, International Relations Department |
| Mr. Nazario Meguigy | National Director of Planning and Studies |
| Mr. Ernesto Zandamela | Procurement Officer |
| Mr. Inicêncio Bouene | Account Officer |

Ministry of Planning and Development

| | |
|---|---|
| Mr. Adriano Ubisse | Director, Directorate of Investment and Cooperation |
| Mrs. Ester José | Deputy Director of Investment and Cooperation |
| Mr. Luis Tabela | Technician of International Cooperation |
| H.E. Mr. Victor Bernardo | Deputy Minister |

Central Bank (Banco de Mozambique)

| | |
|---|---|
| Waldemar F. De Sousa | General Manager, Banco de Moçambique |
| Leonardo M. Simbine | Head of Service, Foreign Department, Banco de Moçambique |
| Ms. Maria Esperanca Majimeja | Economist |

Ministry of Justice

| | |
|---|---|
| Gaspar Moniquela | Advisor to the Minister |

PROMAPUTO

| | |
|---|---|
| Adelino Jaime da Cruz | Coordinator of PROMAPUTO |

Also met in Mozambique

| | |
|---|---|
| Mario Batsana | Economist, Fundo de Energia (FUNAE) |
| Jose Manuel Catine | Economist, Fundo de Estradas |
| Larry Herman | Advisor, Fundo de Estradas |
| Ron Herman | CEO, Maputo Port Development Corporation |
| Nazario Meguigy | Director National de Estudos e Planificacao, Ministry of Energy |
| Adelino Mesquita | Director of Executive Board, Portos e Caminhos de Ferro (CFM) |
| Joao Mutombene | Economist, Fundo de Estradas |
| Nelson Nunes | Director General, Administracion Nacional de Estradas (ANE) |
| Arun Pai | Advisor to the Board, CFM |
| Francisco Pereira | Chairman, Fundo de Estradas |

Private Sector

| | |
|---|---|
| Raymond Banda | Manager, Coca Cola East & Central Africa |
| Mr. Mario da Graca Machungo | Chairman, Millennium (BIM) Bank, ex-Prime Minister, ex-Minister of Finance |
| Aly Nosrat | Consultant, Intl. Business Development |
| Amb. Segun Apata | |
| Mr. Yann Groeger | Director General, ProCredit Bank |

Civil Society

| | |
|---|---|
| Manuel Rodrigues | Metier Consultoria & Desenvolvimento |
| Narciso Matos | Foundation of Development of Community (FDC) |
| Dipac Jaliantal | Cruzeiro do Sul Researchers & Consultants |
| Oscar Monteiro | Lexterra (former Minister of Justice) |

African Development Bank

| | |
|---|---|
| Alice Hamer | Resident Representative, African Dev. Bank |
| Foday Turay | Principal Evaluation Officer |

Development partners

| | |
|---|---|
| Andrew Maclean | Infrastructure Adviser, DFID Mozambique |
| Bengt Johansson | Chief of Cooperation, Embassy of Sweden |
| Jane Rintoul | Head, DFID Mozambique |
| Jose Luis Macamo | Governance Programme Manager, UNDP |

| | |
|---|---|
| Ms. Habiba Rodolfo | UNDP |
| Ms. Fatima Amade | UNDP |
| Kevin Armstrong | Deputy Mission Director |
| Lotta Karlsson | Counselor, Embassy of Finland |
| Lotta Valtonen | Counsellor, Embassy of Finland |
| Marit Strand | Counselor – Economist, Embassy of Norway |
| Patrick Empey | Head of Cooperation, Embassy of Ireland |
| Bridget Walker Muiambo | Economic Advisor, Embassy of Ireland |
| Niels Richter | Counselor - Deputy Head of Mission, Embassy of Denmark |
| Sylvie Tabesse | Counselor, European Union |
| Todd H. Amani | Director, USAID, Mozambique |
| Luisa Capelao | USAID |

<u>International Finance Corporation (IFC)</u>

| | |
|---|---|
| Tunde Onitiri | Country Manager, Angola and Mozambique |

<u>International Monetary Fund (IMF)</u>

| | |
|---|---|
| Felix Fischer | Resident Representative |
| Emmy Boster | Technical Assistance Coordinator |
| Jose Sulemane | Advisor to the Executive Director |

<u>The World Bank</u>

| | |
|---|---|
| Mr. Anil Bhandari | Sr. Adviser |
| Mr. Antonio Chamuco | Procurement Specialist |
| Ms. Irina Luca | Lead Procurement Specialist |
| Ms. Patricia de Baquero | Senior Procurement Specialist |
| Mr. Seyoum Solomon | Consultant |
| Mr. Michael Baxter | Country Director |
| Ms. Susan Hume | Country Program Manager |
| Mr. Peter Nicholas | Lead Operations Officer |
| Mr. Charles Husband | Consultant |
| Mr. Daniel Sousa | Senior Agriculture Services Specialist |
| Mr. Gregory Binkert | Senior Economist (on leave from the World Bank) |
| Mr. Aniceto Bila | Senior Operations Officer |
| Mr. Pedro Arlindo | Agriculture Economist |
| Mr. Patrick Verissimo | Senior Sector Economist |
| Mr. Humberto Albino Cossa | Senior Health Specialist |
| Ms. Ana Menezes | Education Specialist |
| Ms. Jyoti Bisbey | Operations Analyst |
| Mr. Carlos Rojas | Senior Education Specialist |
| Mr. Samuel Munzele Maimbo | Senior Financial Sector Specialist |
| Mr. Young-Chul Kim | Senior Economist |
| Mr. Ali Alwahti | Urban Specialist |
| Mr. Antonio Nucifora | Senior Economist |
| Ms. Maria Benitto-Spinetto | Research Analyst |
| Mr. Reto Thoenen | Jr. Professional Officer |
| Mr. Rob Mills | Economist |
| Mr. Rui Benfica | Economist |
| Mr. Subhash Seth | Consultant |
| Ms. Anne Louise Grinsted | Consultant |
| Mr. Mazen Bouri | PSD Specialist |
| Mr. Peter Moll | Senior Economist |
| Mr. Uri Raich | Urban Specialist |
| Mr. Yash Pash Kedia | Consultant |
| Ms. Monica Sawyer | Country Officer |

| | |
|---|---|
| Ms. Paola Ridolfi | Senior Country Officer |
| Ms. Maria Claudia Pachon | Consultant |
| Mr. Rafael Saute | Communications Officer |
| Mr. Boris Utria | Sector Leader, Energy |
| Mr. Luiz Tavares | Lead Water and Sanitation Specialist |

# Appendix D  Government Comments

**REPÚBLICA DE MOÇAMBIQUE**
**MINISTÉRIO DA PLANIFICAÇÃO E DESENVOLVIMENTO**
**GABINETE DO MINISTRO**

**Ofício nº. 071/MPD/GM/2010**

**Subject: Mozambique – Country Program Evaluation Report**

**Dear Mr. Khadr,**

1. I want to acknowledge and thank your letter dated 2 February 2010 on the Mozambique **– Country Program Evaluation.** Overall, the Report captures the impact of World Bank Group intervention in Mozambique in the last years, outlines areas of improvement and requiring greater attention;

2. It's mentioned in the Report that the PRSC series have not provided an effective platform for dialogue on the agriculture sector. I want to stress that the agriculture sector remains priority in the Government of Mozambique development strategy, and this is the reasons for the adoption of a more reform oriented approach for the new PRSC series that will put greater emphasis on reforms aiming to improve productivity and growth in the agriculture sector and enabling business environment for private sector development, as a means to foster economic growth and accelerate poverty reduction in Mozambique;

3. The Bank´s support to overcome the challenges is central, as stressed by the pipeline of projects that includes programs in sectors such agriculture, energy, water, higher education, decentralized planning systems, monitoring and evaluation, and the PRSC series;

4. We refer the cooperation with the World Bank Group as of greater value for the development process of Mozambique. We are certain that the **Mozambique Country Evaluation Report** will provide useful added value in the design and implementation of future World Bank funded projects.

With highest consideration.

**Maputo, February 22nd, 2010**

*Aiuba Cuereneia*
*Minister of Planning and Development*

**Mr. Ali M. Khadr**
**Senior Manager**
**Country Evaluation and Regional Relations**
**Independent Evaluation Group**
**World Bank Group**

WORLD BANK MOZAMBIQUE
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# ENDNOTES

**Mozambique: Summary Of Bank Program Outcome Ratings**

1. The goals of Bank assistance may be distinct from those of the client country's own development objectives, although the two are usually consistent.

2. The Bank program outcome subratings and overall rating assess the extent to which the Bank program achieved the results targeted in the relevant strategy document(s) and/or the documents for individual operations. They do not attempt to assess the extent to which the client country was satisfied with the Bank's program, nor do they try to measure the extent (in an absolute sense) to which the program contributed to the country's development. Equally, they are not synonymous with Bank performance.

**CHAPTER 2**

1. The PARPA was endorsed by the Boards of the Bank and Fund and was accepted as the country's PRSP.

2. The similarity between the pillars of the two CASs was openly acknowledged in the FY04 CAS.

3. In line with the last lesson listed in Chapter 2, the FY04 CAS detailed the elaborate consultative process involved in its preparation, which included a wide range of stakeholders: the government, development partners, NGOs, private sector, and opinion leaders. Several lengthy meetings were also held among the Bank, IFC, and MIGA to coordinate and align their respective and joint assistance. The CAS also highlighted areas in which it disagreed with the government on how some issues should be handled. These included labor regulations, land use, the divestiture of state-owned enterprises, and the pace of legal and regulatory reform.

4. The G19 development partners are: the African Development Bank, Austria, Belgium, Canada, Denmark, the EU, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the World Bank. The IMF, United States, Japan, and the UN are not members. Instead, the IMF is an "ex officio member," and the US and UN are "associate members."

[5] A CPAR was eventually delivered in FY09, which fell beyond the period of this evaluation.

6. A number of unprogrammed studies (not included in the CAS) were carried out during FY05-07, including the FY05 "Impacts of Extension Services," the FY05 "Contract Farming and Supply Chain Financing," and the FY07 "Horticulture Development Sector Study."

**CHAPTER 3**

1. The Bank also approved the 2002 Communication Sector Reform project (that closed in 2009). The project aimed to improve the access to and quality of communications services in Mozambique by creating a competitive environment, with private participation in the telecommunications, postal, and air transport infrastructure, and services. As of December 2009, the Implementation Completion Report (ICR) is still pending. Preliminary results indicate substantial changes in the structure of the telecommunications sector, although the air transport component yielded results below expectations. In addition, not all privatizations and concessions were fully implemented.

2. The 2008/09 Investment Climate Assessment (ICA) indicated a number of possible reasons for this development. These included the effects of a recent regulation (Aviso 5/2005) that discouraged foreign currency loans, which were cheaper, in favor of domestic currency loans.

3. According to a high-ranking officer of a major commercial bank, "There is hardly any micro-finance available to farmers. It is not easy for commercial banks to go into rural areas where the risk is too high. We simply don't know the people there, and banking is a business based on confidence. Unfortunately, the network of traders that had existed in the rural areas before the civil war, and used to know the farmers and provide them with some credit, has disappeared."

4. A joint Bank-Fund Financial Sector Assessment started in 2009 is expected to address these and other issues in the financial sector.

[5] In addition, the Enterprise Development Project (EDP) financed the establishment of the only functioning industrial zone in Mozambique (the Beluluane Industrial Zone), which hosts 22 investments employing up to 1000 workers.

6. World Bank 2000, page 19.

7. World Bank 1997.

8. FY01 CAS, page 19, and FY04 CAS, page 30.

9. World Bank 2006b. Although this report remained in draft, the material has been used for many purposes, including formulation of a project aimed at improving smallholder productivity.

10. Prior to Agricultural Sector Public Expenditure Program (PROAGRI), the Bank supported several rural projects, the most prominent of which was the 1993 Rural Rehabilitation Project. Its objectives were to "to undertake, on a pilot basis, activities to achieve decentralized economic recovery while creating the capacity and procedures necessary to address the broader post-war situation." Although the original project components were decentralization, improved land tenure, land use mapping, crop production support packages for smallholders returning from the war, and better rural water supply, in 1997 land tenure was moved to another agricultural project, and production support packages were abandoned. Since total cost was not changed, more funds were allocated to decentralization, which was essentially the financing of numerous micro projects, including schools. The Implementation Completion Report Review rated the project moderately satisfactory but noted that the project had not institutionalized decentralization and that monitoring and evaluation was very weak.

11. World Bank 1999, page 1.

12. Project ID P001799, "IEG ICR Review of the Agricultural Sector Public Expenditure Program," September 17, 2007. Weak monitoring and evaluation was also a shortcoming of the preceding Agricultural Rehabilitation project.

13. Although the "slash and burn" approach to increasing area harvested results in a relatively small temporary improvement in productivity, it is not a sustainable system in the medium– to long– run. Most of the agricultural land is managed by small-scale subsistence farmers (less than 10 hectares) and medium-sized farms (10-50 hectares).

14. Food and Agriculture Organization data show that of the total area of cereals in Mozambique in 2007—1.98 million hectares—maize accounted for 1.51 million hectares.

15. The other issues facing smallholder agriculture include the availability and cost of short-term and long-term credit, government policy that precluded the use of land as collateral for loans, the quality of rural infrastructure, and access to local and international markets.

16. The Implementation Completion Report for the Second Poverty Reduction Support Credit, January 17, 2007, page 18.

17. For example, the rehabilitation or construction of 4,000 hectares of irrigated land would have had only a marginal impact on growth in the agricultural sector because this area represents only 3.4

percent of the area in Mozambique equipped with irrigation, close to 80 percent of which consists of schemes larger than 500 hectares, of which at least 60 percent are likely to be sugar plantations. This information is based on data in the Project Concept Note for the Sustainable Irrigation Development Project (PROIRRI). World Bank, November 2008. Some of the sugar plantations have "outgrower" schemes involving smallholders.

18. With irrigation rehabilitation or construction costing about $10,000 per hectare, the 9,700 hectares rehabilitated or newly constructed under the PRSCs could have cost $97 million. Regardless of the source of these funds, it was a high cost for the government, and there may have been more beneficial uses of such large financial resources.

19. An internal quality assessment reviewed this project in the context of a quality assessment of the lending portfolio review in late 2008. It concluded that the project was moderately unlikely to achieve its development objectives by the current closing date.

20. After an extension of two years, the project closed in June 2007. The Implementation Completion Report rated it as moderately satisfactory, although a subsequent review by IEG considered it moderately unsatisfactory. The major issue facing the project at closure was that new tourist concessions established by the private sector (but not as part of the project) were not in compliance with district Spatial Development Plans that were subsequently developed.

21. Besant-Jones 2006 and Gratwick and Eberhard, 2008.

22. Grid intensification has lowered the cost of a connection from about $2,500 equivalent per household a few years ago to $700 per household today.

23. Private operators did not find it profitable to get involved in such ventures, since investments required to build new independent grids (sometimes expanding and rehabilitating existing small grids) would not generate satisfactory returns in small markets with regulated tariffs. The small market is probably related to a very low load density and households that are too poor to afford such power.

24. For several years after independence, Mozambique's transport system, and especially its revenue-earning entities, ports and railways, was managed as part of a government department. There was no financial autonomy and the operations were highly inefficient. A first attempt to modernize and improve the efficiency of the system was made in 1990, when the Mozambique Railways was merged with the ports Beira, Maputo, and Nacala into a new, (theoretically) financially accountable corporation, the Mozambique Ports and Railways, known as CFM. This did not produce a significant improvement. By 1999, CFM's revenues were insufficient to cover long-term replacement of its infrastructure and operating assets, and arrears in maintenance of CFM's facilities were mounting. Yet it was estimated that the revenue generation was about half of the real potential of the three main port-railway systems. Key causes for the shortfall in revenue were poor operating and management systems, poor condition of infrastructure, over-staffing (about two-thirds of CFM's staff of 19,200 were estimated to be surplus).

25. The appraisal reports for most transport projects show that significant dialogue was carried out with the country, and that a reasonable level of understanding was reached about the sector prior to formulating the individual projects. However, the problems with the railway concessions illustrate the need for in-depth analysis. Mozambique was also included in a World Bank study on African transport costs and prices carried out during 2007/08. Significant analysis and recommendations of Mozambique's logistics were part of the study and were included in the 2008 CEM.

26. Available information for the Nacala port shows that since the start of the concession in 2004, vessel time awaiting berthing has been reduced by more than two-thirds, productivity for handling containers has nearly tripled, and other efficiency indicators show similar positive results. It is likely

that the other two concessioned ports have realized similar improvements. Regarding the country's railway system, derailments have been cut in half from 2000-07, but locomotive availability remains below 50 percent.

27. The CFM argues that their partner role is necessary in case a railway concession fails and they need to take over. This is a weak argument. Government shareholding in other countries, where it exists, is limited to a small percentage to guarantee the government a seat on the Board, allowing it to monitor concession operations. In contrast, the Mozambique approach has been a partnership with the private operator plus a concession fee (consisting of a fixed and a variable fee).

### CHAPTER 4

1. For the completion point for the Highly-Indebted Poor Country (HIPC) Initiative, the government undertook to increase its current spending on education and health compared with 1998. The expenditures for 1999 and 2000 in the Completion Document for the Enhanced HIPC for Mozambique dated September 6, 2001, were consistent with PARPA priority expenditures.

2. Some examples that illustrate the difference between service delivery in urban and rural areas include the following: (i) in rural areas net attendance ratios in primary schools are 11 percent lower than in urban areas; (ii) children in rural areas are less likely to be vaccinated against childhood diseases, and; (iii) although the rate at which under five mortality has declined in rural areas over the past 10 years was more rapid than in urban areas, the average level of under five mortality in rural areas is still 20 percent higher than in urban areas. See Instituto Nacional de Estatistica, Preliminary Report on the Multiple Indicator Cluster Survey, 2008, National Institute of Statistics, Mozambique, 2009, pages 3, 6, and 13.

3. World Bank 2008a and "Joint World Bank-IMF Staff Advisory Note on the Annual Progress Report."

4. There was also a 10.6 percent increase in the incidence of poverty in Cabo Delgado, but questions have been raised about the accuracy of the data for both years because of poor sampling and the underestimation of consumption in 1997 (World Bank 2008d).

5. World Bank 2008d, page 23.

6. The survey, though not based on a statistical sample, was implemented using participatory survey techniques during 2006 to bring some contemporary information on poverty into the report. Although the results of this survey need to be treated with caution, they suggest many interesting perceptions of poverty in the selected provinces of Mozambique that need to be considered potentially valid information. The methodology for this survey is explained in Annex B of the Appendices to World Bank 2008d, page 103.

7. The Country Management Unit expects, because of strong growth since 2003—when the last measured data on poverty were available--that the rate of poverty reduction has been sustained in recent years.

8. Republic of Mozambique, "Action Plan for the Reduction of Absolute Poverty (2001-2005)," April 21, 2001, page 40.

9. The fundamental areas for action were education, health, infrastructure (roads, energy, and water), agriculture and rural development, good governance, law and justice, and macroeconomic and financial policies.

10. Republic of Mozambique, "Action Plan for the Reduction of Absolute Poverty (2006-2009)," May 2, 2006, pages 89–90.

11. Subsequent data (in World Bank 2008d) puts enrollment rates for EP1 and EP2 in 1999 at 85 and 22 percent. In the same report, the enrollment rates for ESG1 and ESG2 in 1999 were 6.3 and 1.4 percent respectively.

12. As a result, during implementation several adjustments were made to the scope of ESSP, and its components and development partner contributions were amended. Also, there was no legal framework for development partner contributions to the pooled funds for the program, hence its implementation was a hybrid between an investment project and a SWAp. The project design included the mainstreaming of a project implementation unit (PIU) that had been established for earlier Bank-financed education projects. The hybrid nature of the project design attracted a negative response from an internal quality assessment in 2002. Nevertheless, this assessment concluded that supervision was satisfactory in 2002 after project implementation had been rated unsatisfactory from 2000 to 2002. The separate contributions of the various participants to the project made it somewhat easier to attribute the project's success to the Bank.

13. The Fast Track Initiative-Catayltic Fund (FTI-CF) grant became effective in September 2008 after protracted negotiations between the Bank, the government, and the development partners. Negotiations centered on amendments to the Memorandum of Understanding for the Education Sector Pool Fund, specifically regarding the consistency of procurement arrangements with Bank guidelines.

14. Instituto Nacional de Estatistica, "Preliminary Report on the Multiple Indicator Cluster Survey," 2008, National Institute of Statistics, Mozambique, 2009, page 15.

15. World Bank 2008b, page 21.

16. Instituto Nacional de Estatistica, "Preliminary Report on the Multiple Indicator Cluster Survey," op. cit., page 13.

17. World Bank 2008b, pages 25 to 30.

18. In 2003, the incidence of HIV infection in Mozambique was estimated at 12 percent among women of child-bearing age. In 2007, it was estimated to be much higher, about 16 percent, which is above the average for Sub-Saharan Africa, but still less than or comparable to the rate in neighboring countries such as Swaziland and Zimbabwe where it is over 25 percent, and Malawi, Zambia, and South Africa where it is approaching 14, 17, and 20 percent respectively. Source: World Development Report database and Ministry of Health in Mozambique.

19. An IDA credit of $44.6 million for a Health Service Delivery project was approved in FY09.

20. The program's structure was not a full-fledged SWAp, however, because the SWAp concept was new and untested. As a result, development partners were reticent to fully embrace all of its typical characteristics. The elements of a SWAp invoked in this operation were: (i) joint planning by the Ministry of Health and development partners; (ii) funding of the national health strategy rather than freestanding projects; and (iii) annual Ministry of Health-development partner reviews with resetting of targets; and (iv) consolidation of all budgets, planning, and information in the Ministry of Health.

21. Instituto Nacional de Estatistica, "Preliminary Report on the Multiple Indicator Cluster Survey," 2008, Mozambique, 2009, pages 3 and 5, and Tables CM.2.3.2, 2.4.1 and 2.4.2.

22. World Bank 2006a, page 5.

23. To address the difficulty that the National Commission to Combat AIDS (CNCS) was experiencing with the grant-making component, an agent was eventually contacted. This was not successful, and the contractor withdrew after a conflict with CNCS.

24. For example between 2003 and 2008, close to 72 percent of women between the ages of 15 and 49 were correct when asked standard questions about misconceptions surrounding HIV/AIDS— as compared with about 50 percent in 2003. Only about 13 percent of women aged 15 to 49 in 2008 could answer correctly three core questions about how to prevent the transmission of HIV. Knowledge about HIV/AIDS is weakest in rural areas and in the northern provinces. The percentage of women aged 15 to 24 who used condoms in their last sexual encounter with an occasional partner rose from 29 to 44 percent between 2003 and 2008. Although condom use increased in rural areas between 2003 and 2008 for the same age group, their use is about half as frequent as the average for Mozambique.

25. Mozambique has received considerable financial support from the Global Fund to Fight AIDS, Tuberculosis, and Malaria and the United States President's Emergency Plan for AIDS Relief (PEPFAR).

26. World Bank 1998, page 5.

27. The supplementary credit was approved by the Board on February 26, 2004.

28. Other components of the Bank program include rehabilitation of the Corumana dam, including a feasibility study for raising the dam's height and support for the establishment of a Flood Emergency Commission, which included the repair of piped water supply schemes in four towns damaged by floods in early 2000.

**CHAPTER 5**

1. The ICR Review outcome rating for the Decentralized Planning and Finance Project (DPFP) is *satisfactory*. In the five selected provinces, the project met and often exceeded its outcome indicators--where monitorable. Training provided through DPFP resulted in increased capacity in planning, budgeting, financial management, and contracts management at the provincial and district level administration. Capacity building of the Tribunal Administrativo allowed it to carry out audits at the district level and institutionalized upward accountability. Downward accountability systems were set up through the establishment of consultative councils, preparation of district plans through participatory processes, and dissemination of information about the plans and their execution. The learning-by-doing approach using small Local Investment Grants (LIGs) in socio-economic infrastructure resulted in about 800 completed small projects--although the development impact of these in terms of enhanced service delivery at the local level was not monitored (no LIGs were used in the province of Maputo). Results are likely to be sustained as relevant laws, regulations, and guidelines were adopted by the government, key civil servants were mainstreamed into the district level, and training courses were institutionalized into national training institutions. Although no decentralization policy framework was implemented by the government, its pending National Decentralized Planning and Finance Program, and the associated Bank project that will follow, are expected to sustain the results achieved under DPFP and further the decentralization agenda in Mozambique that is currently still in a relatively early stage.

The 2002 Municipal Development Specific Investment Loan (SIL) and the 2007 Maputo Municipal Development Program also have objectives on the local level that do not *directly* translate into the four subpillars under the governance pillar.

2. In 2001, Etica Mozambique, a consulting and research company, commissioned a survey to establish the extent and depth of corruption. The survey, carried out between March 7 and July 30 in three provinces (Manica Maputo, and Sofala), sought to evaluate the experience of corruption and its effect on the confidence of citizens in their social institutions and the state.

3. The Ministry of Planning and Development, The National Directorate of Studies and Policy Analysis, *Enterprise Development in Mozambique: Results Based on Manufacturing Surveys Conducted in 2002 and 2006*, Discussion papers No. 33E, October 2006, revised January 2007 (Maputo, Mozambique), Tables 3.20-3.22.

4. Monteiro et al. 2006.

5 At the core of the aid effectiveness agenda in Mozambique is a group of 19 donors, known as the Group of 19 (or G19), each of which provides general budget support to the government. The G19 adheres to government procedures and operational cycles as the basis for general budget support.

6. Marcelo Mosse, Reporter's Notebook: Mozambique, in Global Integrity's 2006 Country Reports Web site (www.GlobalIntegrity.org) printed February 18, 2009. The index is based on responses to questions that deal with accountability and oversight rather than processes of budget formulation and execution. The full list of questions and responses can be found in Global Integrity, 2006 Country Report, Mozambique, Corruption Notebook, Corruption Timeline, Integrity Scorecard, Country Facts.

7. IMF, Report on the Observance and Standards and Codes (ROSC) Fiscal Transparency Module, IMF Country Report No. 08/152, May 2008, page 1.

8. In the General Government Accounts (is this correct??) CGE 2005, the last report of the *Tribunal Administrativo* (Administrative Tribunal) available on the Web, these resources appear as "*receitas propias*" or own receipts (see the Tribunal's Web site at http://www.ta.gov.mz/plan.php3). The Budget Law does not produce estimates for own receipts, despite the National Budget Directorate having in its instructions for preparing the state budget separate categories for own receipts of the central, provincial, and district administrations (codes 123001, 2 and 3). The Web site (http://www.dno.gov.mz/docs.html ) publishes the budget laws and the instructions.

9. Carlos Castel-Branco, The Mozambique Performance Assessment Framework for Donors: Lessons Learned, High-Level Symposium "Country-Level Experience in Coordinating and Managing Development Cooperation," UN Office in Vienna, April 19-20, 2007 (presentation).

10. The government recognized the limitations of the Budget Law, Economic and Social Plan (PES) and BPES (what does this stand for?) for monitoring and evaluation in PARPA II. The report noted the need to improve "the existing Monitoring and Evaluation tools (PES/BdPES- what is BdPES?) and implementing tools that are still missing (example: the Annual Impact Report (*Relatório de Avaliação de Impacto* - RAI)" and "Making certain that the indicators selected for the Monitoring and Evaluation reflect the priorities of the government, expressed in national policies (the Government Program, PARPA, PES, and sectoral plans). Such policies must determine the indicators within the operational and strategic matrices, which must be used for the various monitoring and evaluation exercises (BdPES, Performance Assessment Framework [PAF], Millennium Development Goals ]MDGs])." See Republic of Mozambique, Action Plan for the Reduction of Absolute Poverty, 2006-2009 (PARPA II), Final Version Approved by the Council of Ministers on May 2, 2006 (Maputo May 2, 2006), pages 153 and 154.

11. Ministry of Planning, Balanço do Plano Economico e Social de 2008 (Maputo, February 2009), table on p. 231.

12. A second anti-corruption survey in which the Bank is involved is under preparation (as of January 2010), but is experiencing serious delays. With the benefit of hindsight, some Bank staff expressed the view that a follow up to the anti-corruption study should have been mandated as part of the Bank's assistance, either as part of the PRSC series, or through the inclusion of a legal covenant during the restructuring of the Public Sector Reform project.

13. Republic of Mozambique-Program Aid Partners, Joint Review 2008, Aide-Memoire, April 30, 2008.

14. Bank assistance sought to reduce corruption with the support of governance surveys, a Public Sector Reform Project, and indirectly via general budget support with the PRSCs. PRSC 1 and PRSC 2 supported the anticorruption surveys, but the government carried out only one of two planned surveys. The Public Sector Reform Project, which started in early 2003, supported restructuring of the public sector, professionalization of public servants, and governance. This review cannot tell whether these actions might reduce corruption because the project did not explain how the actions would change the incentives for corruption. Nonetheless, the review can conclude that the project did not affect corruption because its main components were not implemented on time and its design had to be modified drastically in 2007 due to the problems in its execution discussed in the section on Objective 1. The expected results of the project do not exist yet. Lastly, the PRSC 2 supported elements of the performance assessment framework 2005-07, but not the one that was listed as an outcome indicator in the CAS: the proportion of cases of corruption reported to the *Gabinete Central de Anti-Corrupçao* brought to conclusion. This action was taken by PRSC 3, but no cases have been brought to conclusion.

15. Other legal codes were revised during the period, notably the commercial and labor code.

16. As of September 2009 (outside of the evaluation period of this CPE), courts have been established in the main cities of Maputo, Beira, and Nampula. These courts were financed by the Bank's Financial Sector Technical Assistance Project (FSTAP) along with the AfDB. However, according to some Bank staff, the establishment of these courts had more to do with meeting the Bank's HIPC requirements than addressing perceived in-country needs. The fact that these sections have low demand from users underscores the fact that the Bank did little to consult with stakeholders during the preparation phase. (Furthermore, the *Centro de Arbitragem e Mediacao* (CACM) was created with USAID financing precisely to provide low cost, out-of-court arbitration and mediation for commercial issues.) In addition, according to Bank staff, delinking the creation of new commercial sections and the training of new judges from the justice component of the PSR project created confusion and resentment within the judiciary toward the Bank. As noted more generally in the literature on the justice sector, specialized courts often siphon off the best and brightest and command much- needed resources. This has been the case in Mozambique, which diverted significant resources away from being used in shoring up the general justice system.

17. Between 2003 and 2007, the budget for the sector more than doubled, from Mt 1.7 billion to Mt 3.5 billion, and its execution rate hovered around 95 percent (Embassy of Denmark, *Relatorio de Projecto, Versão Final, Avaliação Financeira da Versão Preliminar do Plano Estratégico Integrado do Sector da Justiça & Diagnóstico do Sistema de Gestão Financeira num conjunto seleccionado de Instituições do Sector da Justiça*, report prepared by Sal & Caldeira, November 2008, Figura 2, p. 15 of 80.

18. Reports on Program Aid Partner Performance by the Institute for Social and Economic Studies show that the Bank's programmatic aid was assigned to support the Technical Unit for the Reform of the Public Sector (UTRESP) and HIV/AIDS. See, for example, IESE 2008, pages 52 and 53.

19. The information in this paragraph comes from *Ministerio da Justiça, Reforço da Capacidade do Judiciário*, *Memorando* No. 23, Maputo, January 13, 2009.

**CHAPTER 6**

1. Average FDI from the years 2000-07 was 4.8 percent.

2. World Bank. Country Economic Memorandum. 2008.

3. The four established mega-projects are Mozal, CVRD, Moma, and Corridor Sands.

4. The *Africa Competitiveness Report 2009* and the World Bank Group's Doing Business Indicators rate Mozambique's business climate among the least competitive in the world.

5. The analysis in this chapter is based on a desk review of IFC activities and supplemented by several Mozambique project field evaluations done in 2008 for other IEG-IFC evaluations. The chapter evaluates IFC's activities in the country along several dimensions and according to the following criteria:

*Assessing the relevance of IFC's activities:* Consistency of IFC objectives, activities, and programs with the country conditions, IFC priorities and experience, and the World Bank and other IFI focus in the country.

*Assessing the outcomes of IFC activities:* The results of the operations relative to the market benchmarks of financial rate of return and region/comparator countries, credit risk rating, etc.

*Assessing IFC contribution to private sector development:* Role and contributions of IFC at the project and sector level and how these are linked to the overall development of the private sector development (top-down and bottom-up approach).

*Assessing IFC additionality and performance:* Additionality of IFC operations in terms of innovation, best practice standards, resource mobilization, and riskiness (too big or risky for anyone else to do). The extent to which the outcomes of IFC activities can be attributed to IFC performance.

6. IFC's Africa strategy is aimed at improving the business enabling environment, enhancing small and medium enterprise (SME) support, and promoting proactive investment.

7. A rights issue is a stock offering by a company that provides each existing shareholder a right of first refusal to purchase, usually at a discount from market value, a portion of the stock offering equated with the shareholder's current percentage shareholding.

8. The Africa Enterprise Fund (AEF) was established in 1988 to make direct investments in SMEs due to the failure of local financial markets in providing long-term funding for SME projects. The Small Enterprise Fund (SEF) was established in FY97 under the "Extending IFC's Reach" initiative. The SEF was used to invest in projects with total costs of between $250,000 and $5 million.

9. The Mozambique SME Initiative (MSI) reports directly to the IFC Africa Region, with no formal relationship with IFC's PEP Africa.

10. A 2001 IEG evaluation of the AEF recommended phasing out its direct financing of SMEs in more developed markets and maintaining its reach in less-developed frontier markets. Eventually, the AEF was abandoned.

11. Credit Risk Ratings (CRR) summarizes the credit health of specific investments. When aggregated, the CRRs are a useful indicator of the overall health and quality of IFC's portfolio at a point in time, and of rating trends when time periods are compared.

12.A small enterprise is defined as having workers numbering less than 10 in the company.

13. The Africa Enterprise Fund (AEF) was established in 1988 to make direct investments in SMEs due to the failure of local financial markets in providing long-term funding for SME projects. Small Enterprise Fund (SEF) was established in FY97 under the "Extending IFC's Reach" initiative.

14. The following example illustrates some of the difficulties faced by a representative project: IFC financed a fisheries company for the purchase of fish rigs. Due to the bad management and difficult work environment (bandits, malaria, etc.), the business did not go as planned. Fishing rigs and equipment became seriously depleted either through removal, theft, or lack of maintenance. As a result, the business collapsed.

15. Based on experiences of Mozal, IFC published "Developing SME's through Business Linkages: The Mozlink Experience (A Manual for Companies, NGOs and Government Entities, 2007)."

16. Linkage Programs to Develop Small and Medium Enterprises, Monitor, IFC.

17. BHP Billiton replicated the program in two sites: the Mozal Smelter by MOT and the Hillside Expansion Project in Richards Bay, South Africa.

18. Mozambique CASCR, 2007.

## CHAPTER 7

1. This CPE acknowledges Brendan Horton's background paper on Mozambique, prepared for IEG's evaluation of PRSCs (op. cit.), as an important input to this chapter.

2. "Building Africa's Development Bank: Six Recommendations for the AfDB and Its Shareholders," Report of the AfDB Working Group, Center for Global Development, August 2006.

3. Figures 10 and 11 represent the shares of the sectors (in percentages) out of the total. In Figure 10, the social sector consists of education and health and social services. Infrastructure is consists of information and communications, energy and mining, electricity power and energy, and transportation. The years are fiscal years, and disbursements are used. In Figure 11, the social sector consists of education, health, and population. Infrastructure consists of communications, energy, and transport. Years are calendar years, and commitments are used.

4. Danish Ministry of Foreign Affairs Evaluation Department, "A Synthesis of Existing Evaluations and Related Studies on Aid and Development in Mozambique" Final Synthesis Paper, September 2007.

5. This is below Mozambique's 2010 target for using common arrangements set at 66 percent (OECD-DAC Study, 2008).

6. Bank-supported PRSCs have privileged cross-cutting issues such as public financial management (PFM) and economic development, at the expense of sector development issues. Out of the total 43 prior actions in PRSCs I-IV, nearly half were PFM-related. However, PRSC series II (PRSC III-IV) diversified somewhat by introducing some prior actions for particular sectors, for example, PRSC III-IV introduced prior actions on the agriculture and transport sectors.

7. A case in point is the reforms linked to natural resource extraction. Although the Bank provided much valued technical advice on reforming the concessions system, it had to rely on the IMF program to include implementation of key policy actions in this area of its program.The PAF and the PARPA matrix on which it draws did not foresee any measures in this area, although the PARPA itself spells out the need for improved transparency and governance in the area of natural resource extraction.

8. For an example, see the discussion of the Bank's program in Education in Chapter 4, and in particular the associated footnote.

9. It is interesting to note the difference in approach between Uganda and Mozambique. In the former the Bank participates in a joint Country Assistance Strategy though there is no joint budget support. In the latter, there is no joint strategy but there is a joint effort on budget support through the binding Memorandum of Understanding.

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