

**An Independent Review of World Bank Support
for Capacity Building in Africa:
The Case of Mozambique**

April 6, 2005

*Corporate Evaluation and Methods
Operations Evaluation Department*

Document of the World Bank

Contents

Acronyms	i
Executive Summary	ii
1. Introduction	1
<i>Objectives</i>	<i>1</i>
<i>Methodology</i>	<i>1</i>
2. Country Context	2
<i>Political and Economic Transition</i>	<i>2</i>
<i>Government Reform Strategies and Capacity Building</i>	<i>4</i>
3. The World Bank's Capacity Building Support	11
<i>The Bank's Strategy</i>	<i>11</i>
<i>The Level of the Bank's Capacity Building Support</i>	<i>13</i>
4. Assessment of Bank Support for Capacity Building: Relevance	14
<i>Alignment</i>	<i>14</i>
<i>Diagnosis</i>	<i>15</i>
<i>Design</i>	<i>19</i>
<i>Summary</i>	<i>22</i>
5. Assessment of Bank Support for Capacity Building: Effectiveness	24
<i>Assessment of Effectiveness by Sectors</i>	<i>24</i>
<i>Assessment of Effectiveness by Dimensions of Capacity</i>	<i>32</i>
Institutional Transformation and Improvement	<i>33</i>
Organizational Strengthening	<i>35</i>
Human Resources Development.....	<i>37</i>
<i>Summary</i>	<i>41</i>
6. Additional Issues Related to the Delivery of the Bank's Support	43
<i>Role of Project Implementing Units</i>	<i>44</i>
<i>Donor Coordination</i>	<i>45</i>
<i>Commitments for Capacity Building Components</i>	<i>46</i>
7. Bank and Borrower Performance	48
8. Summary of Findings	51

Annex A: List of Informants	54
Annex B: Documents and Projects Reviewed	57
Annex D: Other References	58
Annex C: Effectiveness of Bank Support: Functional Assessment	60

Tables

Table 3.1: Objectives for World Bank CASs (1995-2003).....	11
Table 5.1: PFM Projects: Capacity Building Objectives, Outputs and Achievements.....	25
Table 5.2: OED Ratings of PFM Projects.....	27
Table 5.3: Education Projects: Capacity Building Objectives, Outputs and Achievements.....	28
Table 5.4: Road Projects: Capacity Building Objectives, Outputs and Achievements	31
Table 5.5: Health Projects: Capacity Building Objectives, Outputs and Achievements ...	32
Table 5.6: Institutional Transformation Achievements, by Sector	33
Table 5.7: Achievements in Organizational Strengthening, by Sector.....	35
Table 6.1: Commitments for Capacity Building Components, 1994-2003	47
Table 7.1: OED Evaluation of Bank and Borrower Performance	48

Figures

Figure 2.1: Real Pay, Various Functions in Public Sector, 1975 – 2000.....	8
--	---

Boxes

Box 4.1: Contrasting views from Bank staff on the quality of design of Bank capacity building support	22
--	----

Acronyms

AAA	Analytical and Advisory Activities (World Bank)
ANE	<i>Administração Nacional das Estradas</i> , National Roads Administration
CAS	Country Assistance Strategy (World Bank)
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Review
DFID	Department for International Development (UK)
DNEP	<i>Direcção Nacional de Estradas e Pontes</i> , National Directorate of Roads and Bridges
ESSP	Education Sector Strategy Program
GACOPI	<i>Gabinete de Coordenação dos Projectos de Investimento</i> , Coordination Unit for Investment Projects (Ministry of Health)
GEPE	<i>Gabinete de Gestão de Projetos Educacionais</i>
HEP	Higher Education Project
ICR	Implementation Completion Report
MESCT	Ministry of High Education, Science and Technology
MTFF	Medium-term Financial Framework
OED	Operations Evaluation Department (World Bank)
PARPA	<i>Plano de Acção para a Reducção da Pobreza Absoluta</i> /Poverty Reduction Action Plan – Mozambique's PRSP
PER	Public Expenditure Review
PFM	Public Financial Management
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
PSRS	Public Sector Reform Strategy
RBMMP	Roads and Bridges Management and Maintenance Program
ROCS	Roads and Coastal Shipping
SCR	System of Careers and Remuneration
SISTAFE	<i>Sistema de Administração Financeira do Estado</i> – Financial Administrative System of the State—Mozambique's IFMIS
SWAp	Sector-Wide Approach
TA	Technical Assistance
UEM	Eduardo Mondlane University
UTRESP	<i>Unidade Técnica da Reforma do Sector Público</i> – Technical unit for public sector reform
VAT	Value Added Tax

Executive Summary

1. This study of Mozambique is one of six country case studies undertaken by the World Bank's Operations Evaluation Department (OED) as part of an independent evaluation of the relevance and effectiveness of World Bank support for public sector capacity building in Sub-Saharan Africa over the past ten years (1995-2004). In each case study, particular attention has been paid to the Bank's support for capacity building in four focal areas: education, health, roads and public financial management.
2. Although Mozambique remains one of the world's poorest countries, it has experienced rapid economic growth over the last ten years. It has also undergone a major political transformation leading to a stable multi-party system. But public sector capacities—at institutional, organizational, and human resource levels—remain extremely weak.
3. Since the 1994 elections, the Government has developed sector strategies in the four focal sectors of this review—public financial management (PFM), roads, education, and health. These strategies have paid increased attention to building capacities for improved sector management and to achieving country led coordination of donor support. But problems with ensuring coherence and consistency of capacity building efforts across sectors are only beginning to be resolved through the introduction of the country's Poverty Reduction Strategy (*Plano de Acção para a Redução da Pobreza Absoluta – PARPA*), a Medium-Term Fiscal Framework (MTFF), an embryonic integrated financial management information system (*Sistema de Administração Financeira do Estado – SISTAFE*), and the start up of a public sector reform program in 2003.
4. The World Bank's four Country Assistance Strategies (CASs) since the mid-1990s have all identified weak capacity in the public sector as a key constraint to poverty-reducing growth, and the Bank has produced substantial levels of capacity building support. In the four sectors reviewed, the Bank funded about \$869.3 million in investment loans, of which \$365.6 million (42 percent) was for capacity building activities. The Bank has also provided another \$750 million in adjustment/budget support, of which \$383 million (51 percent) has been for capacity building measures. But there has been no clear capacity building strategy, specification of targets, or monitoring of activities.
5. Overall, this support has been well aligned with Mozambique's development priorities and needs. In the 1990s, the Bank played a key role in helping Mozambique reform its macroeconomic policies and build public sector capacity in related areas of public financial management. It also supported development of Mozambique's roads, health, and education strategies and efforts to strengthen program management and service delivery in these areas. But there have been shortcomings in both the underlying diagnostic work and the design of the Bank's capacity building support which have undermined the relevance and effectiveness of individual interventions. In general, the Bank's diagnostic work has been good at identifying sector development needs and constraints, but less good at assessing the details of required

organizational change. Human capacity needs have not been addressed from a broad labor market perspective. Individual capacity building interventions have typically overestimated or simply assumed existing capacity with which to implement capacity building activities. Interventions have also inadequately addressed organizational changes and performance incentives required to sustain improvements in human capacities achieved through support for training.

6. The effectiveness of the Bank's capacity building support, which is rated moderately satisfactory overall, has been stronger in the roads sector than in the other sectors reviewed. In the roads sector, Bank capacity building support contributed to the establishment of new institutions, a restructuring of the roles of the public and private sectors, and strengthened human capacities. In the area of public financial management, results at the policy and institutional level have been good. But the effectiveness of Bank support for organizational change has been limited; and support for skills upgrading more successful in the Central Bank than the Ministry of Planning and Finance because its own strategy was more comprehensive. The social sectors also saw policy and planning improvements, but organizational development has been limited, and they have been losing many better-trained staff to the private sector. A recent public sector reform project aims to support both cross-sector capacity building measures such as decentralized service delivery, introduction of a new public service salary structure, strengthening new systems of expenditure management and accountability, and sector ministry-specific plans for organizational restructuring and human capacity development. But the project has taken time to get underway and its effectiveness cannot yet be assessed.

7. Generally, the Bank's support has been more effective on an institutional than organizational or human resources level. The Bank is seen to have a comparative advantage in supporting institutional developments. This is due to the combination of good analytics, strong commitment, and sizable financing. Key CAS objectives of macro-stabilization and private sector led growth have been achieved, and significant institutional changes have taken place in the sectors reviewed.

8. Organizational strengthening has been less successful, sometimes due to competition between the Bank and bilateral donors, leading to fragmentation of efforts. Organizational strengthening in the roads sector has been notable, in PFM more limited, and in the social sectors marginal. The Bank has funded training in all sectors and virtually at all levels, mostly in country at the urging of the government. Local university training has been provided through scholarship programs, and has tended to be successful. The effectiveness of short-term training has been mixed—with some success achieved where donors have coordinated support for decentralized training within the context of a sector-wide strategy and program. In contrast, long-term training abroad has been limited, with few successes and poor donor coordination. Overall, there is scope for more systematic human resource development planning and tracking.

9. On the whole, Bank performance in supporting capacity building efforts has been moderately satisfactory. Although its performance has been strong in support of institutional transformation, the Bank has no clear capacity building strategy. The

capacity building objectives and targets of its country assistance strategies and individual operations are generally ill-defined and capacity building activities not adequately monitored. Also coordination with other donors has been poor, though improving in some sectors under government pressure. The government's performance has also been moderately satisfactory, with variation across sectors. In the roads sector, the government had well designed capacity development objectives, while in most other sectors a clear capacity building focus has largely been missing. A key problem has been a "lack of capacity to build capacity."

1. Introduction

Objectives

1.1 This study of Mozambique is one of six country case studies undertaken as part of an independent evaluation by the World Bank's Operations Evaluation Department of the relevance and effectiveness of World Bank support for public sector capacity building in Sub-Saharan Africa over the past ten years (1995-2004). In each case study, particular attention has been paid to the Bank's support for capacity building in four focal areas: education, health, roads and public financial management.

Methodology

1.2 The Mozambique study involved document reviews, interviews, and data analysis. The principal documents reviewed include the CASs of 1995, 1997, 2000 and 2003; project documents in the four sectors; relevant economic and sector reports; and reports prepared by the government and other donors. Interviews were conducted with Mozambican officials in relevant ministries and other public offices, donor representatives, Bank managers and staff, and representatives of other stakeholder groups.¹ The list of persons interviewed and documents reviewed is attached in Annexes A and B, respectively.

1.3 The Mozambique country report follows a framework that examines three dimensions of capacity building in the public sector: (i) institutional capacity, that includes policies, procedures, legislation and the systems of goals and incentives that constitute the "rules of the game"; (ii) organizational capacity, groups of individuals bound together for a specific purpose, with objectives and internal mechanisms, staff, and money to achieve them; and (iii) human capacity, people with the ability to define objectives, design and implement programs, raise resources and deliver services.

¹ The team for the review and mission consisted of Riselia Bezerra, Jovito Nunes, and Arne Disch.

2. Country Context

2.1 After over 10 years of war, Mozambique gained its independence from Portugal in 1975. In the immediate period following independence, a mass exodus of Portuguese and other foreigners meant most of the country's skills left. Property and productive infrastructure were abandoned, and the country inherited an economy distorted by 400 years of colonial rule and a poorly trained population.

2.2 Following independence, the ruling Frelimo party established a one-party socialist state. In 1980, the government faced an internal conflict fuelled by the apartheid regime in South Africa. This conflict lasted some twelve years, before a peace agreement with the opposition Renamo movement was signed in 1992. The conflict was extremely costly. It is estimated that one million people died due to the direct and indirect effects of the war, and the rural infrastructure and economy were left in tatters. Yet ten years after the first multi-party elections in 1994, Mozambique is seen as one of Africa's post-conflict reconstruction successes. The country has experienced rapid political change and significant transformation of the economy.

Political and Economic Transition

2.3 The elections of 1994 restored a link between the government and the population, which the war and structural adjustment of the 1980s had undermined. The 2000 Poverty Reduction Strategy Paper (PRSP) process was in many ways the first national policy consultation since the mid-80s, and local urban council elections in 1998 and 2003 have added a further dimension to this. The 1997 state accounts were the first since 1975 to be formally closed and audited, with the audit report prepared in 2000 and debated by Parliament—a "first" in Mozambican history.

2.4 Although political transition to a parliamentary multi-party system has been smooth and successful, public administration remains weak, the performance of the legal and judicial systems is poor, and corruption is widespread. Mozambique is still highly centralized with most of the country's resources concentrated in the southern capital of Maputo. Regional differences remain significant and pose serious challenges for national policy setting. The numerous ethnic groups, some of them following religious cleavages, also constitute important political fault lines. A large survey on perceptions of corruption carried out in late 2001 showed that the majority of the population has little trust in many of the formal public institutions such as the police and judiciary.

2.5 The majority of the extreme poor live in rural area and their expectations are only slowly being addressed. The overriding challenge is the distance between the small, modern, well educated, and partly wealthy urban elite that runs Mozambique's economy and politics and the vast majority of the population that still relies on traditional leaders, practices and beliefs for guiding their lives.

2.6 Yet, the population participated enthusiastically in the 1994 and 1999 elections, albeit with somewhat lower rates in 1999. Rapid improvements in physical infrastructure have brought many more people into closer contact with markets and

modern institutions. People are becoming more vocal in demanding services and rights, which suggests that processes are evolving more smoothly than in many other African countries.²

2.7 Government progress in restoring economic growth is a key reason for the smooth transition. During 1994–2002, the economy grew at an average rate of over eight percent a year—the fastest rate of growth in Africa. Exports have grown even faster, at a rate of close to 20 percent a year, largely due to a few mega-projects that have recently come on-line. Also, the government’s tight control over spending and money supply, combined with financial sector reform, successfully reduced inflation from 70 percent in 1994 to around 10 percent currently. Liberalization of trade and prices has been accompanied by structural reforms that are changing the role of the State from a direct economic agent to a facilitator of private sector activity.

2.8 Despite this impressive growth performance, Mozambique remains one of the poorest countries in the world, though the situation is improving. While a 1996–1997 poverty study indicated that 69 percent of the population lived below the absolute poverty line, a similar survey done in 2002 – 2003 shows that this head-count measure of poverty has fallen to around 54 percent, a significant progress. UNDP's Human Development Index for Mozambique has also improved steadily since 1994, but it still ranks 170 out of 175 countries (UNDP 2003).³ More significantly, perhaps, is that UNDP estimates that Mozambique scores considerably *lower* than it ought to, given the GDP per capita—i.e., the nation's wealth and basic public services are still skewed away from the poorest so the country does less well than the economic numbers would indicate.

2.9 Moreover, economic expansion has been uneven and many sectors remain weak. Of particular concern is the weak state of the local private sector. As a result, Mozambique remains heavily dependent on external assistance. Since 1986, Mozambique has received \$8 billion in **external aid**, or almost \$600 million a year, which represents about 17 percent of GDP. In recent years, external aid financed half of government spending and 75 percent of public investments.

2.10 Rehabilitation and expansion of the **road** network has been a major component of the government’s poverty reduction strategy and has been supported by a large group of donors headed by the Bank, which began with the Roads and Coastal Shipping (ROCS) program. The government earmarked \$406 million for the roads program in 1999-2001, most of which was covered by donor funds. Both rural access roads and the main trunk routes are being rehabilitated.

² One important factor is that almost 2 million people (of population 15 million) were refugees in neighboring countries during the war, particularly Malawi and Zimbabwe. For several years, poor rural peasants who often had not been outside their own area before were suddenly introduced to many services, actors (UN system, NGOs, and national authorities), markets, etc. that profoundly changed in particular younger generations. This experience has therefore contributed significantly to "modernizing" the outlook and behavior among large segments of the rural population.

³ UNDP score of 0.356 in 2001.

2.11 In **education**, substantial progress has been made since 1992 in expanding the total number of schools and enrolment, reflecting increased spending on education in the state budget over several years that reached 22.6 percent in 2001. As evidence of progress, 97 percent of the school network has been rebuilt, and literacy rates have grown from 22 to 34 percent. However, less progress has been made in higher education. There are only 23 secondary schools in the country, and the Eduardo Mondlane University (UEM) graduates a low 20 percent of the students who enroll each year.⁴ The education policy is therefore now focused on developing a strategic plan for higher education, extending primary education, and raising the gross enrolment ratio.

2.12 Like education policy, **health policy** has been directed towards improving both the access and the quality of basic services. A third of the health facilities were destroyed during the war, so under a first six year health program supported by the Bank, the government focused on the rehabilitation of primary healthcare facilities and posts. The substantial investment has increased access to healthcare and improved the quality and efficiency of coverage. Between 1997 and 2000 public expenditure on health grew from \$4.60 per capita to \$7.50 in constant 2000 prices. But total health expenditures in 2000 were only \$9 per capita, among the lowest worldwide, with aid accounting for over half the total health budget. Like other Southern African countries, Mozambique is suffering from the HIV/AIDS epidemic. The Ministry of Health estimated that 12.2 percent of the population between 15-49 years of age was infected in 2002.

Government Reform Strategies and Capacity Building

2.13 Although public sector reform and capacity building are major objectives of government policy and strategy, capacity building priorities and targets have not been clearly defined. In the ten years since the 1994 elections, the government has produced a number of major strategies, including its poverty reduction strategy and action plan, PARPA, and sector wide strategies in the four focal sectors of this review. The first version of its poverty reduction strategy in 1995 was a rather theoretical exercise. Cabinet passed a revised version in 2001 that was more focused and in line with achieving Mozambique's Millennium Development Goals. This constituted a medium-term operational plan with budget. It was comprehensive, covering seven key sectors and including over 60 percent of government expenditures, in principle also covering donor funds. It introduced elements that had not existed in documents before: clearer sector strategies with priorities, defined targets, and performance indicators.

2.14 The trend over the ten-year period has been a move to more sector wide strategies and increasingly, sector work is based on the PARPA, ensuring greater coherence across sectors and alignment of sector strategies with the government's overall policy thrust.

⁴ The university is characterized by a high rate of repetition: 35 percent for the first year, 30 percent in the second year, down to five percent in the fifth year; and a relatively low capacity of graduates (fewer than half entering university finish).

2.15 The Ministry of Public Works, with considerable Bank assistance, developed a **national transport sector strategy** that among other things laid out capacity building needs, prioritized roads that needed rehabilitation, discussed technologies to be used on the different types of roads (labor intensive on rural roads, large-scale contracting for national highway network, etc.), provided a plan for promoting private sector contractors, and increased employment in the sector. It was aligned with the national goal of promoting agricultural development especially in those districts with the highest potential. The Roads and Coastal Shipping program became a large multi-donor support for the transport sector strategy, led by the Bank, and was for a long time the best developed of the sector programs.

2.16 In 1995, the Bank initiated a third Public Expenditure Review (PER) exercise that was more broad-based than previous exercises, entailing institutional and organizational dimensions, and also more process-oriented, with a much stronger role for the Ministry of Planning and Finance. After the first several Bank-led missions had taken place, the process was fully taken over by the Ministry, which then developed its own **PFM reform** program that was presented to the donor community at the Consultative Group meeting in 1996. This program has since been the backbone for the Ministry's reform efforts and strongly emphasizes capacity building: new legislation, reforms in revenue and expenditure structures and management, skills upgrading, better reporting and statistical information, etc.

2.17 In **health**, the Minister brought the donors together in 1995 to develop a Sector Wide Approach (SWAp), a process that progressed well over the next couple of years. With changes in ministers, however, this process moved unevenly. In periods where the minister was politically strong and convinced of the value of SWAps, reform efforts moved well—in other periods they slowed. The **Education Sector Strategy Program (ESSP)** was developed in 1998, and a second more structured strategy (ESSP II) is currently being developed. In both health and education, the focus has been on service delivery and hence training of the responsible staff such as teachers, nurses, and doctors has been on the forefront. The strategies also emphasize improving internal organization and capacity. In the health sector, for example, the various “vertical projects” for malaria, tuberculosis, leprosy and HIV/AIDS supported by different donors are to be integrated into a larger “communicable diseases” program.

2.18 Still, through the mid-to-late 1990s, government was not clear on its capacity building priorities and targets and, under the circumstances, capacity building support tended to remain donor driven. While government programming *within* sectors was quite good, as in transport and health, coordination across sectors was poor and actual donor coordination has moved slowly. There were major problems in donor coordination especially in the area of capacity building where donors funded large

numbers of experts under many different technical assistance (TA) arrangements.⁵ Donors "topped up" civil service salaries, using different criteria, levels, and forms.⁶ During the early to mid-1990s, it was estimated that as much as one third of donor resources was spent on TA; supposedly for capacity development, but in many cases with little discernible impact, much less a structured platform upon which Mozambique could further develop its own capacities.⁷ Also, training took place in a large number of fields through seminars, workshops, and study tours abroad and in country. Few were based on a systematic sector training program, much less a national strategy.

2.19 The World Bank's use of Project Implementation Units (PIUs) has had a negative effect on government capacity building. National directors, the key civil servants in a ministry, were hired away from their previous posting with salaries *50 times* higher than their former wages, and then put back into the same ministry. This created enormous resentment within the civil service, and set a precedent that other donors followed.⁸ The longer-term problem was that Mozambique ended up with a highly fragmented and distorted labor market for skilled labor, which the country still has to successfully address.

2.20 Two important planning instruments introduced in recent years have facilitated better setting of priorities. In 1998, the first Medium-Term Financial Framework (MTFF) was produced, building on an economy-wide model that provided more consistent parameters for public budgeting, including resource allocations for the sectors. Although the first version was not endorsed by the Cabinet, a revised MTFF was approved in early 2004 and is now expected to play a stronger macro-economic management role. Similarly, sector strategies are being

⁵ The government distinguished between TA and gap-fillers. The latter were persons hired directly by the Government to fill technical functions where Mozambique did not have qualified staff and where expatriates would be required for many years, such as medical doctors, senior technicians, etc. A special fund was established that prepared job descriptions and did the hiring, and such staff were government employees. This program functioned over a number of years, largely with Nordic funding, but other donors refused to join, maintaining their own recruitment, since the government largely hired from low-cost countries like Cuba, India, etc. TA slots were intended more for mentoring purposes, where experts would train local counterparts. The situation here was even more chaotic, as many donors refused to let the government know how much the experts cost, some donors insisting that the experts not only do a job for the government but also report to their embassy, thus raising questions about who decided their priorities. There were vast cost differences, going from \$3,000 to \$20,000 per month. Berg (1993) estimated that Mozambique in the early-90s had about 2,300 foreign experts in the country, the highest in Africa. This number did not include all the NGO and solidarity workers.

⁶ Most donors paid a monthly subsidy, some had fixed amount, others introduced a performance incentive and thus paid according to stipulated deliverables, usually not agreed with the authorities, and yet others provided "food baskets" or incentives for traveling to the field. The UN annual salary survey tried to capture the different practices, but without much luck. There was no "market" that pushed donors towards any kind of coherence and consistency in what was being done.

⁷ Econ, "Donor Coordination in Mozambique: Background Report," (Oslo, 1998).

⁸ A Bank task manager said that this was a deliberate strategy. All skilled persons were in the public sector. The only way to get a private sector going was by attracting these people away from the public sector, and the best way was by means of "a competitive labor market scheme."

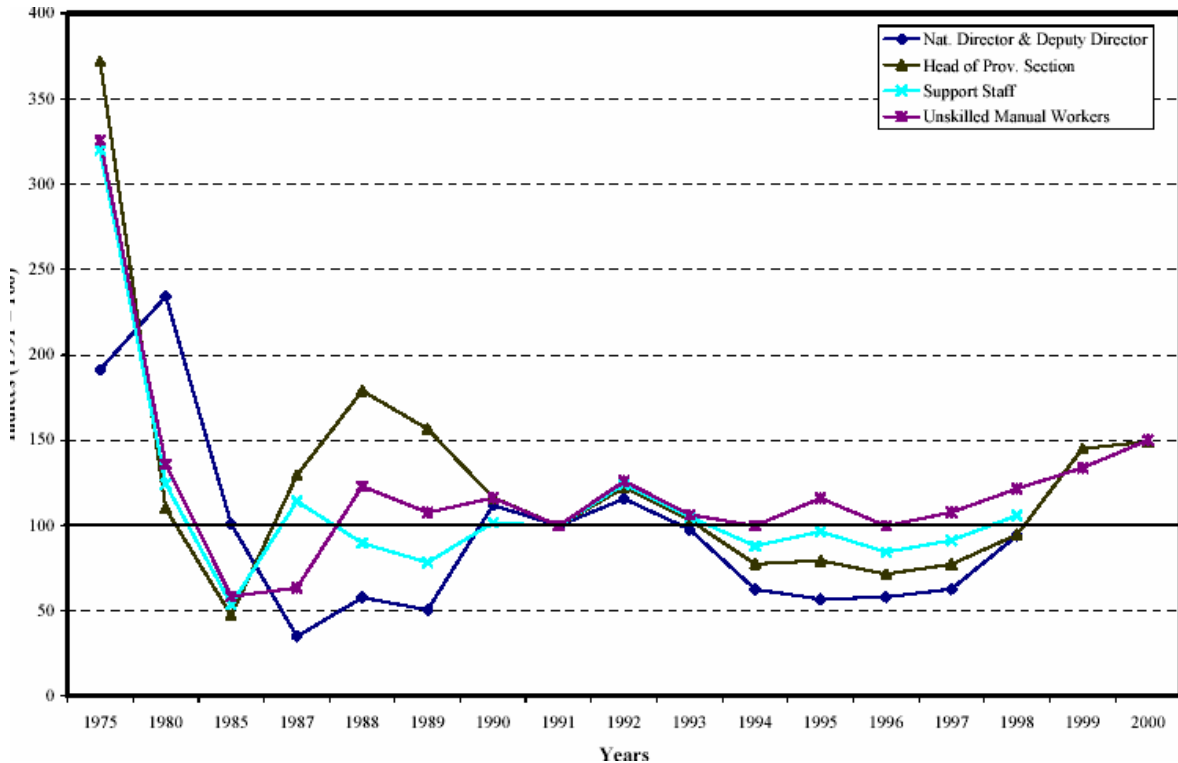
better aligned with the poverty reduction strategy adopted in 2001. Typically, these strategies entail the following features:

- SWAs are more comprehensive and both donor programs and government results are better specified, including capacity building, policy changes, institutional and organizational transformations, and strengthening HRD programs
- More donors are joining these sector-wide arrangements
- National actors like NGOs, professional organizations being given important roles, and include monitors/watch dogs of performance
- Sector strategies are better integrated with other government-wide reforms and tools such as new budgeting and accounting systems and the MTFP
- The government is increasingly in the driver's seat on framework conditions, defining priorities, management of planning, implementation, reporting, and quality assurance

2.21 These strategic developments have facilitated movement toward more systematic design of capacity building activities. With SWAs and the PARPA, the government now has instruments and joint processes around which training, organizational development and framework conditions are being discussed. Donor funding for training in the social sectors, for example, is judged not just in terms of whether it is coordinated and consistent with government priorities, but also on whether the training program is the best vehicle for delivering on PARPA outcomes. These joint processes and instruments that SWAs entail are thus providing better opportunities to analyze, support, and review performance in the various areas of capacity building.

2.22 But pay reform—a key foundation for effective capacity building in the public sector—remains a major challenge. Figure 2.1 presents indices of real pay trends in the Mozambique public service for various categories of personnel for the period 1975-2000. Three significant periods emerge. The first is 1975 – 1985, when substantial real wage declined due to civil strife and economic uncertainty of the time. The second period covers 1985 to mid-1990s, when real pay of most public servants fluctuated before showing a declining tendency. During this period, salary supplements were introduced for top managerial grades, and senior professional, and technical personnel to offset their real wage declines (Valentine 2001). The third period covers 1996-2000 when real pay for all job groups improved. Still, these improvements left the average public service salary far below the level of the mid-1970s, and remained inadequate to attract and retain qualified higher-level public servants (Figure 2.1).

Figure 2.1: Real Pay, Various Functions in Public Sector, 1975 - 2000



Source: Valentine 2001.

2.23 The government has adopted various *ad hoc* measures to reverse poor pay in public service. Several of the structural adjustment programs implemented in the 1980s and early 1990s included pay adjustment components, though without a systematic *pay reform*. In 1991, the government adopted a new system of professional categories, monetizing a number of civil service benefits and harmonizing employee incentives. Wages were decompressed for the first time, principally by introducing “*suplemento técnico*,” a special supplement for higher-level technical and medium- and higher-level management staff. The government tried to get the donors to fund this change by (i) stopping donors’ own “topping up” schemes, which were seen as distorting, non-transparent and undermining government authority and management of staff, and (ii) getting donors to use their funds instead for this more structured and holistic approach to public sector pay reform. By and large this attempt failed, largely because bilateral donors did not want to stop “ensuring” that “their” activities would be successfully implemented by the civil servants who they were funding.

2.24 In 1999, the pay and incentive structure was reformed with the adoption and implementation of the System of Careers and Remuneration (SCR). The SCR greatly simplified the *ad hoc* system it replaced, and provided opportunities for promotion based on in-service training, experience, and performance, and thus introduced incentives. Professional job categories were revised, wages were decompressed, and recruitment practices were improved to put greater emphasis on merit, and professional and technical qualifications. The SCR made significant strides towards:

- Rationalizing the job grade system by reducing the number of job categories from 2000 to about 150
- Improving horizontal and vertical equity in remuneration by indexing salary scales for easy reading and revision
- Improving human resources management in the public service, with the introduction of performance based promotions and other objective criteria, including tests
- Decompressing the salary structure, as the ratio of the highest to the lowest public service monetary compensation rose from about 8:1 to about 20:1

2.25 Yet, the SCR had several shortcomings. It has not adequately addressed low remuneration, staff motivation and commitment, and poor work performance in public service and the effects that these have on service delivery, quality and accessibility. The public service still faces major challenges in its efforts to attract and retain suitably qualified professional and technical personnel. The government has difficulty in competing with the private sector and donor organizations for high-level and suitably qualified manpower. The demand for such personnel has far outstripped the capacity of the education and training system to supply adequate personnel with the requisite skills.

2.26 A key step forward has been the computerization of the civil service database. This is being used to weed out "phantom workers," register actual skill levels, courses and other performance enhancing activities that staff has undergone as information for promotions and performance reviews. This central registry has also allowed the Ministry of State Administration to decentralize much of the day-to-day management of ministry staff to the individual ministries while they maintain the overall database and, in principle, manage civil service policy reforms.

2.27 Most recently, the comprehensive Public Sector Reform Strategy (PSRS), approved by the Council of Ministers in June 2001, includes a pay reform strategy with two elements: a medium-term pay reform strategy that provides a framework for achieving a target salary structure six years away; and a more immediate Selective Accelerated Salary Enhancement-type scheme for key qualified professional and technical personnel.

2.28 Capacity building at all levels is at the core of the PSRS. Functional analyses of all the ministries are in diverse stages of completion, the first ministries currently working on their restructuring plans. An anti-corruption law has been approved by Parliament, an anti-corruption unit established in the Attorney General's Office, and civil service statutes have been revised and submitted to Cabinet. A key component in the reform process is PFM. Donors have assisted various departments in the Ministry of Planning and Finance since the 1980s, but in an uncoordinated manner. In the mid-1990s, UNDP supported capacity building for economic management, but with limited success largely because the Ministry had not been able to specify what it wanted in the areas of human resource and organizational development in the various

departments.⁹ In addition, the development and introduction of SISTAFE, an integrated financial management information system in the Ministry in early 2004, is leading to improvements in cash management.¹⁰ This system is scheduled to cover five ministries by the end of 2004 and be introduced in all ministries by the end of 2005, and it will then be introduced at the provincial level. The successful introduction of SISTAFE is seen as critical to reducing overall fiduciary risk in Mozambique,¹¹ but is also necessary for the implementation of public sector reform, including the pay reform.

2.29 In sum, Mozambique remains one of the world's poorest countries in terms of income, but scores even worse in terms of health, education and other social performance criteria. The economy has grown dramatically over the last decade and resources are being moved into pro-poor fields, but the growth structure remains such that most benefits accrue disproportionately to the already better-off groups.

2.30 Political transformation has been rapid and extensive, leading to a stable multi-party system. Still public sector capacities remain weak at human resource, organizational, and institutional levels, and good governance remains a critical challenge.

2.31 Through the late 1990s, the government had produced a number of strategies that were neither consistent nor clear on priorities, especially on capacity building issues. This reinforced poorly coordinated donor assistance. But over time, sector wide programs have led to better coordination of donor capacity building support. Although the government continues to have problems in ensuring coherence and consistency of capacity building efforts across sectors, the introduction of MTFF, PARPA, the PSRS and the SISTAFE have all contributed to better aligned and coordinated strategies. Also, significant rationalization of systems and personnel databases has taken place. But the assurance of pay reform remains a major constraint for attraction and retention of skilled labor in the public sector.

⁹ UNDP, "Support to the Economic Management Capacity Building Programme," (Maputo, 1998).

¹⁰ The government has about 12,000 accounts most of which are not active but still have some funds. Till SISTAFE came online it was not possible for the Ministry of Planning and Finance to know how much cash it had on hand in total at the end of each day, forcing it to borrow excessively on local money markets to pay recurrent costs.

¹¹ Scanteam, "Fiduciary Risk Assessment: Mozambique 2004," (Oslo, 2004).

3. The World Bank's Capacity Building Support

3.1 Even before Mozambique joined the Bank in 1984, the Bank sent review missions to discuss general policy issues and design lending operations. The consensus on poverty reduction as the overall goal and on capacity constraints as the key challenge formed the basis for a constructive partnership. A number of informants commented on the importance of the Bank having put staff in the field and having a Resident Representative and now a Country Director who are viewed as being knowledgeable about “the situation on the ground.”

The Bank’s Strategy

3.2 The Bank has prepared four Country Assistance Strategies over the period covered by this review: November 1995, November 1997, June 2000 and November 2003.¹² The overall development objectives and themes of the strategies are indicated in Table 3.1. The emphasis on capacity building in the Bank’s CASs has changed significantly over these years, becoming considerably more central in the most recent CAS.

Table 3.1: Objectives for World Bank CASs (1995-2003)

CAS Objectives	1995	1997	2000	2003
Macroeconomic stability	X			
Promote high-growth sectors	X			
Promote private-sector led growth		X	X	
Improve investment climate				X
Human resources development	X	X	X	
Capacity development		X		X
Governance and empowerment			X	X
Expand service delivery				X
Improve implementation partnerships		X		

3.3 The **1995 CAS** contained three objectives: (i) macroeconomic stability and removal of crosscutting impediments to growth; (ii) human resources development; and (iii) promotion of sectors with high-growth potential. The CAS presented a comprehensive reform package in line with Mozambique's transition from a centrally planned and war-torn economy to a market-friendly, private sector led one. The CAS noted, "Significant liberalization of the economy has taken place, but institutional reform has been slower and capacity continues to be weak."¹³ The support for macroeconomic stabilization included privatization of firms and banks, strengthening the Central Bank's regulatory and supervisory capacity, and customs reform. The key crosscutting impediment was low absorptive capacity—human resource, institutional capacity, financial, and infrastructure constraints. All credits were to include institutional and human resources development components.

¹² The Bank produced two strategies before 1995, emphasizing the emergency and transition to peace.

¹³ 1995 CAS, p. 3.

3.4 Another impediment was poor public sector management and the need for enhanced efficiency and transparency. In both health and education sectors, the CAS proposed support for sector-wide programs aimed in part at addressing this constraint.

3.5 One innovation was the inclusion of high-impact non-lending tasks. The CAS noted, "TA, policy advice and analytical tasks which do not necessarily result in formal Bank reports but which are assisting the Government, on an as needed basis, in priority areas."¹⁴ This provided the Government with access to key Bank skills, thus addressing capacity constraints in the analysis and policy fields. The CAS matrix was a three-column summary of (i) the three objectives, (ii) actions/goals, and (iii) instruments being used. There were no monitorable goals, targets or indicators.

3.6 In the **1997 CAS**, the overarching objective of broad-based poverty-reducing growth was carried over, with a focus on rural development. The three objectives were modified slightly to: (i) promote rapid, broad-based private sector led growth, (ii) build capacity and develop human resources, and (iii) strengthen development partnerships.

3.7 The focus on capacity building was wide ranging. Projects were expected to support reforms in the judiciary, and strengthen internal accountability and transparency by improving procurement, financial management and audit. Sector investment projects all had capacity building components, including considerable training and support for the development of local private contractors. The 'just in time' Analytical and Advisory Activities (AAA) that was begun under the previous CAS was continued, as this demand-driven approach to policy inputs was seen as efficient and effective. The areas identified were in line with CAS objectives and where the Bank was perceived to have a comparative advantage.

3.8 The **2000 CAS** noted that for "an effective antipoverty strategy, institutions, norms and attitudes need to change so that governance is improved."¹⁵ It also noted that public sector capacity to deliver basic services and enforce a consistent legal and regulatory framework supportive of private sector development remained limited. And, although most of the previous CAS objectives had been achieved, the government's capacity to implement policies in a transparent and accountable manner remained weak. The CAS therefore proposed simpler design of projects, involving more local expertise and flexible structures to allow for mid-term corrections, and closer links between AAA and upstream project preparation to ensure better quality at entry. One of the three main objectives of the 2000 CAS, focused on improving governance and empowerment, to be advanced through operations aimed at public sector reform and the rule of law.

3.9 The **2003 CAS** noted that the indicators for the 2000 CAS were not helpful. A number of targets were supposed to have been defined or revised by the government's PARPA, but the PARPA's Performance Assessment Framework was not approved until the fall of 2003, too late to serve as the framework for monitoring progress

¹⁴ Ibid, p. 16.

¹⁵ 2000 CAS, part ii, page 6.

under the 2000 CAS. Furthermore, no performance indicators had been defined for the governance and empowerment objective. The 2003 CAS therefore aimed to narrow its focus and better align with the PARPA and the Millennium Development Goals. Monitoring and evaluation, and a results-focus were strengthened. In addition, the CAS emphasized a move from projects to sectorwide programs and general budget support through Poverty Reduction Strategy Credits (PRSCs). In addition, in support of the government's public sector reform program which had been approved in 2001 and launched in 2003, the CAS proposed a 10-year adaptable Public Sector Reform Program (described below).

The Level of the Bank's Capacity Building Support

3.10 In the four sectors under review, the Bank funded about \$869.3 million in investment loans, of which \$365.6 million (42 percent) was for capacity building activities. The Bank has provided another \$750 million in adjustment/budget support to the four sectors, of which \$383 million (51 percent) has been for capacity building measures. These capacity building commitments are presented in detail in Table 6.1 below. In addition to the above, there are projects in other sectors that have focused almost exclusively on capacity building such as support to legal and judicial reform, agriculture, rural water, energy and other infrastructure services.¹⁶

3.11 AAA has been an important component of the program in Mozambique, in large part due to weak analytical capacities in the country. The number of staff in ministries trained in policy analysis and development is limited, though the number is slowly growing. The Eduardo Mondlane University does some work, and there are now some private consultancy firms as well, but local capacity is limited compared to the scope of the problems.

3.12 In sum, the Bank's approach to capacity building has aimed at a strategic level, with a consistent approach only in macroeconomics, and has responded to sector realities on a case-by-case basis, but without an overarching and consistent approach.

¹⁶ While most funding has been to the centre, projects in agriculture, roads, health, education, rural water and public administration have increasingly provided resources to provinces, and in some cases to districts.

4. Assessment of Bank Support for Capacity Building: Relevance

4.1 **Criteria:** Relevance is assessed in terms of (i) the alignment of the Bank's sector and project goals with national strategies and priorities, (ii) the quality of the diagnosis of the commitment, needs, institutional capacity and arrangements, and (iii) the quality of the design of the projects.

4.2 **Overall Assessment:** The relevance of the Bank support to capacity building in Mozambique over the last decade is rated as satisfactory.

Alignment

4.3 Given the breadth and quality of Bank studies during the period under review, much of the government's economic policy was heavily influenced by the Bank.¹⁷ After the 1994 electoral victory, the government presented a national development plan to Parliament, based on reconciliation and reconstruction, which received political support from all parties. It had poverty reduction at its core. The annual Policy Framework Paper discussions during the 1990s were central to formulating the *specifics* of how to attain the objectives. The 1995 CAS and the lending operations that followed it were part of the larger policy consensus that had been established, with the Bank program constituting an important component of the Government's development efforts. The government has since pursued this strategy, with the Ministry of Planning and Finance acting as the government's voice to the donors, and the carrier of donor concerns to the Cabinet.

4.4 Over time, capacity building has taken on a more prominent place in government strategies and correspondingly, in Bank support. The PSRS is essentially a capacity building program for the public sector, and the PARPA includes public sector reform as a key dimension of poverty reduction through better public service provision and greater accountability to beneficiaries, and includes monitorable targets for a number of these capacity dimensions. The corresponding Bank support, in the form of the ten-year Public Sector Reform Project, is closely aligned to the government's reform strategy.

4.5 In the sectors as well, capacity building strategies have become more important. The 1992–2002 Health Manpower Development Plan was the basis for the Bank's sole health sector project, while the Ministry of Education's ESSP guides all support to primary and secondary education, including capacity building activities.

4.6 In the roads sector the 1996 Transport Sector Strategy contained three key capacity building elements: (i) reforming the policy and institutional environment including stimulating participation and growth of the private sector, (ii) commencing

¹⁷ Unlike with some other regimes in the region, the most important factor that led to general convergence between the two political parties in Mozambique was the common goal of poverty-reduction. The disagreements were on the policies and instruments to achieve it.

development of institutional, organizational and human resource capacity required effectively to plan and manage the sector, and (iii) restoring priority roads links through minimum cost rehabilitation and deferred maintenance works. The Bank's roads projects were closely aligned with the transport sector strategy's capacity building concerns. The second Roads and Coastal Shipping project (ROCS-2) continued where the first ROCS left off to "further strengthen the capacity of the Road Sector, to ensure effective planning and monitoring by the government, and the development of private sector contractors and operations." The follow-up Roads and Bridges Management and Maintenance Program (RBMMP) aimed to "strengthen the country's capacity to manage and administer the road sector effectively and transparently, and establish sustainable financing mechanisms for the road sector."

4.7 Virtually all projects had planned capacity development outputs that grew out of sector plans and later strategies. These were the results of planning exercises where donors participated to varying degrees, and where the parties arrived at agreed actions.

4.8 The policy process in Mozambique has therefore reached the point where *alignment* is virtually assured. The partnerships on the ground largely ensure that donor support is fully aligned with government priorities. This is also true of the recent Bank strategy documents, such as the 2003 CAS. The differences that remain are more a matter of emphasis than of policy direction.

Diagnosis

4.9 The first major analysis of capacity building needs undertaken with Bank support took place in 1991. It was a joint exercise with the government, in which the study addressed two issues: what were the capacity needs, and what kind of enabling environment was required to ensure impact and sustainability of capacity building activities. Detailed diagnostic work was carried out (such as identifying schooling levels of different categories of civil servants), with a number of workshops involving relevant institutions to verify information and build consensus around the program required to address the needs. The program focused on strengthening the legal sector, public sector management in the Ministry of State Administration, secondary education, and university.

4.10 The public sector component in the Ministry of State Administration aimed to ensure better working conditions for technical staff and thus improve retention rates and sustainability. Legal sector reform was required to develop the institutional framework needed to create a private sector-led economy. The support to secondary and tertiary education was required to address the extreme scarcity of human resources. The university support was focused on areas such as economics and engineering, to provide technical skills for key sectors of the larger reform and development program (PFM and roads).

4.11 The 1991 diagnostic work was exemplary in many ways. It was led by Mozambican officials (to ensure political ownership) and consultants (to ensure use of local knowledge and strengthen local consultancy market and appropriateness of

final recommendations).¹⁸ It was carried out in a collaborative manner. In the first phase, it identified the problems to be addressed and consulted a wide range of stakeholders, who contributed to and learned from the process. Many of the original consultants are still in the relevant fields, and the memory of the process and its results are recalled in positive terms. The context in which this work took place is also important. The Vice-President for Africa at the time had pointed out that donor-funded TA in Africa was undermining capacity rather than building it. The 1991 Mozambique capacity needs assessment was one of the first to come on-line subsequent to this assessment.

4.12 But actual implementation fell short of expectations. The Implementation Completion Report (ICR) attributes this to poor diagnosis of the difficulties in implementing a complex program. The Ministry of State Administration was pre-occupied first with the peace process, then the elections, and subsequently with other aspects of public sector administration. The Ministry of Justice also did not have previous experience working with the Bank or the same level of trust. The Ministry of Education did not have capacity to address the vast needs of the primary education network, which was given priority, and secondary schools. Bank procurement procedures were new to most actors and the analysis had not taken into account the arrangements that were needed to ensure smooth implementation of such a complex multi-agency program.

4.13 Diagnosis of capacity constraints and capacity building needs in the roads sector has been the most successful. Diagnostic work identified inadequate institutional capacity to plan and manage the sector as a major issue. A comprehensive institutional capacity building, staffing, and manpower development plan was developed under ROCS-1 and further refined under ROCS-2. Policy reform and institutional strengthening continue as a major component of RBMMP.¹⁹

4.14 In health, because the war destroyed much of the rural infrastructure and killed or chased away virtually all health personnel from the rural areas, the rural health services had to be reconstructed almost from scratch once peace was in place. A series of studies were carried out, several with Bank support and some with WHO as quality assessor, but under the Ministry of Health guidance. These were widely shared with the donors, so that diagnostic work was a Mozambican led and shared across-the-board.

¹⁸ Thirty Mozambican experts from relevant ministries and University conducted the study. Bank consultants acted as quality assessors, mentors and resource persons. The team spent six months on the task, thus not being rushed by the typical consultancy approach.

¹⁹ Following a change in focus from national integration efforts under ROCS-1 to removal of transport bottlenecks under ROCS-2, a number of specific diagnostic studies were carried out under ROCS-2, some of which helped the development of the RBMMP (such as transformation of provincial and district road managements, setting up a Road Fund and National Roads Administration or ANE). RBMMP also funded preparatory activities for the roads investment program. Studies covered problems of developing the capacity of national contractors, including structuring contracts to allow for more competition and increasing possibilities for national contractors, since foreign firms had won most of the large road contracts.

4.15 The Bank's first health project involved three components aimed at strengthening the Ministry's policy formulation and management capacity: (i) facilitate development of improved health policies in the areas of cost recovery, manpower development and facility management; (ii) strengthen the Ministry by reorganizing the central ministry, and developing an improved financial management information system; and (iii) contribute to improving food security policies. In 1992, the Health Manpower Development Plan was launched to reinforce the training capacity, which then formed the basis for the Bank-funded Health Sector Recovery Program.

4.16 In PFM, a far-ranging and increasingly consultative process has been used. The first major analytical undertaking was a PER in the late 1980s that helped re-structure the public investment program, the second review in early 1990s was much-too ambitious attempt at modeling the Mozambican economy to estimate the "peace dividend" or level of resources that could be moved from security to social sector expenditures. In both cases, the Bank consultants did the work with government officials acting largely as providers of data and were then expected to take up and use the analyses.

4.17 As of the mid-1990's and the merging both the ministries of planning and finance, diagnostic work involved more Ministry of Health staff, in part as a deliberate attempt to build capacity. The annual policy framework paper was done with the Ministry and Central Bank staff involvement. A PFM reform process began with a set of basic diagnostic studies in 1995 led by Bank staff and consultants, and was then taken over by the Ministry and presented to the donors at a Consultative Group meeting in 1996. From then on, the Ministry has owned this process, which has at times progressed at a snail's pace, but which has formed the basis for key decisions regarding PFM reforms.

4.18 Concerns over fiduciary risk have increased as more donor and Bank funding is provided as budget support. The Bank and bilateral donors have therefore carried out about a dozen fiduciary risk studies just over the last three years. A Country Financial Accountability Assessment (CFAA) addressed fiduciary risk and proposed a series of improvements on planning and budget allocations and execution in the the Ministry and key ministries, at the central, provincial and district levels, which are the weak parts of the PFM system. This assessment is being used for the implementation of new financial management information system, SISTAFE. A Country Procurement Assessment Report (CPAR) reviewed the country's poor procurement systems and regulations, has led the government to promise a complete overhaul in this area. Taken together, these studies made a total of 280 recommendations, of which about 30 percent concerned capacity building at the individual, organizational and institutional levels. The diagnosis behind these recommendations was that the considerable lack of skills, organizational clarity, and institutional frameworks for good PFM remains an important source of fiduciary risk. The Bank in the first phase of the 2003 public sector reform program aims to incorporate the findings and recommendations of the PER, CFAA, CPAR and HIPC Assessment and Action Plan, agreed to by the Government.

4.19 This structured program of analyses has been important for developing common understanding underlying harmonization of donor support and procedures. Furthermore, it has helped structure the larger analytical efforts, as bilateral donors continuously fund studies as well. There is more sharing of the *preparations* for these studies, so the Bank's AAA is better integrated into the larger body of analytical work being produced.²⁰

4.20 Typically, at the sector level bilateral donors have worked more together on studies, while the Bank has tended to "go it alone." But both sets of donors are carrying out diagnostic work in an ever-more participatory manner. While the AAA remains largely a Bank product, all parties—government and donors—are fully involved in designing the terms of reference, consulted during the task, and invited to discuss findings and recommendations. Increasingly, this is being done in the context of sector working groups such as the donor economist group in PFM, which now meets on a weekly basis. The diagnostic work is thus more and more jointly *planned*, and implementation is funded or carried out by a particular actor for reasons of efficiency.

4.21 Some officials noted that Bank reports tended to be too big and theoretical, and written in English and hence difficult for Mozambicans to read. This is improving as reports are now usually available in Portuguese, the Mozambicans are better able to read English, and the reports are better at addressing the concrete circumstances of the country. While *sharing* results with stakeholders has improved—with more seminars and discussions—it was not clear whether *production* of the reports had become participatory. This seemed to depend on the task manager. The 1991 Capacity Development study still stands out as the most locally-driven and owned, and one that several government staff pointed to as useful.

4.22 The needs analysis in the various sectors is largely good. Studies have looked at institutional arrangements, organizational structure, and skills availability, and most actors seem to feel comfortable with the descriptions and the causal analyses behind them. In terms of identifying constraints, the highly participatory processes used in both the roads and the capacity building studies in general, succeeded in understanding the constraints well, and thereby priorities on what needed to be done.

4.23 Yet, one criticism is that Bank studies have over-estimated commitment, and this has been said to explain poor performance. However, some of this is conjuncture—ministries of health and education and the university have shown variable commitment with changes in leadership. In other cases, it is less a matter of weak commitment than low priority (elections more important to the Justice department, primary education more important than secondary education in the Ministry). Furthermore, the government lacks the capacity to implement all desired

²⁰ In spring 2004, a fiduciary risk assessment was done for the entire donor group providing budget support, using the Public Expenditure and Financial Accountability working group indicators. This provides a common methodology so that individual donors will not carry out their own studies. Funded by Denmark, the study was an open collaborative effort, in conjunction with annual PARPA review and is a further step in harmonizing Bank and other donor efforts into government-managed processes.

measures simultaneously, so what appears as weak the *commitment* is in large part a reflection of weak *capacity*. One clear case of lack of government commitment was the result of lack of trust between the government and the Bank in a first operation in the education area. Ensuring that there is sufficient time to build mutual trust and confidence is an important element of effective design, as discussed below.

4.24 A more serious weakness in the diagnostic work is that few studies have looked at human resource development issues from a *labor market* perspective. It is clear that human capacity is the most fleeting, as it is so mobile. Being able to produce and retain the right skills remain a challenge, and the likelihood of doing so increases when the solution is *market friendly*. Apart from the 1991 capacity building study, this review did not come across an analysis of the *supply* of skills over the short and medium term, and what an optimal human resource development policy therefore ought to be. The other dimension is looking at the public sector segment of the labor market to identify carefully the key incentives for civil servants.

Design

4.25 The quality of the design of individual capacity building interventions has been mixed. The design of the support in the roads sector was in many ways best practice. An insufficient number of road engineers were identified as a key problem. At the time of ROCS-1, the National Roads and Bridges Directorate (DNEP) had two engineers; when ROCS-2 started up it had five. The shortage was highlighted in the 1991 capacity building study supported by the Bank and subsequent funding of university included support to the engineering faculty.

4.26 Both ROCS 1 and 2 provided scholarships for staff to take engineering degrees. But DNEP faced the same problem the rest of the public sector did, retaining trained staff. The solution entailed: (i) making DNEP an interesting place to work, where skilled engineers would be given challenging tasks, could see a future in terms of a career path, and would experience a management supportive of their ambitions, (ii) mentoring for engineers returned from their degree studies to provide on-the-job training and ensure they got worthwhile tasks, and (iii) provision of housing at an affordable price. The latter was critical, especially to get engineers to move to provinces where few wanted to go. By focusing on housing, DNEP found an incentive that was powerful yet would have an *organizational* impact since housing remained with DNEP and could be passed on to the next engineer in that post.²¹ The success was evident: by the time ROCS-2 closed, there were over 40 Mozambican engineers in DNEP and the recently established National Roads Administration (*Administração Nacional de Estradas* or ANE).

4.27 The Bank and DNEP also agreed on several other project features. The Bank would not “top up” salary incentives and would use the public sector salary scale, though over time DNEP was allowed a more independent status, as was ANE, which

²¹ The original intention was to allow the engineers to buy the house over time, with cheap loans if they wanted to do so. This part of the program did not work well, but during the critical period in the 1990s when housing was everywhere extremely scarce, the incentive was critical to retaining staff.

permitted development of more market based wages. Another was that there would be no PIU—DNEP would use its own staff and would receive the necessary training. This was, however, a medium-term goal. During the first years, the roads sector had to rely heavily on TA personnel, both for filling gaps and for training and advisory services. But they were all hired by DNEP, which was therefore in a position to monitor performance and fire those they felt did not perform. A number of TA personnel were in fact fired early on, thus forcing expatriate staff to respond to DNEP priorities, an issue in other sectors where expatriates were funded by donors leaving national authorities with little leverage to demand value-for-money. While hand-over of responsibilities and training did not run as smoothly as intended, the project provided for a clear and explicit exit strategy for TA. These design features were consistently carried over into the three subsequent roads projects.

4.28 In health, the Bank likewise relied heavily on the Ministry of Health's structures and staff for implementing project activities. The one exception was the creation of GACOPI (*Gabinete de Coordenação dos Projectos de Investimento*), a management unit focusing on physical infrastructure activities. GACOPI was considered necessary, as the Ministry did not have the facility to handle the vast procurement and engineering tasks that a rapid rebuilding of the rural infrastructure and rehabilitation of the larger urban hospitals required. GACOPI staff was a mix of ministry officials and Bank-funded consultants and over time has become an efficient unit for handling a large number of donor funds, many of which came with different conditionalities, reporting requirements, and procurement procedures.

4.29 The HSRP was the first Bank-financed project to move toward a sector-wide approach (SWAp) in Mozambique. The program included joint planning by the ministry and donors, funding of a national health strategy rather than stand-alone projects, annual ministry-donor reviews and resetting of targets as needed, and consolidation of budgets, planning, and information in the ministry. The SWAp approach was thus designed to provide an overall operational framework for the Ministry, helping it to coordinate donor projects. This entailed the incorporation of technical assistance and training support into the budget, thus increasing transparency and efficiency.

4.30 Housing was also used as a key incentive to (i) get staff to move to provinces, and (ii) help retain them in the public sector. And training was pushed as much as possible to the provinces. By providing training closer to home, the "pull" factor of being brought to Maputo for professional development was reduced, and this provided incentives for staff to remain where they lived. But while roads, health, and education authorities all used housing as an important incentive, it was recognized that policies and costs connected with this measure were not consistent across sectors. A more rational approach to the incentive problem might have been found if a broader public sector wide approach had been taken. But since resources were allocated and "locked" into particular projects or sectors, the most rational design was

to solve the incentive problem in the context of the sector or project, and hope that the different donors within the same sector would be willing to pursue the same policy.²²

4.31 The Bank's recent Public Sector Reform project, which is part of a larger multi-donor program in support of the government's ten year public service improvement program, is an attempt to take a more integrated, cross-sector approach to the issue of performance incentives. The Bank's support, which helps fund a dedicated Performance Improvement Facility, will contribute in the first phase to restructuring of key ministries to enhance decentralized service delivery, introducing a new public service salary structure, linking the MTEF and overall public sector reforms with individual sector reform programs, strengthening new systems of expenditure management and accountability and related training, and building local capacity for training, financial management and service delivery. The program is well-aligned with the government strategy and enjoys strong support from top leadership. But it took time for the program to garner support of the sector ministers, and the ministerial reviews began only in early 2004. The early reviews were criticized by project informants as being unrealistic. There have also been delays in the introduction of a revised salary structure for civil servants.

4.32 Overall, the design of Bank projects has been criticized as being too complex and rigid. For example, the 1991 capacity building program while highly acclaimed for involvement of local experts and capacity in its preparation was also criticized by some officials as having been too ambitious. Several components did not perform well due to lack of commitment. When confronted with the criticism that poor implementation was a result of design weaknesses, Bank staff disagreed for reasons listed in Box 4.1 below. Mozambican officials also expressed concern with the rigidity of Bank processes during project implementation. Formal agreements were always difficult to modify once a project had been signed and disbursements begun. As one informant observed, "once a donor's legal department and procurement unit gets hold of a project, nothing moves."

4.33 The introduction of SWAps has been seen by Mozambican authorities as an opportunity to get donors to harmonize their implementation rules and procedures and make the procedures transparent. The view of the authorities is not that Bank projects need to be simpler, but that they should be more in line with government needs and generally accepted "best practices or approaches" within the donor community. If this could be achieved, the transaction costs of external support would decline and make "design failure" less of an issue.

²² Especially in health and education where several donors were involved at many levels.

Box 4.1: Contrasting views from Bank staff on the quality of design of Bank capacity building support

Bank staff did not agree with the conclusion that the 1991 capacity building program was over ambitious and complex, reflecting weaknesses in design for the following five reasons:

- First, the fact that the institutions that were committed *did* implement well meant that the problem was not poor design but lack of allocating the staff necessary to carry it through or a management responsibility.
- Second, the degree of commitment is not constant and thus not fully predictable. While the original rector was in place at the Eduardo Mondlane University, the project worked well. When a new rector came in, that component stalled.
- Third, Bank staff noted that it was a deliberate decision to design an ambitious project for two reasons. One was that by being ambitious, Mozambican institutions were challenged and given the opportunity to access more resources and achieve more than the "average" performance would predict. The other was that a number of activities clearly would not be implemented as expected, but it was never possible to predict which ones these were. "Some components performed better than we had thought, others did much worse – but the final result was different and not something that we could have predicted well, no matter how well the planning was done."
- Fourth, staff noted that much of the complexity in project design emanated from *Bank* procedures and requirements, such as those on procurement and financial management. While staff did not suggest that the Bank lower its standards in these fields, especially in light of the perceived increase in corruption in the public sector, the contradiction was obvious. The weaker the environment in which the Bank was operating, the relatively more demanding the Bank would have to be on establishing implementation procedures of adequate quality that in turn stretched limited borrower capacity.
- Last but not least, some felt that the nature of the issue demanded a complex approach. One staff said that if such a project had been prepared in 2004, it should have been more comprehensive, not less, in order to address some of the large public sector wide issues that affect capacity building. If capacity building efforts were fragmented, for example along ministry lines, the solution would have addressed second-order, within-sector problems. *"The fact that we did a broader analysis permitted us to identify the faculties of law, economics and engineering at UEM as priority, based on what were the main development challenges at that time. If we simply had asked what kinds of capacity building were necessary at UEM, we would have come up with a very different answer."*

Summary

4.34 The overall relevance of the Bank's capacity building strategies and programs in Mozambique is rated satisfactory.

4.35 In the 1990's, the Bank played a key role in developing Mozambique's macroeconomic policies, which carried over into capacity building in areas such as PFM, and sector strategies. The increasing role of SWAps meant that the Government and donors' views became more coordinated. The PARPA and the improvement of the PSRS provide guidance for donor initiatives including the Bank supported public

sector reform program loan. Thus, *alignment* on capacity building is no longer an issue.

4.36 Some early *diagnostic* work on capacity building overall and in the roads sector in particular was relevant due to its participatory nature. Diagnostic work has been good at identifying capacity needs and constraints at the country and sector levels and crosscutting issues like performance incentives are being integrated more into capacity building efforts. The Bank has also put a lot of AAA resources into strategic areas such as fiduciary risk, providing the "critical mass" of analysis required. But one persistent weakness is that human resource development is not systematically treated as a labor market issue, so the sustainability of solutions tends to be poor.

4.37 The design of *institutional capacity building activities* has by and large been good, and the Bank is seen as a lead agent in both analysis and design at this level. *Organizational development* has been a much weaker dimension of Bank support, in part because this requires detailed studies and insights not only to develop better organizational structures, but also to ensure that the change management process is done well. The limited movement on the ministerial reviews sought under the 2003 Public Sector Reform project is a case in point.

4.38 Human resource development requires much more attention to *staff retention*, as this form of capacity is highly mobile due to labor market conditions. Current studies do not identify what other incentives apart from pay could support staff retention, though housing, supportive management, and interesting job challenges point to a wider range of factors than normally seen in project design.

4.39 Project *design* should (i) include better-specified targets and objectives to permit monitoring and evaluation, and (ii) address the particular challenges for building capacity at the institutional, organizational and human resource levels in a more integrated way. There are few operational objectives or targets for capacity building at strategy, program or project levels.

5. Assessment of Bank Support for Capacity Building: Effectiveness

5.1 **Criteria:** Effectiveness is assessed as achievements against objectives at both the strategy and the sector/project levels. The following section assesses the effectiveness of the Bank's capacity building support, primarily lending from two perspectives:²³

- The four sectors reviewed—public sector and financial management, roads, health and education
- The three dimensions of capacity—institutional transformation or improvement, organizational strengthening, and human resources development (skills upgrading)

5.2 **Overall Assessment:** The overall effectiveness of the Bank's support for capacity building is rated as *moderately satisfactory*.

Assessment of Effectiveness by Sectors

Public Financial Management

5.3 This review assessed seven projects dealing in whole or part with public financial management. The projects were reviewed in two groups. The first group contains an Economic and Financial Management TA (EFMTA). The second group consists of five structural adjustment operations: Economic Recovery Credit (ERC); ERC II (SERC); ERC III (TERC); Economic Management Reform Operation (EMRO); and Economic Management and Private Sector Operation (EMPSO). The first group supported the Ministry of Planning and Finance, while the adjustment credits had public policy conditionality attached to them. (Implementation of the 2003 Public Sector Reform Program is too recent to enable any assessment of its effectiveness.)

5.4 The objectives of these projects were aligned with the CAS goals of macroeconomic stability and private sector led growth. The investment projects complemented the adjustment operations. For example, the Financial Sector Capacity Building project (FSCB), which is not formally classified as a public economic/sector management project, was specifically linked with the SERC and among other things, aimed at training the Ministry and Central Bank staff in areas critical to attaining the policy targets set out in the SERC. The five adjustment operations have been sequential, each building on the previous one, and in parallel to operations in the private sector. Together these projects, with commitments amounting to nearly \$750 million, form a consistent and substantial program for macroeconomic change and

²³ A third perspective assesses effectiveness for capacity building in relation to the four key functions of the public sector: (i) policymaking, (ii) resource mobilization and management, (iii) service delivery, and (iv) oversight and accountability including regulatory enforcement. This assessment is presented in Annex C.

capacity development in Mozambique. Table 5.1 lists the capacity building objectives, expected outputs, and their achievements.²⁴

Table 5.1: PFM Projects: Capacity Building Objectives, Outputs and Achievements

Project	Objectives	Planned Outputs	Actual Achievements
EFM-TA	Build economic management capacity at the Ministry of Planning and Finance and Central Bank	Improve policy formulation capacity in the Ministry	National Directors trained in fiscal information; 3-yr investment program developed; rudimentary monitoring system designed; distance learning program for the Ministry.
		Strengthen banking supervision at the Central Bank	Central Bank staff and others highly praised. Sixty percent of funds to Central Bank computers.
		Train professionals in economic analysis, accounting, and national statistics	Staff trained, Stats bulletin initiated, continuously published. Five hundred accountants trained, most from private sector, courses had mixed reviews.
ERC	Improve macro economic stability and promote private-sector led growth	Improve Fore and the goods markets	Allocation of Fore market determined, price controls largely lifted.
		Strengthen Central Bank and develop commercial banking	Successful separation of BCM (commercial bank) from Central Bank.
		Establish system for privatization	Privatization unit established with rules
		More funds to health, education, rural development	Budget re-allocations to priority sectors in part attained.
SERC	Improve macroeconomic stability and promote private-sector led growth	Improve public expenditure management	Remaining price controls removed, public subsidies reduced, public safety net <i>not</i> working as intended, more funds to health, education - <i>over</i> targets.
		Strengthen the Central Bank and monetary policies	Bank accounts externally audited, rediscount policy revised, ForEx law passed, and banking supervision initiated.
		Restructure financial sector	Successful privatization of two state banks, and new banks entered market though bank spreads remain high.

²⁴ Several projects expect to contribute to CAS objectives/PFP and discuss areas of support and what needs to be achieved but do not specify how this would be done. Only EMPSO has anything similar to LFA matrix. Where PADs and ICRs are not consistent, it is assumed that the ICR has captured actual achievements, since a number of the projects were modified during implementation.

Project	Objectives	Planned Outputs	Actual Achievements
		Reform state enterprise sector	Forty-eight medium-to-large firms and 900 small firms privatized—above targets, largest program in Africa.
TERC	Continue macroeconomic stability and promote private-sector led growth	Reform financial sector and Foreign Exchange Liberalize prices, cut subsidies, privatize, and promote high growth potential sectors	Most of the conditions were in fact met before the credit was approved. All five conditions for second tranche release were substantially met.
EMRO	Improve macroeconomic stability, and sustainability of public sector operations	Reform tax and trade policies reformed, introduce the Value Added Tax (VAT)	VAT introduced, tax base reformed with better equity, and lower rates.
		Simplify customs and import administration simplified	Imports simplified, pre-shipment inspections improved, custom services reformed.
		Improve budget management	Study mapped substantial off-budget resources, government now studying how to get on-budget, and funds erroneously classified as investments have been reclassified.
EMRO		Introduce MTFF and budget development in-line with it	MTFF prepared in 1998, new one in 1999, though weak links to budget process, and little impact on budgeting so far.
EMPSO	Improve macro economic management, Public Sector Reform, and PSD	1. Meet PRGF targets, increase GDP/ revenue 2. Improve PFM through series of steps 3. Further cut Govt. role in financial sector	All pre-approval conditions met before approval of credit, and seven of eight conditions for second tranche release met, eighth one largely met relating to compliance with prudential regulations of private banks.

5.5 The first TA project (EFMTA) provided limited skills upgrading for technical staff of the Ministry of Planning and Finance and Central Bank. Instead, general economics training was provided senior officials, including several vice-ministers. This was helpful in strengthening the Cabinet's capacity to prepare and analyze the budget and macro policies. General accountancy training was key for both private and public sector staff, though course contents were criticized for being too theoretical. Most of the funding, however, went to computerization of the Central Bank, which was important for improving monetary and banking supervision capacities.

5.6 The five adjustment credits contained policy and institutional conditionalities, most of which were fulfilled. The privatization program was a success in terms of number of firms removed from the public sector, and the increases to social sector expenditures also exceeded targets. Although bank privatization appeared successful, the process encountered problems, in part because Central Bank supervision was not

as strong as required, and in part because continued partial state ownership opened up opportunities for corrupt lending practices.

5.7 In 2002, OED assessed five of these projects, giving them positive ratings in all areas of assessment, as shown in Table 5.2. These positive results in PFM were due to the systematic development of the adjustment program. The adjustment credits have had policy/structural conditionalities that not only built on previous achievements but were also in line with the longer-term vision laid out in the CASs and operationalized in the annual policy framework papers, and more recently in the PARPA.

Table 5.2: OED Ratings of PFM Projects

Project	Outcome	Sustainability	ID Impact	Bank Performance	Borrower Performance
EFMTA	Satisfactory	Likely	Substantial	Satisfactory	Satisfactory
ERC	Moderately Satisfactory	Likely	Substantial	Satisfactory	Satisfactory
SERC	Moderately Satisfactory	Likely	Substantial	Satisfactory	Satisfactory
TERC	Moderately Satisfactory	Likely	Substantial	Satisfactory	Satisfactory
EMRO	Moderately Satisfactory	Likely	Substantial	Satisfactory	Satisfactory

Source: Operations Evaluation Department, Project Performance Assessment Report, 8 Feb 2002, p. iii.

5.8 Despite gains at the structural level, more could undoubtedly have been done with the Ministry of Planning and Finance's own organization and capacity, as the department compartmentalized most donor aid. The TA accompanying the structural adjustment was limited in scope and provided little in terms of capacity building in the Ministry. Only now, with the PSRS coming on-line, all ministries including the Ministry of Planning and Finance are undertaking functional analyses that will highlight some of the organizational shortcomings that need to be addressed.

5.9 In sum, the capacity building results attained in PFM were good at the institutional level, and uneven and fragmented at the organizational level. Some departments, like accounts have progressed slowly but steadily, while others have had periods of considerable TA but without changes to internal capacity.

5.10 At the level of skills upgrading, considerable training has taken place, but the Ministry has consistently lost a number of their best staff, first to donors, and more recently to the private sector. The net gains in terms of human skills improvement in the Ministry are therefore considered to be good, but much less than optimal due to retention problems. In contrast, in the Central Bank, both the organizational and human resources outcomes have been much more positive as the institution has been able to retain staff and use external TA to support change rather than take on direct implementation tasks.

Education

5.11 Two education sector projects approved in the late-1980s were operational during the review period: Education and Manpower Development (EDUC-1), 1988-96, with a budget of \$15.9 million, and the follow-up Second Education Project (EDUC-2), 1990–1998, with \$53.7 million. During the period under review, there were three education projects with nearly \$184.7 million in commitments, covering primary, secondary and tertiary education. Table 5.3 provides an overview of the capacity building objectives, planned outputs, and achievements in the education sector during the review period.

Table 5.3: Education Projects: Capacity Building Objectives, Outputs and Achievements

Project	Objectives	Planned CD Outputs	Achievements
EDUC-2	Improve quality, efficiency of primary education.	Fund teachers' training, introduce distance education for teacher training and five initiatives to enhance effective learning (e.g., local language instruction, student achievement testing), revise primary and secondary school curricula, and implement education research projects implemented.	In-service training of 200 instructors, 300 teachers p.a. receiving distance education. Primary, secondary curricula revised. Aided with a 10-year Education Development Plan, National Education Policy & Strategy (1995), and Sector Strategic Plan (1997).
	Improve quality, efficiency of UEM.	Enhance UEM's capacity for strategic management, planning, teaching of physical sciences, engineering and economics.	Funds re-allocated.
	Improve ministry mgmt. especially, FM.	Strengthen the Ministry's planning and FM capacities.	Education statistics system introduced. New budget procedure at the ministry level, little achieved with expanded or at provincial, district level. GEPE improved but little to strengthen the Ministry capacity.
	Develop policy: girls' education and reintegrate former soldiers.	Develop relevant policies.	Seminar and study on girls' education done, strategy for girls' education included in ESSP.
ESSP	Build capacity to improve access and quality of education.	Establish five teacher training institutes, train 15,000 teachers and 6,200 school directors, improve curriculum & exam systems, establish national gender units, adopt literacy strategy and reform vocational education.	Training ongoing for teachers and directors. Curriculum for basic education revised, implemented. Program reached over 8,000 primary schools. Studies completed: External Efficiency and Cost Structure of Technical and Vocational Education. The Ministry of Education prepared professional technical education strategy/plan.

Project	Objectives	Planned CD Outputs	Achievements
	Improve the management of the education sector.	Reform the ministry structure, establish decentralized system for planning and monitoring and FM system.	Structure partially reformed; PARPA monitoring in place; and new FM system partially done.
HEP	Ministry of High Education, Science and Technology (MESCT) reformed with required capacity.	Equip and staff MESCT, revise legal framework for higher education and establish M&E system.	MESCT largely staffed; legal framework, and basic M&E in place.
	Institutional development at UEM, Pedagogic University, ISRI Mozambique DLN.	Improve quality, duration of programs, courses and graduation rates, complete new curriculum, put in place new pedagogy, develop faculty staff and introduce BA, MA programs.	Curriculum reforms and shortening of licenciatura degree and preparation of BA degrees done; unit cost and cost saving studies underway. Internal efficiency (total admission/ enrolment) in public universities surpassed 2006 target. Twenty-four percent in 2001-02. Total number of graduates in HEIs increased up substantially: 1,300 in 2001-02.
HEP	Develop human resources at Provincial level	Increase scholarship program for disadvantaged students in three provinces.	Provincial scholarship program established and quantitative targets reached.

5.12 This comprehensive program is in part due to the government's insistence that no country can develop by strengthening only its primary education sector. This view ran counter to the donors' tendency to move resources to primary education in response to studies showing rates of return to primary education being higher and of more public benefit than tertiary education, a tendency strengthened through the Millennium Development Goals' focus on primary education for poverty reduction purposes. The study of Mozambique's capacity needs conducted with Bank support in 1991 identified the need to strengthen tertiary education because the country was in dire need of better qualified manpower in nearly all fields. Other studies pointed to secondary schooling as the real bottleneck, as there were only a handful of secondary schools in the country at the time of independence.

5.13 EDUC-1 began while the war was still on, and therefore was largely limited to Maputo. It entailed rehabilitating and upgrading the Commercial Institute of Maputo (CIM) that trained professionals in accounting and administration, critical to private sector development. The *Gabinete de Gestão de Projectos Educacionais* (GEPE) and a PIU was set up in the Ministry of Education with this project. EDUC-2 followed on from EDUC-1, with more emphasis on teacher development and the strengthening of Eduardo Mondlane University's and the Ministry's administrative capacities. It also

paid greater attention to increasing the school attendance rates for girls as well as the reintegration of demobilized soldiers.

5.14 The Human Resources Development Project (HRDP) continued where EDUC-2 left off with support to secondary education and higher education. The ESSP was a comprehensive sector program that covered both restructuring and strengthening of the Ministry of Education, as well as better quality and coverage of educational services. Many donors contributed to the ESSP, though the Bank was the largest donor. During this project, the GEPE was phased out and program implementation was integrated into the Ministry structures and operations.

5.15 The Higher Education Project (HEP) has focused on strengthening the recently established Ministry for Higher Education, Science and Technology and supporting an increasing number of higher education institutions, of which there are currently six, compared with only one (the Eduardo Mondlane University) in the mid-1990s.

5.16 Like projects in PFM, the subsequent education projects have built on previous ones. They have had clear links to the CAS and to each other, and are fairly consistent in their attention to the entire education sector. The one component missing has been vocational training, which has been identified as a priority in the most recent CAS. Focus has been on providing better educational services so most resources have gone to activities outside the ministries. Bank support has been supplemental to that of bilateral donors, with Sweden as focal donor.

5.17 The capacity building results have, nonetheless, been more successful at the institutional levels than at the organizational level. Institutional change has taken place: education strategies, curricula development, girls' education, strategy studies, and support to non-public institutions of higher education. Organizational development has taken place in both ministries but through support to the GEPE in areas like procurement and project management. Sustainable improvement is visible as Ministry of Education procurement and project management is now integrated into normal ministry offices with the phasing out of GEPE. The most durable changes have been at the Eduardo Mondlane University, where general administration and management information systems are in place. At the University, the human resource development effort has been successful in upgrading staff, though with the fall in real wages during the late 1990s many staff left. In the ministries, good results have been attained in general administrative and management levels, though higher technical staff has tended to leave.

Roads

5.18 There were only three projects in the roads sector, but their combined budgets of \$465 million reflect the importance of this sector. ROCS-1 put a lot of emphasis on coastal shipping. ROCS-2 and, in particular, the subsequent Roads and Bridges Management and Maintenance Program has focused on roads. While most of the funding has been for roads upgrading and maintenance, covering the entire network from the national highways to tertiary roads in rural areas, the most important

component has been capacity building. The Bank’s main capacity building objectives, planned outputs, and achievements are listed in Table 5.4 below.

5.19 The roads sector has been totally restructured. An independent Roads Fund and ANE were established. The provincial engineering departments (ECMEPs) were turned into commercial contractors, especially for routine maintenance and roads upgrading. There has been large-scale training of engineers, contractors, and administrative and financial management personnel throughout, providing badly needed skills in a sector that had been totally dominated by non-Mozambicans before independence.

Table 5.4: Road Projects: Capacity Building Objectives, Outputs and Achievements

Project	CD Objectives	CD Outputs	Achievements
ROCS-2	Strengthen capacity of Road Sector, ensure effective planning, monitoring, and development of private sector contractors	1-3. Amend Road Fund regulations, create Roads Board and DNEP as independent Road Authority 4. Establish self-funded Chimoio Training center. 5. Legalize ECMEPs as commercial contractors. 6. Train 2,500 staff. 7. Complete design standards study. 8. Implement Highway Network Management System. 9. Implement bridge inspection system 10. Put 40 local contractors in place.	1-3: Done. ANE established as an independent Road Agency. Road Fund established and independent 4-6: Done 7. 50 percent achieved. 8-9: Done 10. Over 50 local contractors trained and in place. Association created.
RBMMP	Strengthen capacity to manage and administer road sector effectively.	Separate and establish Road Board from independent of ANE, with financing and allocation of functions for both, put in place system of technical, financial audit, and performance monitoring in place, reduce time for tendering, and contracting road work and increase percent of works completed on time and within budget.	Road Board independent from ANE. Govt. approved separate funding, allocation functions. Fund receiving timely, stable flow of funds ANE staffing completed.
	Policy reform and Institutional strengthening.	Prepare human resource development strategy document and complete environmental, social assessment and road safety strategy.	Database management specialists, social advisor hired. Social/environmental unit in ANE. Review of situation being completed for strategy development.

Health

5.20 While health does not figure as prominently in the CAS as education or roads, this is in part because bilateral donors have been heavily involved, thus reducing the

need for Bank funding. Table 5.5 shows that achievements have been fairly specific as a result of the division of labor between the Bank and other donors.

5.21 The only project with the Ministry of Health during the period covered by this review has been the Health Sector Recovery Program (HRSP). This project was budgeted at nearly \$100 million but in the end disbursed \$80 million.²⁵ Of this, nearly \$60 million had been planned for capacity building activities, and these components were largely carried out as planned. The project was built in part on the previous Health and Nutrition project funded by the Bank, but primarily on the Government's Health Manpower Development Plan for the period 1992-2002. It thus had a strong long-term perspective on human resource development activities.

Table 5.5 Health Projects: Capacity Building Objectives, Outputs and Achievements

Project	Objectives	Outputs	Achievements
HSRP	Improve sector management and administrative capacity	Improve health information system and supplies management, develop new health sector policies, improve GACOPI's administrative performance and strengthen national directorates.	Master plan for IT designed. Supplies management in place. Sector policy developed (2002-2010), provided inputs to the PER, sector PER and MTF. Code of Conduct for the Ministry and donor relations developed. GACOPI admin capacity greatly improved.
	Human Resources Development	Implement 48 courses in the Ministry of Health Regional Center for Health Development, improve educational development and management with TA and in-service training at provincial level, and establish rural internship program.	84 courses conducted, 2550 professionals trained. Overall training improved, student # up. Rural internship established but program impact not evaluated.

5.22 The management and procurement unit for infrastructure works that the Bank has been instrumental in establishing, the GACOPI, is the key organizational unit that has benefited from Bank support. Supplies management and the regional training center both receive assistance from bilateral donors in addition to Bank funding. Overall, results are considered positive, though the health care system remains precarious.

Assessment of Effectiveness by Dimensions of Capacity

5.23 Institutional transformation objectives have largely been attained and as the overarching framework conditions for a society's development, they are the most important. Organizational strengthening has been less successful, the best results having been achieved when the Bank has put enough resources into both the

²⁵ Delays and funding from other donors made some financing for infrastructure unnecessary.

preparation and implementation of change. Human resources development has been massive but largely unstructured and not tracked, so performance is largely unknown.

Institutional Transformation and Improvement

5.24 As described above, Mozambique has gone through dramatic and extensive institutional transformations in a short period of time. The transformation, supported by Bank assistance, has entailed substantial achievement of the institutional objectives. Macroeconomic stabilization through better PFM, stable and sound fiscal and monetary policies, eliminating parastatal losses, and privatizing the state banks, has by and large been achieved, though it has taken more time than originally envisaged. Overall the transition to a private sector led growth path is in place, though growth of the local private sector has been slower and weaker than expected. The distributional and poverty-reduction impact of the current economic growth pattern is debated, as is the investment climate. The main achievements at the institutional level in each of the sectors are detailed in Table 5.6 below.

Table 5.6: Institutional Transformation Achievements, by Sector

Sector	Achievements
CASs	Macro-economic stabilization achieved; private sector led economic growth pattern in place though distributional impact uncertain, more genuine government-donor partnerships in place.
Public Sector	Overall strategy developed and approved; functional analyses of ministries have begun; and implementation plans have been prepared, but so far none carried out.
PFM	ForEx market liberalized; price controls and subsidies removed; over 1200 state-managed firms privatized or restructured; new ForEx, Banking, Finance Laws enacted; separation of commercial and central bank done, financial sector privatized and opened up; VAT reform successfully introduced, tax base reformed; export-import regime improved; public funds moved to poverty-reducing areas; medium-term PFM instruments introduced: MTFF, SISTAFE, PARPA, more comprehensive planning and budget document; and SWAP being introduced.
Education	Sector strategy plan and later ESSP developed strategy for girls' education done; primary and secondary school curricula revised; policy regarding non-public education changed; new ministry for higher education established; and SWAp introduced.
Roads	Roads fund with own board, national roads authority established; funding policy for roads fund established; role of private contractors for local maintenance established; restructured provincial engineering offices into contractors; SWAP is in place.
Health	Sector policy developed and begun implementation, and SWAP being introduced.

5.25 In the roads sector, the Bank led the donor group to help the government develop a national strategy that involved provincial and district level public administration as well as the private sector and labor. A comprehensive and long-term sector strategy led to the promotion of national contractors, community-level maintenance of rural roads, decentralization of resources and competencies to the

provinces, establishment of independent provincial engineering offices, a national roads authority, and a roads fund with its own board and more sustainable funding—all major achievements in a poor country with weak human resources and recent emergence of private contractors.

5.26 In PFM, the Bank has supported new laws covering foreign exchange markets, which have all been passed and implemented. Related to financial management, the commercial bank functions of the Central Bank were separated. A new commercial bank and the former development bank both largely privatized, with the Central Bank establishing oversight functions and rules for a strengthened financial sector. Over 1,200 state-run firms were restructured or privatized and price controls and subsidies removed. The revenue base was restructured and VAT successfully introduced, enabling the public sector to increase the share of revenues to GDP from around 11 to 14 percent. Public resources have been redirected to poverty-reducing priority sectors.

5.27 Modern PFM instruments have been introduced: the Medium-Term Fiscal Framework (MTFF), the integrated financial management information system SISTAFE, a more coherent and comprehensive budget and planning document with more results reporting, and PARPA as a medium-term plan. Much of the support for these instruments has been from other donors, but the Bank has included these instruments as conditionalities for the adjustment lending. These instruments are quite significant and "institutional" in nature as they strengthen the "deep structures" of government decision-making—where resources are generated, where they go, who has access to them, how they are spent, and what the intentions are for the future. The access to and ability to manipulate this information is not trivial. It provides the power to reorient public sector information, decisions and resource flows. The SISTAFE, for example, not only provides the government with a superior tool compared to the single-entry manual systems it replaced, but also changes roles and power between actors in the public sector. The institutional transformations in PFM are subtler and less visible than the functional restructuring of roles in roads, but are more critical for continued modernization and development of Mozambican society.

5.28 In other aspects of public sector reform, less has been achieved. The Cabinet has formally approved the PSRS, and the President launched the process at a major public event in June 2001. A number of studies have been carried out, but the process is still largely at the stage of functional analyses of ministries and assessments of alternative civil service pay reforms. The PSRS has the political support required from the Cabinet, the President and the Prime Minister's office, so expectations are that changes will take place. The Bank in coordination with bilateral donors are funding the studies and resulting transformations.

5.29 In education, the Ministry with Bank support trained officials in planning, which contributed to the development of the sector strategy, and later the ESSP. School curricula for both primary and secondary school were revised and modernized, and a study on girls' education led to the development of a strategy in this field. A new ministry for higher education was established, and the policy on

non-public educational institutions was changed, and support made available, especially to tertiary-level institutions.

5.30 In health, the only contribution to institutional development was the HRDP and Health Sector Strategy. Both were developed with Bank support, along with the establishment as in the other sectors of a SWAp. The SWAp has changed the dialogue and roles between donors and local authorities, principally because the Ministry of Health is now providing leadership in setting priorities and getting donors to support them.

5.31 Overall, there is a strong record of achievement in capacity building at the institutional level.

Organizational Strengthening

5.32 Bank CASs do not contain specific organizational strengthening objectives. They assumed that organizational development necessary for achieving strategic institutional changes would take place. The organization capacity development achievements in each of the four focus sectors are listed in Table 5.7 below.

Table 5.7: Achievements in Organizational Strengthening, by Sector

Sector	Achievements
PFM	Central Bank strengthened foreign exchange, monetary policy and banking supervision departments; the BTI was established and provides continuous training (though at low levels); Ministry of Planning and Finance has seen little systematic development though some departments such as Accounts, Planning and Budget have received considerable support and have improved some. Considerable equipment has been provided which has strengthened infrastructure in all organizations.
Education	GEPE was established and made fully functional before being disbanded and functions integrated into the Ministry. The Eduardo Mondlane University has improved its administrative and financial management skills and systems a lot, while Ministry improvements are more modest and have been slower.
Roads	ANE, Roads Fund board established as functional entities and staffed, private contractors being trained so as to become competitive, DNEP's administration strengthened to the point where it was able to manage the ROCS program from within the Ministry.
Health	GACOPI was strengthened, but elsewhere there was little organizational development.
Public Sector Reform	UTRESP was established, organized and functions now, but uses consultants. Functional analyses have been undertaken or are on-going for most ministries, but none have really begun implementing organizational changes yet.

5.33 In PFM, organizational development has taken place in the Ministry of Planning and Finance, but the Bank has often not been the lead agency. The customs

service was totally rebuilt through a management contract with a private firm funded by the Department for International Development (DFID). Various departments in the Ministry have been improved through a series of bilateral projects (SIDA, EU, France, DFID, and UNDP). The national statistical institute is receiving assistance through a Scandinavian consortium. In 1992, a joint Bank-Nordic mission reviewed the financial sector, leading to the FSCB. The FSCB supported strengthening of the Central Bank's monetary management, banking supervision, and foreign exchange units, as well as the establishment of the Banking Training Institute (BTI) to strengthen commercial banking.

5.34 Although Bank ICRs found these projects to be successful and their achievements sustainable, later events have revealed several weaknesses: banking supervision was not carried out as it should have and the Central Bank lacked the clout to make private banks respect its advice and decisions. The costly collapse of the two largest banks in 2000 due to mismanagement and corrupt practices could in principle have been avoided if bank supervision had functioned as intended.²⁶ BTI has also not been a success, because the private banks have not been interested in funding staff training to the degree that was expected. Only 150 staff have been trained against the over 1,000 foreseen.

5.35 In the Ministry of Planning and Finance, organizational development has been undertaken on a unit-by-unit basis, depending on which donor has been involved. The Ministry is only now, as part of the larger PSRS carrying out a functional analysis. It has for years been criticized for lack of internal coordination and management. One step for addressing this was creating the post of *Secretário Permanente*, S-G. This has not led to the kind of management that neighboring Anglophone countries have with their Permanent Secretaries. The S-G in the Ministry is largely an administrator without the power to get greater coherence into the Ministry's work. For example, the SISTAFE although the SISTAFE was expected to be implemented in January 2004, as late as March, two key departments had not yet begun using it. The delay was undermining the value of SISTAFE and forced the Minister to step in and ask National Directors to get their departments moving.

5.36 In public sector reform in general, a management unit (*Unidade Técnica da Reforma do Sector Público* – UTRESP) was established towards the end of 2000, but only was up to full strength as of the end of 2003. While a number of studies have been carried out and the functional analyses of the various ministries are now beginning to be produced, no systematic organizational development has occurred to-date.

5.37 In contrast, in the roads sector, the Roads and Bridges Department (DNEP) in the Ministry saw its management, administrative, and technical capacities strengthened so that it was able to manage the ROCS program. The successful establishment and functioning of ANE and the Roads Fund, restructuring of the

²⁶ One reason for the collapse was that many of the borrowers who later defaulted on their loans were politically important and thus were in part able to block the Central Bank's imposing sanctions on the banks.

provincial engineering departments into successful contractors, the restructuring of CETA, and the upgrading of private sector contractors enabling them to begin competing for contracts were important for the sector to function better. What is striking about the achievements in the roads sector is that there was both a comprehensive organizational development strategy followed up by adequate implementation of each element of the strategy—improving DNEP, establishing national bodies, strengthening provincial ones, and promoting growth in the private sector. Not all of these organizations are functioning as well as intended, but design and resources have gone into making the organizational strengthening happen.

5.38 In the education sector, in the early years the Bank used a PIU—the GEPE. With the development of the ESSP, the Ministry of Education decided to disband the PIU. The fact that the Ministry was able, albeit with some problems, to integrate project implementation into ministry structures and routines was testimony to the capacity development that had taken place, including with Bank support. But this capacity building should have been more systematic, and the decision to move from GEPE to ministry execution should have been planned for from the day GEPE was established. At Eduardo Mondlane University, the university units handled administrative and financial management of the project activities, though a program of building the human resources and infrastructure was used to provide support.

5.39 In the Ministry of Health, considerable resources (mostly from bilateral donors) have been spent on strengthening the administrative and managerial capacity of the central units and the various public health departments. Despite fairly long-term efforts, results are considered modest, including financial management and accounting, where donors have been concerned about the lack of skills and systems. The one unit that has functioned well throughout is GACOPI that was set up to handle infrastructure projects. Both in the education and health ministries, however, organizational development and strengthening has been more ad hoc largely due to a focus on skills upgrading rather than on specific organizational objectives. The lack of systematic learning in this field is evidenced by the Ministry of High Education, Science and Technology, which is even now using a PIU to implement the HEP and which has no clear exit strategy for the PIU in place.

5.40 In sum, the Bank’s support for organizational strengthening has been of limited effectiveness, except in roads where an overarching strategy for organizational development has led to fairly successful developments in specific units. In public sector management, the results in the Ministry of Planning and Finance so far are disappointing. In education, results vary. While efforts in the university were successful, the heavy reliance until recently on a PIU has led to less successful capacity development. In health, while the GACOPI has performed well, the rest of the Ministry of Health has hardly changed.

Human Resources Development

5.41 Human resources development has been a consistent objective in the CASs, though without details on approach, targets or goals. Skills upgrading has been an

important component of virtually every project and thousands of Mozambicans have benefited from Bank-funded training activities.

5.42 Training of lower to mid-level technical staff such as nurses in health and various categories of administrators in PFM has mainly taken place through short-term courses organized within the sector. A number of ministries have their own training institutions, and many of these have been upgraded with Bank funds.

5.43 In the health sector it was found that if staff from the provinces were trained in Maputo, many would remain and not return to their posts in the provinces or districts, for which they were being trained. Provincial training institutes were therefore either established or upgraded with as many courses pushed out to the provinces as possible. Training in the provinces was thought to be more efficient for several reasons. Total travel costs were much lower since it was cheaper to send a few trainers to the provinces than for a number of course participants to travel to Maputo. Even if the students had to stay at the training center in the provinces, the daily costs were lower since Maputo was more expensive. However, when challenged on the overall cost of building, maintaining, managing and running courses at several different locations in a country with poor infrastructure, no supporting data was available. Officials were also convinced that this had been a good move for a number of indirect benefit reasons: the retention rate increased and total training capacity expanded so that more officials could be trained in a given period leading to increased and more cost-effective primary level preventative and simple curative services. The line of reasoning appears convincing and health officials point out that they have moved away from one model (central training) to the new one, so they do have a basis upon which to compare overall efficiency. The fact that a number of the costs and benefits (retention rates, more efficient use of local resources) were not quantified was not viewed to be important.²⁷

5.44 In the roads sector, there is a structured human resource *management* system in place: staff was trained based on career path discussions, mentors were assigned, and management took care to provide real tasks and responsibilities, and the facilities to carry out the new skills.²⁸ This kind of proactive management of human resources was not seen in the other sectors.

5.45 For PFM, the allocation of training resources across departments and categories (management, senior technical staff and medium-level staff) in the ministries was more ad hoc. The training of around 500 accountants was seen as helpful but the contents too theoretical, given the level and needs of accountants in Mozambique. This was not the case for the Central Bank. It had a well-structured human resource department with a training program that was based on a good understanding of what kinds of skills were needed.

²⁷ One official noted that the costs of collecting data and calculating such ratios would not be an efficient use of scarce Mozambican resources. "If the donors want to know, let the donors do the estimates – for us the answer is obvious."

²⁸ While practice lagged philosophy, the approach was clearly to *manage* staff, not just train them.

5.46 Another issue has been certification of training. While several institutions in Mozambique provide a formal three-year accountancy program, none have so far been accredited to give internationally recognized certificates—an issue that is expected to be resolved finally in 2004. The lack of interest in sending staff to BTI courses is in part due to lack of internationally certified equivalency degrees.

5.47 The Bank has also provided considerable Bank-specific training in procurement and financial management to ensure that Bank procedures are understood and followed. These, or procedures quite similar to them, are being adopted in a number of the sectors, so this training remains valid beyond the particular Bank project and its longer-term contribution to capacity building are visible in subtle but important ways. Till now, Mozambican procurement rules and procedures have been extremely poor, resulting in considerable abuse and corruption. The recent country procurement assessment addressed these issues and a major procurement reform has been promised. Till that happens, donor coordination on procurement varies from one sector to another. A major contribution in many sector SWAps is the Bank analysis of procurement arrangements and proposals for common procedures, generally based on Bank standards. This has helped to move sector coordination forward.

5.48 Mozambique has used few Bank resources for training abroad. This is partly because alternative sources have been available (bilateral donors have funded a considerable number of graduate degree scholarships), but also because the Government and Bank have agreed that in most cases resources are better spent locally. The key exception has been for upgrading the skills of professors at the university, where gap-filling TA was used while university staff studied abroad in a training program, which was considered to have been highly successful. A distance education Masters program in economics was also organized for a limited number of top officials, including vice-ministers with a UK university. Virtually all participants finished and this training contributed considerably to the economic development skills of participating the Ministry of Planning and Finance staff. Most seem to have returned to Mozambique but not all to the public sector.

5.49 Training of higher-level ministry staff has partly been through formal degree work at the Eduardo Mondlane University with scholarship funding from projects. Staff has taken courses as part-time students while continuing their jobs at the ministries. The large-scale fellowship program is considered a success though a number of staff subsequently left the ministries because of low pay.

5.50 Overall training has received mixed reviews. This review could not assess how good the training support has been, much less how Bank resources were used compared to those of other donors. To the extent that bilateral donors tied their training resources (often the case), untied Bank resources were undoubtedly more efficient.

5.51 Short-term training has become more structured as SWAps have coordinated funding for new training centers, more regional training, and revision of curricula.

There has been considerable "leakage" of skills in some areas, but largely into the private or NGO sectors, and thus remained in-country capacity.

5.52 Long-term training abroad has seen both successes (Eduardo Mondlane University) and less stellar results (civil servants with higher degrees leaving the public sector upon return). There is no donor coordination as each runs its own fellowship program. Long-term training in-country—public institutions providing fellowships for their staff to take university degrees—seems to have worked well where the ministry had incentives in place to retain trained staff. This has largely succeeded in roads and health, where housing was an important incentive. Other donors have followed this approach.

5.53 "Leakage" to the private sector has been a problem, though somewhat less than could have been expected due to a decline in salaries in the public sector. One reason is that the private sector has not grown quite as fast as expected: many of the 1,200 privatized firms have spent years restructuring before beginning to expand and hire more workers. The big modern firms are capital intensive and need a limited number of more specialist skills. NGOs and other direct service delivery agents have been big users of public sector skills such as teachers and health professionals. And donors and NGOs have hired many administrative and financial management staff. But for many in the public sector, the job alternatives are not there.

5.54 Another factor that has contributed to relatively high retention rates is that civil servants tend to remain within the ministry into which they were originally hired. While there is a common civil service cadre, in practice it is not easy to move between ministries. Mozambique does not have a civil service commission like its neighbors inherited it from the British civil service tradition. There is therefore little loss of ministry-specific skills through rapid transfer from one ministry to another. Also, since promotion so far has largely been within the ministry, those who rise to management positions usually have worked their way up and take their ministry-specific training with them.

5.55 Where leakage seems to have been significant is for highly skilled staff. People with management experience are valuable, more or less independent of technical background. Some officials claim that the skills remain within Mozambique and therefore are not lost. A Ministry of Finance and Planning official noted, "Most of the 500 accountants were from the private sector, but where else would they get this kind of training? It is good for us that there are now accountants who also know the tax laws working in the private sector, because that makes for much better tax returns. And we are comfortable that they understand the laws properly because we were involved in their training." A top official in the Ministry of State Administration expressed a similar sentiment: "We have trained many administrators here, as there are not other places for people to obtain this kind of training. As long as they remain in country, it benefits Mozambique. Then it is up to us to recapture those who we think we need. There are many interesting jobs in the public sector, so people still want to work here."

5.56 Training is increasingly based on structured programs with self-evaluations, improving quality and relevance. But this review found no formal assessments of the medium- to long-term effects of training. Since Mozambique is an extremely skill-scarced society, large-scale and broad-based training will undoubtedly be required for many years to come. But exactly because needs are so vast and general, a more structured approach is needed. The new civil service database in the Ministry of State Administration is to address this by having training linked to job descriptions, and promotions contingent on certain skills. When and if this happens, effectiveness of human resource development will undoubtedly increase substantially.

5.57 The overall picture on human capacity development thus appears highly varied across sectors. But the lack of traceable outputs and outcomes make it impossible for either the government or the Bank to know what has worked and what has not. And in an activity that has received long-term and massive donor assistance across virtually all sectors, this situation is unsatisfactory.

Summary

5.58 This review finds that the aims of Bank support for institutional strengthening in areas of PFM have been largely achieved, but support for organizational and human resource change has been more mixed. Also results at the policy level have been tracked and reviewed, while progress in other areas have been monitored in an *ad hoc* fashion, and no results/impact studies were found.

5.59 The Bank was instrumental in supporting the development of sector strategies in roads, health and education. The best results were attained in the roads sector, with a restructuring of the sector, the establishment of new institutions and strengthening of the key players. The social sectors also saw substantial institutional development, but organizational development has been limited, with the best results at the university level. In HRD, the university was initially quite successful but has been losing many of its better-trained staff to the private sector. The ministries are in general having problems keeping their educated staff. Large-scale training of first-line service delivery staff (teachers, nurses, etc.) is progressing quite well, in part due to *regional* training institutions.

5.60 Performance monitoring has been more systematic, complete and analytical in the roads sector compared with the social sectors. This difference is due in part to fact that outcomes are more easily monitorable in roads—the results chain is shorter, most factors are within-sector, few actors involved, and the Bank plays a dominant role. In the social sectors, the results chains is longer and are complex, involving more steps, more actors, longer time-horizons, and greater roles played by non-sector factors. But the roads sector also had a more comprehensive and detailed strategy in place at an earlier stage, providing a better basis for reporting and monitoring.

5.61 The Bank is recognized as having a comparative advantage in the support of institutional change. This is due to the Bank's combination of good analytics, strong commitment, and ability to provide the necessary financing. Key CAS objectives of macro-stabilization and private sector led growth have been achieved, and significant

institutional changes have taken place also in the sectors. Project ratings for institutional development impact are typically satisfactory or highly satisfactory, and sustainable likely because the underlying thinking behind the restructuring of the public sector is increasingly consistent, and required actions are being implemented.

5.62 Organizational strengthening has been less successful for two main reasons. There has been some competition between the Bank and bilateral donors regarding provision of this support, leading to fragmentation of efforts. Also, organizational development demands more careful analyses and change management support than is being provided. Organizations are shaped by the specific characteristics of the sector and their own history. If the Bank is to achieve more in this field, it will have to invest a lot more in understanding the specific organizational needs, pressures, etc. Changes in the roads sector have been notable, in PFM slight, and in the social sectors marginal, where PIUs have been used without a clear exit strategy.

5.63 The Bank has funded training in all sectors and virtually at all levels. Most has been in country, where the move of basic training to the provinces, where people work, has helped to increase staff retention. University training has been provided through scholarship programs, and is seen as successful. Formal training abroad for higher-level degrees has been provided as part of a few operations, with success at the Eduardo Mondlane University and less so elsewhere because many left the public sector upon return. Course feedback is now commonplace, so the quality and relevance of training is presumably improving, but there is no systematic tracking of impact. Overall, there is a lack of systematic planning and tracking of human resource capacity building measures.

6. Additional Issues Related to the Delivery of the Bank's Support

6.1 Four additional issues related to the delivery of the Bank's capacity building support are addressed in this section: 1) the usefulness of supplying TA and equipment, 2) the role of PIUs, 3) donor coordination, and 4) commitments for capacity building components.

The Usefulness of Technical Assistance and Equipment

6.2 TA has been used for gap-filling purposes (temporary capacity substitution), for training/mentoring (human resources development), and for organizational and institutional development (studies, change management expertise in public sector reforms, legal reform drafting, etc.). Gap-filling TA has been more controversial when the Bank has directly hired consultants than when the Government has used Bank funds to hire consultants (such as in roads). Bank funding for hiring local skills for gap-filling purposes has also been controversial especially in the context of PIUs (discussed below). TA for training/mentoring purposes and for organizational and institutional development purposes has been less contentious but also here there have been complaints, especially when firms awarded contracts that have not lived up to expectations (as in aspects of the bank privatization process and early accountancy training). Overall there is a critical attitude to the use of TA and more attention to getting "value for money." When the Mozambicans take TA decisions, resource use is perceived to be better.

6.3 Considerable resources have also been used for acquiring office furniture, computers, libraries and other materials. The procurement of these items has almost always caused considerable delays, so these components are typically rated as problem areas by government staff. On the other hand, these inputs are welcome, in part because they remain with the institution and thus have a more permanent impact, but also because computers and the accompanying training are highly appreciated. The ability to communicate internally and across organizations through e-mail and obtain information on the internet is seen as indispensable. The Bank has been an early promoter of computer literacy and the hardwiring required to put organizations on-line. Larger systems like SISTAFE and the Ministry of State Administration's personnel management are totally dependent on the various networks that have been built up, many with Bank support.

6.4 Information and communication costs have fallen dramatically, and the quality and frequency of interaction has increased. More important is that this communication is in subtle ways changing the corporate culture of public administration. The Portuguese colonial administration and the socialist management structure of Frelimo was top-down, controlling, authoritarian and formalistic, with all information and decision flows going vertically within the organization and little information sharing between organizations. Computerization is enabling government staff to break departmental barriers and undertake cross-ministerial working group functions. Communication between government officials and donor representatives is

often done through informal e-mail exchanges, something that would have been unthinkable about seven years ago. Such access is seen as empowering technical staff who were previously not "linked in" to such information flows.

6.5 In sum, it is difficult to assess TA performance as it has been used for many different forms of capacity building with different experiences. Legislative reform has been successful and generally also coordinated especially in PFM and public sector reform. New laws with improved content are being implemented. Computers and library documentation are much appreciated, despite procurement problems. Nonetheless, as with support for training, the lack of performance tracking of these TA and equipment tools of capacity building prevents adequate assessment of their effectiveness.

Role of Project Implementing Units

6.6 Officials in Mozambique heavily criticized the use of PIUs. Despite having extremely weak capacity, Mozambique has chosen *not* to use PIUs in roads and health sectors.²⁹ Also, where the early education projects used a PIU, under ESSP responsibilities for implementation were integrated into the Ministry of Education. Although performance by the Ministry was poor during the first two years after this changeover, officials were adamant that this was the right move—the success of which would have been greater if capacity building in support of an exit strategy had been planned from the outset.

6.7 Ministers point to the contradiction between the Bank stating that the Ministry of Education had weak project implementation capacity but not having a strategy for addressing this, and instead setting up GEPE. Since everybody recognized the weaknesses of PIUs as a response to government capacity constraints, it was not clear to these officials why there were not more efforts put to strengthen genuine in-house capacity earlier on. Specifically, officials asked why it would not have been more effective to exercise flexibility in moving resources to in-house human resource development activities as capacity constraints were identified. They noted that GEPE had not provided any capacity building and had led to internal conflicts, lack of control, and a sense of implementation being a donor responsibility, all of which undermined capacity building efforts. The salary differences between civil servants and (usually) former civil servants hired as consultants (typically within the field where they worked before and thus are personally known) generated a lot of ill feeling. While it is more efficient to hire local skills than bringing in expatriate ones, the "negative externalities" of the conflicts/jealousies have at times been substantial.

6.8 Bank staff has been divided in their responses to these issues. While some have agreed in principle with the Mozambican views, others have stated that such an approach would have proved difficult to implement. They noted that despite efforts to train staff, strengthen units, improve procedures, put new laws and regulations in place and secure commitment from senior staff and ministers, performance has often

²⁹ GACOPI was seen by some as a quasi-PIU and by others as an integral part of the Ministry of Health.

been unsatisfactory. In order to deliver critical services (expanding health care and education, improving PFM to ensure macroeconomic stability), some staff believed that certain shortcuts were justified. The main issue was whether projects that included such shortcuts as PIUs, had designed-in the longer-term solution to the capacity dilemma. In most cases, it was recognized that this was not the case since projects tended to have a limited time-horizon. A sustainable answer to capacity building shortcomings was hence a critical design oversight.

6.9 As PIUs do not provide sustainable solutions to the capacity problem, their phasing out must be part of the capacity building strategy. The increasing importance of SWApS and PARPA-based activities means that this problem in principle is now being addressed. However, despite what seems to be general consensus on this issue, the recent HEP in the Ministry of High Education, Science and Technology is still using a PIU.

Donor Coordination

6.10 The Bank, other donors, and the government have moved increasingly toward partnership arrangements. SWAp-type arrangements are now common in a number of sectors (including all four covered by this study), and the Bank has been supportive and, in the case of roads, instrumental in making this happen.

6.11 The trend over time has been towards more operational harmonization, with joint planning, monitoring and evaluation, pooling of funds and common procurement and disbursement rules. The most formalized agreement is the Memorandum of Understanding signed by the Government and 15 donors that provide budget support. This document provides a framework based on the PARPA for donor support, ensuring that donors are transparent and accountable to the Government and that the Government is held accountable to deliver on more explicit results as defined in the PARPA.

6.12 Sector working groups have also opened up possibilities for more systematic and joint action, including for capacity building activities. For example, the provision of TA to various parts of the Ministry of Planning and Finance is being discussed in the budget support group. Much of the TA to the health sector, for a long time, has been coordinated by UNDP under a formal agreement, and TA in education is being mapped out in a joint donor exercise. This shift to sector programs facilitates the phasing out of the use of PIUs.

6.13 While there still is a long way to go in terms of harmonized approaches to training, TA, equipment support and other forms of capacity building, the overlaps, duplication, and conflicting advice on institutional and organizational development, is being reduced.³⁰ The Government has used the sector working groups to encourage

³⁰ Only a few years ago, three international NGOs with funding from three different donors were fighting over who was main partner to a provincial hospital, all with ambulances, medicines, and doctors ready.

greater donor harmonization and focal donors are used to convince others to accept government priorities and decisions, thereby reducing transaction costs.

6.14 The Bank has generally not been in the forefront of working group harmonization as many Bank staff are based in Washington, but as the local office has grown, the Bank's participation in and contribution to improving donor coordination has increased. The establishment and expansion of the country office is seen by government authorities and other development partners as enhancing both delivery and effectiveness of Bank support.

Commitments for Capacity Building Components

6.15 An estimate of the total cost of capacity building components (equipment, training, TA and activities that strengthen public sector capacity) in individual investment and adjustment loans is shown in Table 6.1.³¹

³¹ For investment loans, capacity building support was estimated by summing the costs of activities—such as TA, training, consultancies, studies, and equipment and materials—designed to strengthen government functions (not including costs for direct frontline service delivery, such as the construction of schools and clinics). For adjustment operations, the estimate was based on calculating the number of conditions or actions directed to achieving specified capacity building objectives as a percent of the total number of actions.

Table 6.1: Commitments for Capacity Building Components (in \$ millions)³²

Year	Project	Investment Loans		Adjustment Loans	
		Total	Capacity Building (% total)	Total	Capacity Building Cost (% total)
Roads					
1992	First Road and Coastal Shipping (total \$74.3 m)	60	41.6 (69%)		
1994	Roads & Coastal Shipping II	96	14 (7%)		
2002	Roads/Bridges Management & Maintenance	309.2	23.5 (15%)		
Health					
1996	Health Sector Recovery	98.7	35.4 (36%)		
Education					
1991	Education II	53.7	24 (45%)		
1999	Edu. Sector Strategic Program	71	15 (21%)		
2002	Higher Education Project	60	60 (100%)		
PSM/PEM					
1990	Eco & Financial Management	21	21 (100%)		
1993	Local Government Reform and Engineering	23.2	23.2 (100%)		
1993	Capacity Building Human Development	48.6	24.8 (51%)		
1993	Legal & Pub Sector Capacity	15.5	15.5 (100%)		
2003	Public Sector Reform Program	25.6	25.6 (100%)		
2004	Decentralization Planning & Finance	42	42 (100%)		
Macroeconomic Support					
1992	Economic Recovery Credit			180	108 (60%)
1994	Economic Recovery Credit II			200	58 (29%)
1997	Economic Recovery Credit III			50	50 (50%)
1999	Eco. Mgmt Reform Operation			150	105 (70%)
2003	Eco Mgmt. & Pvt. Sec Oper			120	64 (23%)
	TOTAL	869.3	365.6 (42%)	750	383 (51%)

³² Six other projects—one education, one road, and four PFM—are included in the capacity building cost calculation, but they were not the focus of this review.

7. Bank and Borrower Performance

7.1 As shown in Table 7.1 below, OED's project ratings on Bank and borrower performance in the public financial and sector management area have been consistently positive indicating a well functioning partnership. The partnership between the Bank and the Government has evolved to meet changing Government needs and these improvements have been maintained over time.

7.2 This partnership builds on several factors. The first is the continuity in power of Frelimo, which has provided political stability. The second is that while Frelimo has changed its policies quite dramatically from socialist to market-oriented ones, the overall objectives of broad-based socio-economic development has remained, thereby providing a continued basis for pursuing the Millennium Development Goals and poverty-reduction through the PARPA. The third has been continuity in key personnel on both sides, which has helped to build trust. This has also allowed for informal communication when relations were strained over particular issues. The fourth has been the mutual respect that the parties have shown each other, with the Bank taking a more "listening approach" and trying to adapt its lending to country circumstances over the last 15 years. There are areas where the Government and the Bank have differed, but it has generally been on second-order issues of how to reach agreed-upon objectives.

Table 7.1: OED Evaluation of Bank and Borrower Performance

Project	Bank Performance	Borrower Performance
Human Development Project	Satisfactory	Satisfactory
Health Sector Recovery Program	Satisfactory	Satisfactory
Second Roads and Coastal Shipping	Satisfactory	Satisfactory
Financial Sector Capacity Building	Satisfactory	Satisfactory
Second Economic Recovery Credit	Satisfactory	Satisfactory
Third Economic Recovery Credit	Highly Satisfactory	Highly Satisfactory
Eco. Management Reform Operation	Satisfactory	Satisfactory

7.3 **Bank Performance:** Overall, the Bank's performance is rated as moderately satisfactory. The Bank has been central to transforming the overall economic framework in Mozambique particularly in two areas: macroeconomic stabilization and the focus on private sector led growth. The Bank's analytical work, along with provision of structural adjustment credits has been key to the Government implementing far-reaching institutional changes. The Bank has engaged more in sector SWApS, thus integrating its own operations better with others and the Government's policy directions. It has provided AAA resources in areas critical to government policy and Bank portfolio development. The moves are towards more consistent implementation modalities, in the case of the G-15 with formal agreements in place. Bank standards are adopted in areas like procurement, so that the capacity built is immediately useful to a large number of actors.

7.4 Apart from institutional changes, however, the Bank has not had a clear vision or strategy when it comes to capacity building overall. In the roads sector, partly due

to characteristics inherent in the sector as discussed above and partly due to Bank and national staff and managers who continuously focused on capacity development, coherent and consistent progress has been noted in all dimensions of capacity— institutional, organizational and human resources. In PFM also, the Bank and borrower performance on all projects were rated satisfactory. This rating is unusually positive and consistent, given that it covers over ten years of Bank funding in this sector (the ratings for the parallel private sector projects were less positive).

7.5 Yet, in most sectors and projects, there is a lack of monitorable targets, and hence lack of tracking of performance on capacity building. Few Bank documents have clear results-based information on capacity building activities. Many Bank staff interviewed felt that designing and specifying capacity building targets and relevant indicators for monitoring progress was beyond their technical competence, and they expressed interest in assistance from others who had more experience in these fields.

7.6 In sum, Bank performance at the level of institutional transformations has been largely effective. But the Bank lacked a clear capacity development strategy and requires better-specified objectives and targets at sector and project levels, especially on organizational and human resource dimensions of capacity development.

7.7 ***Borrower Performance:*** Mozambique has been a relatively strong performer in Africa. Reasons include its management of the transitions from war to peace, from socialist to market-based economics and from vanguard party to multiparty politics— along with the achievement of high growth rates, peace, stability, territorial integrity and what appears to be a stable process towards more broad-based poverty-reduction. Yet challenges remain.³³

7.8 While the PARPA and its Performance Assessment Framework will now serve as the main target-setting instrument, it is too general and vague to be of much help on capacity development. The sectors have become better at dealing with human resource development, and the Ministry of State Administration civil service database will be helpful. Similarly the PSRS is expected to provide clear organizational development objectives through the ministerial functional analyses. But this is all at the level of intentions and has yet to become operationally meaningful.

7.9 The key aspects of the PARPA concern capacity building, and the move towards more holistic programming approaches and tools in collaboration with the donor community are proof of the Government's commitment to capacity

³³ Governance remains poor. Corruption is high and perhaps on the rise. The government did not pursue two highly publicized assassinations related to the banking scandal vigorously. Fiduciary risk is high, not least of all because of Frelimo's continuation in power: the party is seen as deeply embedded in the State, and thus able to distort accountability in the public sector. Capacity development in the legal and judicial sector has hardly moved during the last ten years, external audit remains weak, public sector reform is still some ways off, and improved resources management is still dependent on successful introduction and utilization of SISTAFE. So much capacity building remains to be done.

development in many spheres. But lack of political support has contributed to the inability of the Government to specify capacity building targets.³⁴

7.10 Overall performance in the sectors that have been examined has varied, with organizational development a major weakness. While many of the overarching processes have been quite positive on capacity building, the Government could also have been much clearer and deliberate, as in the roads sector. The key problem, however, has been, as one government official put it, "lack of capacity to build capacity." The skills, experience, and time to plan, implement, monitor and assure the quality of capacity development activities have been scarce in a public administration that has hardly been able to cope with the day-to-day demands of the rapidly evolving public sector situation. Taking into account this underlying scarcity of core capacity, borrower performance is rated as moderately satisfactory.

³⁴ One Bank task manager believed that more could be done through consensus building at the political level. Particularly for cross sector programs, like the 1991 capacity program that was criticized for being too complex, commitments at a Cabinet level (as in economics where there is a Cabinet committee that reviews all major economic issues) could have ensured sustainability. A new minister could not arbitrarily change commitment to an activity.

8. Summary of Findings

8.1 The government's commitment to capacity building has, at a policy level, varied considerably over the review period. During the early years, capacity building was not specified and the Government was not clear on its strategy. But government officials also believed that this was an area where donors were not willing to listen to Government views at the time, donors were interested in providing their own TA and promoting their own approaches and equipment.

8.2 Over the review period, the Government has paid particular attention to maintaining consistency in pursuit of macroeconomic objectives. While there have been changes in ministers and top officials in the Ministry of Planning and Finance, the priorities have remained in place. This continuity has led to favorable ratings on sustainability of Bank projects (Table 5.2). A close dialogue exists for the most part at sector levels. The Bank has taken on a focal role in public sector reform and roads, and is an important member of sector working groups in health and education.

8.3 The main findings from the case study are as follows:

8.4 **There is a need for a specific capacity development strategy:** Unless there is a specific capacity development strategy in place, objectives, targets and monitoring tend to remain vague and general. A useful capacity building strategy needs to contain (i) an overall "vision" of what the capacity building would lead to, (ii) a general analysis of key concerns and an approach to address them, and (iii) sector sub-components that have specific targets and which together make it likely that the overarching "vision" can be achieved. The contents of the strategy and approach should be in line with a results-based monitoring and evaluation system.

8.5 **The strategy should be comprehensive** and address the three dimensions of capacity to the extent relevant to ensure that capacity development resources produce desired development results over time.

8.6 **Develop good capacity development methodology and indicators:** Identifying measurable targets and indicators for monitoring capacity building is demanding, yet a challenge all donors and partner governments face. The Bank might consider establishing a working group similar to the one for Public Expenditure and Financial Accountability, to develop a more systematic "good practice" approach to measuring institutional, organizational and human resource capacity, and indicators to track performance.

8.7 **Capacity building efforts should often be treated as a separate project:** Institutional and organizational change and human resource development are long-term processes that often run into implementation problems because they touch on important internal interests. It may be useful to separate out projects/activities that focus on delivering external services (e.g., education and health) from those that address internal development. Timelines, inputs, monitoring intensity, outputs are quite different for these activities. While external service delivery may be time critical and contain large-scale disbursement, internal development is often small-

scale. Getting the process right may be more important than the timeline. And de-linking the two dimensions may provide the calm and long-term focus that successful capacity building requires.

8.8 Capacity development skills must be available to sector teams: The three dimensions of capacity building require different skills. Sector specialists are often fully capable at addressing institutional transformations, but know little about organizational change and human resource management. The Bank should ensure that there are organizational change and human resource specialists available during the design of large capacity building projects.

8.9 Human resource development must be put into a labor market perspective: Sustainability is a key challenge for public sector skills development as public sector pay is often not competitive with the donor/private sector. Human resource development must therefore take a broader and longer-term labor market perspective on how to come up with a realistic skills policy over time.

8.10 Human resource management is different from human resource development: Many public institutions now have a human resource development policy in place, largely consisting of hiring and training components. Few have a more pro-active human resource management policy that tries to allocate skills better, develops career paths, encourages staff to assume greater responsibilities, and links rewards to performance. While this is much more complex, plans for developing such management policies should become part of capacity development projects.

8.11 Incentives for staff retention must be identified: Despite poor pay, many capable and dedicated people seek work in the public sector, so other incentives also play a role. The total incentive structure that may help the public sector attract, train and retain the staff it wants needs to be better understood through surveys of civil servants and others.

8.12 Institutional and organizational changes are often more political than technical problems: Mozambican decision-makers appreciated very much the one occasion that a Bank mission included a former minister, as they felt that the politician understood the challenges they were facing much better than the technical mission staff. Finding credible dialogue partners for sensitive issues can be helpful.

8.13 Do not confuse commitment with capacity: Lack of implementation has sometimes erroneously been attributed to lack of commitment, when in fact the actor objectively did not have the capacity to implement. Diagnostic work needs to confirm that the capacity actually is available, or identify how the scarcity will be overcome (for example, through time-limited gap-filling TA).

8.14 Capacity building should address core tasks: Successful capacity building efforts are those that tend to be directed towards solving key challenges in the sector. The capacity building effort then has a clear operational purpose—the "owner" and the demand for the enhanced capacity is identifiable and concrete.

8.15 Sector-specific characteristics can impede or support capacity building: Sectors with easily monitorable objectives and with short "production chains" to reach them (such as in infrastructure sectors) can be expected to achieve better capacity development results. Realism and patience is thus required in other more complex sectors and timelines will be different. Mozambique is trying to implement ministerial changes at more or less the same pace in its public sector reform process, which may neither be realistic nor helpful.

8.16 Trust between the parties is critical to successful capacity development: Capacity building implies change and uncertainty. Civil servants are typically risk averse and public sector entities, as "natural" monopolies tend also to be wary of change that may undermine their role and status. Trust in those providing capacity building support is a key ingredient for success and takes time to build because it has to be earned through concrete actions and observation.

8.17 The use of TA should be specified: TA is used for gap filling (direct service provision), training, and mentoring and these tasks require different personal characteristics. Much of the poor TA is due to poor specification of tasks, and incorrect personal profile of the TA person.

8.18 Equipment for capacity development is important: Donors are often hesitant about providing equipment (computers, photocopiers, etc.) as part of capacity building efforts, yet in particular, computers and internet connections are powerful incentives to work in the public sector and also enhance public sector productivity. Such equipment should be workplace linked. Vehicles are thus a poor incentive.

8.19 Bank interest in capacity development in the early 1990s was due to management attention: Over time, this interest has diminished. The most likely way that the Bank will pay systematic attention to this issue area is if senior Bank management engages and monitors performance against defined capacity building deliverables.

Annex A: List of Informants

Government and Public Sector Officials

Ministry of Planning and Finance

Vice Minister
National Director, Budget and Planning Department
Deputy Director, Treasury Department
Director, Internal Inspectorate

Head, Gabinete de Estudos
Project Coordinator, UTRAFE³⁵
Adviser, Decentralized Planning Project
Sida Adviser, Internal Inspectorate
UNDP Adviser, Local Government Development Project
DFID Adviser, Decentralized Planning Project

H.E., Mr. Manuel Chang
Mr. José Sulemane,
Mr. Gabriel Mambo
Mr. Jorge Marcelino

Mr. Pedro Couto
Mr. Carlos Jessen
Mr. Taquidir Bacar
Mr. Arne Zetterström
Mr. John Barnes
Mr. Anthony Hodges

Ministry of Education

Permanent Secretary
Director, Department of Planning
National Director-DAF, Administration and Finance
Head of Administration, Administration and Finance
National Director, Primary Education
Primary Education
Primary Education
Teacher Training
Director, Educational Project Management Unit

Mr. Zefanias S M Muhate
Mr. Virgílio Juvane
Mr. António Chambal,
Mr. JH Farinha da Condição
Mr. Manuel Rego
Mr. Kaixique Mangsalal
Mr. Ilidio Buduia
Mr. Fernando Rachide
Mr. Rui Fonseca

Ministry of Transport and Communications

Minister (former Minister of Finance)

H. E., Mr. Tomás Salomão

Ministry of Higher Education, Science and Technology

Project Coordinator
National Programme Coordinator, African Development Bank
(former Director of the GEPE)
Project Coordinator, Financial Dept.,
Eduardo Mondlane University
Rector, Eduardo Mondlane University

Mr. Rafique Cassamo
Mr. Hermínio M. Malate

Mr. Daniel Baloi
Mr. Brazão Mazula

Ministry of Public Works

Economic Adviser to the Minister³⁶
Chairman, Board of National Roads Fund

Mr. Carlos Fragoso
Mr. Francisco Pereira

Ministry of State Administration

National Director, Local Government Department

Mr Jose Manuel Guambe

Ministry of Health

³⁵ Coordinating office for public finance management reform – former Vice Minister, Ministry of Planning and Finance.

³⁶ Former Chairman of ANE, for many years project manager for roads project.

Deputy Director, Human Resources National Director, Policy and Planning	Mr. Ricardo Trindade Mr. Jorge Fernando Tomo
<i>Banco de Moçambique:</i> General Manager, Banking Supervision Manager, Cultural Center, (former Director, TA project)	Ms. Joana Saranga David Mr. João Pais
<i>Tribunal Administrativo (administrative court, Supreme Audit Institution)</i> President	H.E., Dr. António Luís Pale
<i>UTRESP (Public Sector Reform Management Unit)</i> Adviser Adviser	Mr Carlos Natividade Mr. José Jaime Macuane
<i>Maputo Municipality</i> Mayor	Mr. Eneas Comiche
<i>District of Xai-Xai</i> Education Director Pedagogue Pedagogue	Mr. Alberto Libombo Mr. Victor M de F. Dias Jr. Mr. Bernardo Novela
<u>Donor Officials</u> <i>World Bank – Mozambique Office</i> Country Director Country Economist Sr. Economist, Social Sector Operations Operations Officer	Mr. Darius Mans Mr. António Franco Mr. Noel Kulemeka Mr. Aniceto Bila
<i>World Bank – Washington Office</i> Former Country Director, Malawi Former Task Manager, Roads and Coastal Shipping projects Senior Country Economist Lead Specialist, Environment & Social Development Senior Economist, Private Sector Development	Ms. Barbara Kafka Mr. John Roome Mr. Peter Moll Ms. Jacomina de Regt Ms. Sherry Archondo
<i>International Monetary Fund</i> Resident Representative	Mr. Perry James Perone
<i>UN Development Programme</i> Assistant ResRep, Poverty Reduction Unit Assistant ResRep, Public Sector Unit	Ms. Stella Pinto Ms. Violet Kakyomya
<i>European Commission</i> Country Economist	Ms. Sylvie Millot
<i>DFID (Department for International Development, United Kingdom)</i> Senior Adviser, Public Sector Development Country Economist	Ms. Caroline Rickatson Mr. Nick Highton
<i>Embassy of Denmark</i> Country Economist	Mr. Thomas Thomsen

Education Adviser
Adviser, Legal and Judiciary Reform
Economist

Mr. Pål Erik Rasmussen
Ms. Nina Berg
Ms. Lis R. Rosenholm

Embassy of Netherlands

Country Economist

Mr. Jolke Oppewal

Embassy of Norway

Counselor (health sector manager)
Country Economist
First Secretary, Public Sector
Regional Economic Adviser (NORAD-Oslo)

Ms. Lise Stensrud
Mr. Lars Ekman
Mr. Håvard Hoksnes
Mr. Rasmus Bakke

Embassy of Sweden

Regional Education Adviser
Country Economist

Ms. Agneta Lind
Mr. Anton Johnston

Swiss Development Cooperation

Country Economist

Ms. Telma Loforte

USAID

Mr. Titus Angi, Health, Population and Nutrition Specialist
Ms. Juliet Born, Coordinator for HIV/AIDS

Other Informants

Managing Director, *Banco de Comercio e de Investimentos*
Private Consultant³⁷
President, Higher Pedagogical Institute³⁸
President, Bankers Training Institute
Private Consultant³⁹
Director, Small-enterprise development project PODE
National Program Coordinator, AfDB⁴⁰
Project Coordinator, Higher Institute for International Relations

Mr. Magid Osman
Mr. Prakash Ratilal
Mr. Oscar Monteiro
Mr. Aurélio Rocha
Mr. Bonifacio Dias
Ms. Mariano Carimo
Mr. Hermínio M. Malate
Mr. Simão C. C. Sacutúcuá

³⁷ Former Governor of *Banco de Moçambique* and Former Minister of Finance

³⁸ Former Minister for State Administration.

³⁹ Ex-Budget Director and Director UTRE, Ministry of Planning and Finance Privatization Unit.

⁴⁰ Former Director of the GEPE.

Annex B: Documents and Projects Reviewed

A. Projects (FY)

Sectors			
<i>Roads</i>	<i>Education</i>	<i>Health</i>	<i>PFM/PSM</i>
Second Roads and Coastal Shipping Project (1994)	Human Development Project (1993)	Health Sector Recovery Program (1996)	Financial Sector Capacity Building (1994)
Roads/Bridges Management and Maintenance (2002)	Education Sector Strategy Program (1999)		Second Economic Recovery Credit (1994)
	Higher Education Project (2002)		Third Economic Recovery Credit (1997)
			Economic Management Reform Operation (1999)
			Public Sector Reform Program (2003)
			Economic Mgmt and Private Sector Operation (2003)

B. Bank Country Assistance Strategy, Poverty Reduction Strategy Papers, Analytical, and Other Reports (FY)

Country Assistance Strategy (CAS)	Poverty Reduction Strategy Papers (PRSP)	Analytical & Other Reports
1996 CAS	Interim PRSP & Assessment Vol. 1 (2000)	Cost and Financing of Education (2003)
1998 CAS	PRSP Vol. 1 (2002)	Improving Health for the Poor in Mozambique, The Fight Continues (2002)
2000 CAS	PRSP Annual Progress Report and Joint Staff Assessment (2003)	HIV/AIDS, Human Capital, & Economic Growth Prospect for Mozambique (2003)
2004 CAS		Financial Sector Study (1993) Capacity Building Study (1993) Partnership for Capacity Building in Africa: Mozambique (Draft 1996)
		Public Expenditure Management Review (2001) Country Economic Memorandum (2001) Country Financial Accountability Assessment (2001) Country Procurement Assessment Report (2002) Public Expenditure Review (2003) Impediments to Industrial Sector Recovery (1995) Country Assistance Review (1997) Rebuilding the Mozambican Economy: Assessment of a Development Partnership (OED, 1998)

C. Institutional Development Funds

FY	Fund Name
1996	IDF-MOZ. SECTOR INST. ASSESS. FOR AGRICULTURE
1997	IDF-MOZAMBIQUE INSTITUTIONAL CAPACITY STRENGTHENING
1999	IDF -MOZAMBIQUE MINING POLICY DIALOGUE SEMINAR
1999	IDF -MOZAMBIQUE BUILDING CAPACITY TO GUIDE AND COORDINATE
2000	IDF MOZAMBIQUE-GRANT FOR NATIONAL AIDS COUNCIL

Annex D: Other References

- Berg, Elliot et. al. 1993. "Rethinking Technical Cooperation. Reforms for Capacity Building in Africa." Regional Bureau for Africa. New York: United Nations Development Programme.
- Disch, Arne. 1995. "Technical Assistance and the Labor Market in Mozambique." Discussion paper for December 1995 Consultative Group meeting. Harare.
- Econ. 1998a. "Donor Coordination in Mozambique: Background Report." Oslo.
- _____. 1998b. "Donor Coordination in Mozambique: Discussion Paper." Oslo.
- Government of Mozambique. 2004 "Mozambique – Country Report January 2004." Economist Intelligence Unit. London.
- _____. 2003a. "Mozambique – Country Profile 2003." Economist Intelligence Unit. London.
- _____. 2003b. "PARPA Implementation Evaluation Report." Ministry of Planning and Finance. Maputo.
- _____. 2001. "Action Plan for the Reduction of Absolute Poverty (PARPA)." Maputo.
- Government of Mozambique and United Nations Development Program. 1998. "Support to the Economic Management Capacity Building Programme." Report of the Evaluation Mission.
- Kaarhus, Randi and Pamela Rebelo. 2003. "SWApS and Civil Society: The role of civil society organizations in the health sector in Mozambique." NORAD.
- Mason, Jocelyn T. 2002. "The Civil Service Management System: An Analysis of the Reform to Date, and Emerging next Steps."
- Rasappan, Arunselam. 2003. "Mission Report: Monitoring & Evaluation System for Public Sector Reform Program, Government of Mozambique." UNDP.
- Scanteam. 2003. "World Bank and IMF Follow-up to PRSP: The Case of Mozambique." Study commissioned by the Embassies of the Nordic Countries in Mozambique. Oslo.
- _____. 2004. "Fiduciary Risk Assessment: Mozambique 2004." Oslo.
- Soares, Maria do Carmo. 2004. "Assistência Técnica no Ministério da Saúde." Draft Report. Norwegian Embassy-Ministry of Health. Maputo.
- Souza Jr., Fernando. 2002. "O Desenvolvimento Humano e os Investimentos em Formação Médica: O caso de Moçambique." Documento de Trabalho, CESA, Lisboa.
- United Nations Development Programme (UNDP). 2003. "Human Development Report 2003. Millennium Development Goals: A compact among nations to end human poverty." New York.

_____. 1998. "Support to the Economic Management Capacity Building Programme." Project MOZ/95/009, report of the Evaluation Mission. Maputo.

Yates, Robert and Nathalie Zorzi. 1999. "Health Expenditure Review Mozambique." Draft report. USAID.

Annex C: Effectiveness of Bank Support: Functional Assessment

1. The purpose of capacity building is to enable the public sector to better carry out its responsibilities as it relates to policymaking, resource mobilization and management, service delivery, and oversight and accountability functions (regulatory supervision). This annex reviews the effectiveness of Bank support along these four dimensions.
2. Capacity building efforts in PFM have covered most functional areas, but unevenly. The direct training, the Master's degree program, on-the-job "mentoring" through making the Policy Framework Papers more participatory and later on PARPA and other key policy instruments have improved the *analytical and policy-making* capacity of the Ministry of Planning and Finance somewhat, though it is still considered weak. The legal framework for PFM has been improved in stages through better legislation, much of this with help from bilateral donors and the Bank.
3. Training and development of instruments for resource mobilization include support for a reform of the tax system and the successful introduction of a value-added tax, better budgeting and accounting systems including the MTFF and now also the SISTAFE. The customs department was rebuilt from scratch as it was seen as so corrupt that it could not be fixed, all of which had both enabled the government to increase revenue as share of GDP, carry out better budgeting and planning, and provide better accounts and financial reports.
4. Oversight and accountability has not improved much, however. Internal and external audit entities have received assistance from Sweden, with notable improvements in the internal and limited improvements in the external audit offices. The Attorney General's office including the recently established Anti-Corruption Unit is improving its capacity, but very slowly, as is the Parliamentary Budget and Finance Committee.
5. On service delivery, the Ministry of Planning and Finance largely provides information in the form of budget and expenditure reports and other PFM data to other parts of the government. This has improved with staff training and the use of the new instruments such as MTFF and SISTAFE.
6. In the education sector, some capacity has been developed regarding policy development, as reflected in the production of the ESSP, sector strategies and plans including on the gender aspect - girls' education. The Eduardo Mondlane University has also developed a coherent strategy for its development. These have been critical instruments both for policy making and resource mobilization, including for coordinating donor funding to the sector. Resource management remains a major problem, as evidenced by a SIDA audit late 2003 that uncovered major abuses of Swedish funding to the sector. The Ministry of Education's response to the scandal was also very unsatisfactory, which points to lack of oversight and accountability. On service delivery, this has no doubt improved, though much remains to be done to

strengthen the quality of educational services and internal capacity to manage the sector in the ministries.

7. In roads, achievements have been very positive. Policy development capacity and institutional arrangements, including resource mobilization, allocation and utilization, has improved dramatically over ten years. Service delivery has also been quite good although the decentralization process (while a step in the right direction) has resulted in some deterioration in road maintenance in some provinces. The establishment of a road fund and ANE, with independent boards, has ensured better oversight and accountability in the sector, though practices and principles are still not quite in line. The road fund still feels there are political constraints to it being able to function the way it believes it should.

8. Finally, in the health sector, performance has been quite good in that policies are clearer, the SWAP is improving resource mobilization and considerable work has gone into strengthening resource management, including at provincial level, though there is a long way to go. Service delivery has improved, especially in terms of expansion and coverage of services, while oversight and accountability remain weak. The first performance audit carried out by the Ministry of Planning and Finance's internal audit office addressed drug procurement, and came up with quite positive findings and useful suggestions that are now being implemented. While the processes are by and large moving in the right direction, the speed is quite slow, though according to Ministry of Health staff, this is to be expected: the skills and organizational base is weak, and improvements therefore will necessarily take time.

9. There has been no particular strategy to ensuring that capacity is systematically developed across the four functional areas. This means that resource mobilization may have been improved but without oversight and accountability similarly strengthened. From an overall systems perspective, this is a structural weakness in capacity building achievements. It is therefore not surprising that performance has been uneven across the four areas and overall is assessed as marginally unsatisfactory. Functional development has been unplanned and lacked systematic focus.