Report Number: ICRR0022437

1. Project Data

Project ID	Project Name
P127303	MZ:Integrated Growth Poles Project
Country	**Practice Area(Lead)**
Mozambique	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-52370	31-Oct-2019	90,147,999.29
Bank Approval Date	**Closing Date (Actual)**	
25-Apr-2013	30-Apr-2020	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	90,147,999.29	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (page 5), the project development objective of the Mozambique Integrated Growth Poles Project was "to improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor, focusing on identified high growth potential zones (growth poles)."

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had four components.

Support for the Tete Growth Pole in the Zambezi Valley (US$35 million estimated at appraisal, US$32.2 million actual) supported the: (a) rehabilitation, upgrading and maintenance of market access roads linking agricultural producers in the Angonia, Tsangano, and Macanga districts to markets in Tete; (b) rehabilitation of office buildings to house the Tete business center; and (c) provision of Innovation and Demonstration Catalytic Fund (IDCF) grants (not to exceed US$1.5 million) to finance: business linkage sub-projects between smallholder producers (individually or through their associations and cooperatives) and agribusiness value chains that improve the ability of the smallholder producers to access markets; and partnerships between private and public service providers and micro, small and medium enterprises (MSMEs) that enable the MSMEs to access existing and new market opportunities emerging from the large investments in Mozambique, particularly in natural resources.

Support for the Nacala Special Economic Zone in the Nacala Corridor (US$44 million estimated at appraisal, US$39.2 million actual) supported the: (a) expansion and extension of approximately 110 kilometers of water supply networks and distribution systems in Nacala; (b) rehabilitation of the Nacala Porto–Nacala-a-Velha bridges and water passages (channels connecting bodies of water); (c) construction of small civil works, including site demarcation and fencing of industrial plots for the Nacala Special Economic Zone and rehabilitation of office buildings; (d) provision of Innovation and Demonstration Catalytic Fund (IDCF) grants (not to exceed US$1.5 million) to finance business linkage sub-projects between smallholder producers (individually or through their associations and cooperatives) and agribusiness value chains that improve the ability of the smallholder producers to access markets, and partnerships between private and public service providers and micro, small and medium enterprises (MSMEs) that enable the MSMEs to access existing and new market opportunities emerging from the large investments in Mozambique, particularly in natural resources.

Institutional Development and Capacity Building (US$8 million estimated at appraisal, US$6.24 million actual) supported strengthening the technical and institutional capacities of: (a) the Ministry of Economy and Finance to plan, coordinate, implement, and monitor and evaluate public investment programs; (b) the Ministry of Industry and Commerce to design and implement the Investment Climate Program; (c) the Zambezi Valley Development Agency and the provincial authorities in the Zambezi Valley to plan, coordinate, and monitor and evaluate investment promotion and facilitation activities; (d) the Promotion Agency for Investments and Exports and the provincial authorities in Nacala to plan, regulate and administer the Nacala Special Economic Zone; and (e) the Unit for Coordination of Integrated Development in Nampula to exercise its mandate to coordinate integrated development in Nampula.

Project implementation (US$13 million estimated at appraisal, US$13.4 million actual) supported the provision of goods, consultant services, training, and the financing of operating costs of the Project Coordination Unit, the Zambezi Valley Development Agency head office in Tete and the Promotion Agency for Investments and Exports office in Nacala to execute, manage, coordinate and implement the project.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated at appraisal to cost US$129.1 million.

Financing: The project was financed with a credit from the International Development Association (IDA) of Special Drawing Rights (SDR) 66.1 million (US$100 million equivalent). The amount of SDR 64.8 million (US$90.1 million) was disbursed, representing 98 percent of the IDA SDR financing. The large difference in equivalent U.S. dollar terms was due to the appreciation of the U.S. dollar against the SDR over 2013-19.

Borrower Contribution: The remainder of the project cost of US$29.1 million, not covered with the IDA credit of US$100 million, was to be financed by: (a) a contribution from the government of US$9.1 million --- to be appropriated in the 2017 Budget for the Mozambique Road Fund as counterpart funding for the rehabilitation of the Nacala Porto–Nacala-a-Velha link road and bridges (see Section 1.D); (b) local beneficiaries, in the amount of US$10 million; and (c) foreign private commercial sources, for US$10 million. The government was unable to provide the US$9.1 million counterpart funding for the Mozambique Road Fund from the 2017 Budget because of higher than reported public debt in 2016 and the subsequent suspension of donor budget support. The project was able to mobilize US$26.5 million in private sector contributions for IDCF sub-projects, some US$16.5 million more than the expected US$10 million. There is no record of foreign private commercial contributions to the project, for which US$10 million was expected.

Dates: The project was approved on April 25, 2013, became effective on August 23, 2013, and closed on April 30, 2020, seven months after the original closing date of October 31, 2019.

Restructuring: The project was restructured twice: (a) on June 30, 2017, with US$19.2 million disbursed (19.1 percent of the original credit), to change the project components and cost (upgrade the Nacala Porto-Nacala-a-Velha bridges and water passages rather than rehabilitate the Nacala Porto-Nacala-a-Velha link road, following the unavailability of government counterpart funding for the Mozambique Road Fund), the results framework (see Section 9.B), the financing plan (see Section 1.E - Borrower Contribution), the institutional arrangements (change the project implementing agency from the Ministry of Planning and Development to the Ministry of Economy and Finance, following the former's merger with the Ministry of Finance, and recognize the Promotion Agency for Investments and Exports as the new agency replacing the Special Economic Zones Authority), and the implementation schedule; and (b) on September 3, 2019, with US$72.8 million disbursed (72.8 percent of the original credit), to revise the allocation of funds among disbursement categories and to extend the loan closing date (from October 31, 2019 to April 30, 2020). Neither of the restructurings triggered the need for a split rating of outcomes.

3. Relevance of Objectives

Rationale

The project objective was clear and relevant to the development priorities of Mozambique at appraisal and at closing.

- The Zambezi Valley, located in Tete, Manica, Zambezia and Sofala provinces, and the Nacala Corridor, located in Nampula, Niassa and southern Cabo Delgado provinces, offered Mozambique an opportunity to advance a growth pole development strategy that would help diversity the economy beyond mining and energy, address regional imbalances, draw domestic private investment, improve economic competitiveness, and boost productivity growth. Harnessing this potential required addressing two sets of binding constraints to the development of these regions as growth poles: (a) the high cost of doing business, gaps in irrigation, energy and road infrastructure, the low productivity of labor, and the lack of credit and extension services --- which hampered agribusiness investment; and (b) limited access to competitive factor markets and business development services, the inability to meet quality and procurement standards of large investors, and lack business and management expertise --- which hampered local MSME development.
- A strategy focused on concentrated and targeted public investments that catalyzed domestic linkages would spur the development of these growth poles, and, additionally provide demonstration and spillover effects for the development of other potential growth poles across Mozambique. The Tete Growth Pole in Zambezi Valley would be targeted at agricultural production and processing and require infrastructure investments in the Angonia, Tsagano and Macanga districts to address gaps in the agribusiness supply chains and enable smallholders to access expanding markets in Tete. The Nacala Growth Pole, anchored on the Nacala Special Economic Zone, would be targeted at light manufacturing and logistics and would require infrastructure investments to address gaps in road access and water supply and thereby boost the development impact of the Nacala Special Economic Zone. Implementation of these strategic elements was a necessary conditions for the project's objectives to be achieved.
- The government's growth pole development strategy and the project objective were relevant to the *Mozambique Strategic Plan for Agricultural Development, 2010-2019* and the *National Agriculture Sector Investment Plan,* which advanced two "pillars": agricultural productivity, and access to markets. The project objective was also consistent with the *Mozambique Poverty Reduction Action Plan for 2011-14,* which aimed to achieve inclusive growth through a strategy that boosted productivity in labor-intensive sectors, including agriculture.

The project objective was aligned with the country strategy of the Bank Group in Mozambique at appraisal and at closing.

- The *Country Partnership Strategy FY12-15 for the Republic of Mozambique* committed Bank Group support to Mozambique organized around two "pillars": competitiveness and employment, and vulnerability and resilience. The project objective was aligned with the first pillar, specifically with the goals for "improved management of development process through spatial planning," "increased crop yields and overall productivity," "increased employment and growth in the tourism sector," "improved provision and management of road infrastructure," and "improved provision of water and sanitation service."
- The *Country Partnership Framework for the Republic of Mozambique for the Period FY17-FY21* committed Bank Group support in three "focus areas": promoting diversified growth and enhanced diversification, investing in human capital, and enhancing sustainability and resilience. The project objective was aligned with the first focus area, specifically with the objective "to increase agricultural growth" and the associated strategies to adopt "an integrated approach to increasing productivity in agriculture and forestry with a focus on smallholders and emerging commercial farmers" and to create "an environment conducive to developing backward and forward linkages between large investments in extractive industries and local companies to support

diversification and ensure that the benefits of Mozambique's natural resource wealth are more broadly distributed." The project objective was also aligned with the second focus area, specifically with the objective "to improve access to water and sanitation."

In summary, the project's broad strategic objective was highly relevant to providing the enabling environment to facilitate the achievement of the specific objective "to improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor."

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor, focusing on identified high growth potential zones (growth poles).

Rationale
<u>Theory of Change</u>. Targeted investment in core road infrastructure in Zambezi Valley and water and road infrastructure in the Nacala Corridor and financial and technical support for structured commercial arrangements between smallholder farmers and agribusiness chains and for partnerships between SMSEs and public and private institutions would help improve the economic performance of smallholders and enterprises in these growth poles. The upgrading of roads in the Zambezi Valley would provide smallholders and MSMEs improved access to growing markets in Tete, which was envisioned as an agricultural production and processing growth pole. Targeted investment in water and bridges infrastructure in the Nacala Corridor should provide smallholders and MSMEs better access to water supply as well as bridges, with the latter allowing them to better link with industrial sites, the nascent airport city, and Nampula, which was emerging as a light manufacturing and logistics growth pole anchoring the Nacala Special Economic Zone. In both the Zambezi Valley and the Nacala Corridor, IDCF grants would potentially help raise the productivity and production levels of small-scale farmers and MSMEs within the framework of commercial partnerships with larger enterprises. Moreover, support to key national, provincial and regional government agencies to plan and coordinate these interventions would help improve the business environment for, and hence the economic performance of, small-scale farmers and SMSEs in these growth poles.

<u>Outputs</u>. The project met all three output targets set for supporting the Tete Growth Pole in Zambezi Valley.

- The length of roads rehabilitated in the Zambezi Valley increased from zero kilometers in the baseline (2013) to 207.6 kilometers by the closing date, just seven kilometers under the target of 215 kilometers.

- The number of smallholders located within two kilometers of the rehabilitated roads increased from zero in the baseline to 12,907 by the closing date, exceeding the target of 10,000. Some 6,578 smallholders were within two kilometers of highway R604, while another 5,519 were within two kilometers of R605, according to data provided by the impact evaluation - both in Tete province.
- The number of smallholders in formal partnerships with IDCF grant recipients totaled 21,203 by the closing date, exceeding the target of 4,000 by more than five times. As the IDCF was developed and established for this project, there had been no smallholders in partnerships with IDCF grant recipients in the baseline. According to the ICR (pages 22-23): (a) 11 of 80 proposed IDCF sub-projects were approved and eight were implemented in Zambezi Valley for grants worth US$9.6 million which involved 13,484 smallholders; and (b) 10 of 104 proposed IDCF sub-projects were approved and implemented in the Nacala Corridor for grants worth US$10.9 million and involved 7,719 smallholders. Moreover, the IDCF sub-projects in Zambezi Valley and the Nacala Corridor mobilized some US$26.5 million in additional private sector investments (almost thrice the US$10 million estimated in the Project Appraisal Document).

The project met all three output targets to support the Nacala Special Economic Zone in the Nacala Corridor.

- The length of the new water distribution network developed in Nacala-Porto increased from zero kilometers in the baseline to 139.2 kilometers by the closing date, exceeding the target of 110 kilometers. According to the ICR (paragraph 27), the project raised surface water production to 30,200 cubic-meters per day from 16,020 cubic-meters per day, groundwater production to 23,000 cubic-meters per day from 10,820 cubic-meters per day, and reserve capacity from 8,900 cubic-meters per day from 5,100 cubic-meters per day.
- The number of people in urban areas provided with new improved water services under the project increased from zero in the baseline to 32,306 by the closing date, exceeding the target of 27,500.
- The number of bridges and water passages rehabilitated and upgraded in the Nacala Porto–Nacala-a-Velha Road (R702) increased from zero in the baseline to 41 by the closing date, just one short of the target of 42.

The project met the two output targets set for institutional development and capacity building.

- The number of potential investments evaluated by the Ministry of Planning and Development under the new Public Investment Management Program reached 26 by the closing date, exceeding the target of 25. According to the ICR (page 24), the project also helped the Ministry of Commerce and Industry: (a) implement the National Public Investment System to improve the management of public investment projects, and (b) upgrade the capacity of the One-Stop-Shop network for business registration and licensing.
- The number of laws, regulations, and codes that were enacted was one, meeting the target. According to the ICR (page 24): (a) the new Property Registration Code, Decree-Law No. 2/2018 of August 23, 2018, was passed (it was the only piece of legislation/regulation recommended to be enacted under the project), and (b) the Insolvency Law was disseminated across eight provinces, providing training on the insolvency law to judges, prosecutors, and legal practitioners.

<u>Outcomes</u>. The project met two of three proposed outcome targets.

- The average increase in agricultural output sold per smallholder farm in partnership with the enterprises financed by the IDCF was 79 percent by the closing target, exceeding the final target for an increase of 20 percent (the original target was for an increase of 30 percent). However, there was a wide variation between the two zones and it is not clear what the base line was for the increase. While the increase was 134 percent for smallholders in the Zambezi Valley, it was only 23 percent for smallholders in the Nacala Corridor. There was no explanation why the apparent outcome in the Nacala Corridor was so much smaller than in the Zambezi Valley.
- The total number of direct project beneficiaries was 211,660 by the closing date, exceeding the target of 140,000 for both Zambezi Valley and the Nacala Corridor, and consisting of: (a) 155,247 people within 10 kilometers of rehabilitated roads (ICR, paragraph 31); (b) 32,306 people in urban areas benefitting from improved water supply (ICR, paragraph 37); (c) 21,203 smallholders in partnership with IDCF grant recipients (ICR, paragraph 42); (d) 2,151 public sector staff benefitting from capacity building activities (ICR, page 44), including training related to public investment management (502), One-Stop-Shop business registration (302), One-Stop-Shop technical operations (25), insolvency law dissemination (463), the Promotion Agency for Investments and Exports (504), and environmental and social safeguards for projects (347).
- In contrast, the average share of agricultural output sold per smallholder farm located within two kilometers of rehabilitated rural roads declined from 35 percent in the baseline to 33 percent by the closing date, failing to meet the target of 42 percent. A bad year in 2018 and the cyclone in central Mozambique in 2019 contributed to this decline from the baseline. The results notwithstanding, the ICR (paragraph 32) reports that impact evaluations using a difference in difference analysis supported by the Africa Gender Innovation Lab (World Bank, *Roads Rehabilitation of R604 and R605 in Tete Province - Impact Assessment Report*, 2002) showed that: (a) the road investments had substantial impacts on enterprises and smallholders benefitting from the project (those located along rehabilitated roads R604 and R605) compared to the control group (those located along the non-rehabilitated roads as N302 and R603); (b) households within two kilometers of the rehabilitated roads had 38 percent higher agricultural output than the control group; (c) households near the rehabilitated roads had 40 percent higher consumption than the control group. No such analysis was available for the Nacala Corridor.
- It is noteworthy, however, that the ICR provides no assessment of the performance of the enterprises which established contracts with farmers and farmer groups. The ICR referred to evidence of the anticipated positive impact of this project on farmers' opportunities in the Zambezi Valley for selling their production and hence improving their performance, but there is a lack of comparable evidence for the Nacala Corridor and also a complete absence of any information on the performance of enterprises financed by the IDCF. Considering the optimistic assessment in the Project Appraisal Document (PAD) (page 111) of the benefits of the project to farmers in Tete such as the expected "increased efficiency in production, the production and sale of more goods without increased efficiency (increase in inputs), switching to crops which result in higher profits, reduced costs and easier access to agricultural inputs, or higher price at sale due to reduction in transport and other input costs for the manager of the out-grower scheme" that more information is not available in the ICR on these expected benefits. Improved performance of enterprises and smallholders was the core of the project's objective, but there is no analysis of whether or not there was an improvement in the performance of enterprises and smallholders. The inclusion of at least some information on such issues would have strengthened the credibility of the efficacy with which this project achieved its objective. The lack of information is surprising because the ICR mentioned an impact assessment of

the sub-projects financed by the IDCF, which included two rounds of data collection on smallholders beneficiaries (para 66).

Based on the achievement of two out of three outcome indicators, this Review rates the efficacy with which the project's objective was achieved as substantial, but only marginally so because of the weak evidence on the extent to which the project's core objective of Improved performance of enterprises and smallholders was achieved.

Rating
Substantial

OVERALL EFFICACY

Rationale
The project met all eight output targets and two of three outcome targets aimed at the objective "to improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor," focusing on identified high growth potential zones (growth poles). This Review rates the efficacy of the achievement of the project's objective as substantial but only marginally so because of the weak evidence for the achievement of some of the outcomes.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. Although the ICR refers to the project's expected economic rate of return (ERR) in the PAD, namely 25 percent, it does not provide any comment on the analysis of the PAD's analysis of the project's efficiency. For the efficiency of domestic partnerships with individual farmers or groups pursuing ventures such as for processing agricultural production or marketing services, the PAD established base case scenarios and assumed cash flows and partnership investments using capital from the IDCF financed by the project. For the Zambezi Valley, based on published research for Mozambique quoted in the PAD, the scenarios assumed "4 percent yearly growth in volumes without the project and 16 percent volume growth with the project between years 3 and 6, reverting back to an average 4 percent growth for the rest of the forecast period". In addition, the scenarios assumed an "additional 1.1 percent annual income growth for the farmers in the partnerships" (Annex 9, paragraph 6b, page 112). With respect to the analysis of road development, the PAD assumed that "improvements in the national corridor would raise total crop production by 24 percent and maize production by 33 percent and investments in rural feeder roads raise national crop production by a further 131 percent and maize production by a further 146 percent". Again this assumption was based on published research quoted in the PAD (Annex 9, paragraph 6a, page 111).

On the basis of these and other assumptions for partnerships and road development in the Zambezi Valley and the Nacala Corridor, the PAD expected the project to generate an ERR of 20 percent (Annex 9, paragraph 18, pages 116-117). The ICR quotes the PAD as having estimated the ERR for the Zambezi and Nacala growth poles due to infrastructure developments as 25 percent and 19 percent respectively. The PAD's estimate of the overall ERR for all project activities was 16 percent. According to the ICR the PAD estimated an improvement in "well-being" among farmers during the project of 16 percent.

Using the same methodology as in the PAD (with information available from the beneficiaries), the ICR estimated the ERR for partnerships and road development at the project's close as 23 percent and the estimated the ERRs for the Zambezi and Nacala growth poles due to infrastructure developments at closing at 29 percent and 20 percent respectively. The estimated overall ERR for all project activities when the project closed was only 12 percent. The ICR refers to an estimate of an improvement in "well-being" among farmers during the project of 12 percent.

The basis for the estimated rates of return reported by the ICR is Annex 4 in the ICR. It explains the basis for the ERRs calculated, but most calculations are based on assumptions and projections because data drawn from the project's implementation were not available. For example, in the narrative on how the benefits from infrastructure investments in the Nacala Corridor were estimated, it is stated that the investments "did result in a better business environment for enterprise development" but the text that follows provides details on how benefits were computed "by comparing the potential sustainable rate of growth with the estimated that would occur if the constraint were not removed" (Annex 4, paragraph 5, pages 48-49). There are many such examples, but, more importantly, it stood out that the project had not measured the efficiency with which the "out-grower" scheme had "improved the performance of smallholders" (a core element in the project development objective). The only measure in the assessment of the project's efficiency was the "increase in volume sold" which was actually the first outcome indicator, namely "average increase in agricultural output sold per smallholder farm in formal partnership with IDCF recipients". A more informative measure of efficiency would have been the average additional income generated by smallholder farms compared with an historical average without the project – to try to assess the attribution of results to this project. It is not clear why this information could not have been collected. It would have provided a measure of the improved incentives for smallholders to engage in the partnerships promoted by this project and addressed an important issue facing agriculture in Mozambique, namely the lack of incentives for smallholders to adopt improved technologies to produce a surplus. A similar question arises regarding the efficiency of the enterprises.

<u>Operational Efficiency</u>. The project funds were close to being fully disbursed (see Section 2e). According to the ICR (page 25), there were less financial resources available to the project due to currency valuation changes --- an estimated funding gap of 10 percent of the original commitment as a result of the appreciation, on one hand, of the U.S. dollar against the SDR over 2013-19 (8.5 percent between April 2013 and October 2019) and on the other hand, a depreciation of the Mozambican metical against the U.S. dollar over the same period (107.3 percent between April 2013 and October 2019). Nonetheless, all project activities were fully implemented, as revised following two restructurings. The project closed seven months later than originally scheduled.

While the assessment of the project's efficiency in the ICR reflects considerable work and a search for credible reasons why this project was efficient, this Review of the ICR concludes that there is inadequate evidence that this project was efficiently implemented because the assessment of efficiency in the ICR was to a large extent based on assumptions. Inadequate information was collected on the project's performance including the efficiency of the two main actors in the project, namely the enterprises and the smallholder farmers. For these reasons this Review rates the efficiency of this project as modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	16.00	100.00 ☐ Not Applicable
ICR Estimate	✓	12.00	100.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project objective was relevant to the development priorities of the government for a growth pole regional development strategy and was consistent with the assistance strategy of the Bank Group in Mozambique. The project met all three output targets for the Tete Growth Pole in Zambezi Valley, all three output targets for the Nacala Special Economic Zone in the Nacala Corridor, all two output targets for institution building and capacity development, and two of three proposed outcome targets for the objective to "improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor", focusing on identified high growth potential zones (growth poles). While the ICR reports that the project achieved a 12 percent economic rate of return, the basis for this conclusion is questionable since: (a) the efficiency analysis simply repeats assumptions found in the Project Appraisal Document and uses little real data derived from the project; and (b) the analysis misses some important issues that are far more important than those addressed under the heading of efficiency, such as the incentives for farmers to engage with agri-business and the efficacy of the results.

To summarize, this Review finds that this Integrated Growth Poles Project had moderate shortcomings in its efficiency and its overall outcome is therefore rated moderately satisfactory,

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risks to the sustainability of the development outcomes of this project appear to be moderate overall.

Political Risk. The political commitment of the government to the project development objective appears to be solid. The government continues to promoted investment in Zambezi Valley and the Nacala Corridor, following the growth pole strategy. According to the ICR (page 133), the government is engaged with the Bank in planning future operations, which will help sustain the development outcomes of this project. The Integrated Feeder Road Development Project and the Southern Africa Trade and Connectivity Project will expand the rehabilitation of roads in Zambezi Valley and the Nacala Corridor. The Second Water Services & Institutional Support Project will continue to improve water distribution in service areas adjacent to this project. The Southern Africa Trade and Connectivity Project and the Economic Linkages for Diversification Project will use the IDCF model to reach new smallholders and agribusinesses, with geographical overlaps with this project.

Institutional Capacity Risk. The national and local agencies participating in the project have the institutional capacity to sustain the project outcomes. All roads and water works constructed or rehabilitated under the project are under the management of the National Roads Administration and the Water Supply Investment and Assets Fund respectively. The Mozambique Road Fund has committed financing for the maintenance of the roads and bridges rehabilitated under this operation. The Zambezi Valley Development Agency is providing oversight of the agribusiness partnerships established under the project, mentoring IDCF sub-project beneficiaries. The IDCF is developing a new pipeline of sub-projects, building on experience gained with this operation.

Macroeconomic Risk. Mozambique's nascent recovery from two powerful tropical cyclones in 2019 was interrupted by the Covid-19 pandemic in 2020. The country obtained US$309 million from the IMF Rapid Credit Facility in April 2020 to help meet balance of payments and fiscal needs stemming from the crisis. To mitigate the impact of the pandemic and preserve macroeconomic stability, the government took measures to increase health spending, strengthen social protection, and support MSMEs. Although the economy is estimated to have contracted by 0.5 percent in 2020, a potential recovery in 2021, helped with the deployment of vaccines, will help reset the macroeconomic framework to sustain the infrastructure development achieved under the project.

8. Assessment of Bank Performance

a. Quality-at-Entry

The growth poles strategy adopted for the project was informed by experience with similar Bank operations in other countries, including in Madagascar (Growth Poles Project), China (Agricultural Technology Transfer Project), Lesotho, Gambia, and Vietnam (Agriculture Competitiveness Project). According to the ICR (page 28), the project aimed to replicate the integrated, multi-sectoral, private sector-led approach to regional development, investment promotion, and job creation adopted in the other growth poles projects.

The government had previously identified the Zambezi Valley and the Nacala Corridor as priority areas for regional development. The Bank designed the project to address development constraints in these areas that were vetted through its own analytical work and after extensive discussions with the government, other development partners, and the private sector. The priority infrastructure investments consisted of: roads, bridges and water passages that would support food production to serve the mining towns in Tete, water works for the Nacala Special Economic Zone, and facilities for out-grower schemes by which agribusinesses linked up with smallholders.

While the design of the project was technically sound, there were some moderate deficiencies, however.

- The multiplicity of implementing agencies – the Ministry of Economy and Finance, National Roads Administration, Mozambique Road Fund, Water Supply Investment and Assets Fund, Office for Economic Areas for Accelerated Development, Integrated Development Authority of the North, Zambezi Valley Development Authority, Unit for Coordination of Integrated Development in Nampula, and Promotion Agency for Investments and Exports – implied that coordination and communication issues would likely arise during project implementation. The ICR (page 29) suggests that the Bank should have allowed for sufficient time for coordination mechanisms and communication links to be established firmly before project implementation.
- The implementation arrangements for the IDCF were not ready at project effectiveness. The ICR (page 29) points to multiple revisions to IDCF sub-project eligibility and selection criteria during project implementation as evidence.
- There were deficiencies with the choice and definition of results indicators at appraisal (see Section 9.a below).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank responded actively to the slow implementation and the low disbursement rate during the early life of the project, as cited in Implementation Status and Results Reports and supervision mission Aide Memoires.

- The Bank increased the implementation support to the project, both in terms of staff time and budget, before and during the Mid-Term Review.
- The Bank revised the results framework for the project, changing some of the results indicators, during the first restructuring of the project in 2017.
- In mid-2017, the Bank expanded the in-country team, with specialists supporting various aspects of project implementation including safeguards and fiduciary compliance.
- The International Finance Corporation supported the implementation of the IDCF and extended assistance to various business environment improvement activities at the national level.
- The Bank regularly reviewed procurement and financial management activities and reflected its findings in reports to the government.

The Bank prepared 14 Implementation Status and Results Reports over the seven-year duration of the project, or two a year, the average for investment projects. The supervision missions also filed 15 Aide Memoires. According to the ICR (pages 32-33), the reports were thorough and candid in identifying gaps with project implementation and offering recommendations to address them. The supervision helped boost the pace of project implementation, compensating for the early delays.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The Project Appraisal Document (pages 45-48) provided for the following M&E plan for the project:

- The Project Coordination Unit at the Ministry of Planning and Development, employing both an M&E Specialist and an Impact Evaluation Specialist, would be responsible for the monitoring and evaluation of the project. The Project Coordination Unit would convey M&E reports to the Project Steering Committee, which would maintain a strategic oversight of the project.
- For the IDCF, the Fund Manager would be responsible for submitting quarterly financial reports to the Project Coordination Unit.
- Similarly, all other implementing agencies (see Section 8.a) would submit M&E data to the Project Coordination Unit.
- Eight output and four outcome indicators would measure the achievement of the project objectives, using the results framework adopted for the project.

The Financing Agreement (pages 17-18) required the: (a) specification of the results indicators in the Project Implementation Manual; (b) preparation of quarterly project progress reports and their submission to the Bank; (c) conduct of a comprehensive Mid-Term Review of the project; and (d) performance of the M&E function by the Project Coordination Unit.

According to the Mid-Term Review, there were problems with the choice of the original results indicators: (a) the indicators did not capture some of the results of the Nacala Corridor component; (b) the indicators mostly measured IDCF results; and (c) it was difficult to identify appropriate baseline data for some indicators.

b. M&E Implementation
The Project Coordination Unit implemented the M&E activities of the project. According to the ICR (pages 29-31):

- Actual project activities were tracked against work plans and budgets, and performance reports were prepared, aided by a computerized M&E reporting system.
- Progress with the output and outcome indicators were monitored regularly.

The Mid-Term Review recommended a revision of the original set of indicators to better align the results framework with the project objectives and activities. The Project Coordination Unit used the revised set of results indicators for M&E after the restructuring in June 2017.

- The "length of the new water distribution network developed in Nacala-Porto" and the "number of bridges and water passages rehabilitated and upgraded in the Nacala Porto–Nacala-a-Velha Road" substituted for the "length of non-rural roads rehabilitated" as output indicators for the Nacala Corridor component --- the principal infrastructure investments in the Nacala Corridor consisted of water works.
- The "number of smallholders in formal partnerships with IDCF recipients" substituted for "percent of IDCF sub-projects achieving their objectives" as an output indicator for the IDCF in both the Zambezi Valley and Nacala Corridor components.
- Two impact assessment studies were conducted: (a) the first, on the rehabilitation of the R604 and R605 roads in Tete, which included three rounds of data collection, comparing households around the rehabilitated roads to households in the control group (Boxho, Montalvao, Ploen and Yang, 2020, *Road Rehabilitation of R604 and R605 in Tete Province – Impact Assessment Report*); and (b) the second, on the sub-projects financed by the IDCF, which included two rounds of data collection covering smallholder beneficiaries (the details of this assessment were not disclosed in the ICR).
- The "average share of agricultural output sold per smallholder farm within two kilometers of rehabilitated rural roads" was substituted for the outcome indicator "percent of smallholders in targeted zones selling crops to a medium or large commercial enterprise". However, even with the change, it could be argued that the share of agricultural output sold could not always be directly attributed to the project's investments because farmers made sales decisions based on a variety of considerations including: (a) weather conditions (farmers adjusted the share of output sold versus output consumed in response to bad harvests); (b) prices; (c) household food security concerns; and (d) the economic and financial returns to other household activities. To address these issues, additional information was necessary to help analyze agricultural sales decisions by farmers: their total assets; total livestock; agricultural inputs; the share of households that were better off compared to two years ago; the share of households that had not suffered from hunger in the past 12 months; and total household consumption over the last three months.
- The "number of people with wage employment of at least half-time per week in the targeted zones" was dropped as an outcome indicator.

The Mid-Term Review recommended the preparation of a detailed M&E Manual to ensure the collection of quality information, consistent reporting over time, and the efficient tracking of the project outputs and outcomes by the Project Coordination Unit.

c. M&E Utilization

According to the ICR (page 31), the M&E data helped the Project Coordination Unit to direct its efforts and resources on activities that were material to the successful implementation of the project. It also mentions that:

- M&E results were conveyed to the Project Coordinator, the Project Steering Committee, the Ministry of Economy and Finance, the Bank, and other stakeholders.

- The government regularly assessed the environmental and social risks of the project activities, including by continuously collecting related data and acting on recommendations for risk mitigation measures.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an environmental assessment category "B" project at appraisal and triggered safeguard policies *Environmental Assessment* (OP/BP 4.01) and its related General Environmental, Health and Safety Guidelines, *Natural Habitats* (OP/BP 4.04), *Pest Management* (OP/BP 4.09), *Physical Cultural Resources* (OP/BP 4.11), and *Involuntary Resettlement* (OP/BP 4.12). In response, the government prepared an Environmental and Social Management Framework, a Pest Management Plan, and a Resettlement Policy Framework, which were disclosed in-country and at the Bank's Infoshop. The ICR (pages 31-32) reports the completion of the following safeguards policy compliance activities during implementation:

- A Simplified Environmental Impact Study was undertaken for the Tete Growth Pole in the Zambezi Valley. The impacts were monitored.
- An Environmental and Social Impact Assessment and a Resettlement Action Plan were prepared for the Nacala road works (R702). Public consultation meetings were held. The assessments and plans were prepared notwithstanding that the bridges and water passages had no resettlement implications and a Resettlement Action Plan was necessary only if the road were rehabilitated.
- Environmental and Social Management Plans and related Implementation Plans were prepared for the Nacala water works, for which mitigation measures were necessary. The FIPAG discovered that four of the 10 boreholes drilled were artesian, implying that water flowed freely until the wells were properly equipped. A Remedial Action Plan was prepared to mitigate possible social effects on the community from the closure of the boreholes, although an audit cited a negligible effects. The Bank will need to continue supervising this component post-project closing to (a) assess the possible effects from the loss of access to water once the boreholes were equipped, (b) ensure that the land rights are secured; (c) undertake any additional remedial actions.
- For the IDCF, the Environmental and Social Management Framework was used to screen sub-projects for which social and environmental safeguard instruments, including environmental and social impact assessment and action plans, labor management plans, stakeholder engagement plans, and pest management plans, were required. Disbursements were conditioned on the completion of these instruments, which was closely monitored during implementation.

Compliance with safeguard policy *Environmental Assessment* (OP/BP 4.01) was rated moderately satisfactory. Compliance with overall safeguards policies was rated moderately satisfactory.

Social Safeguards. The ICR (page 32) reports that a grievance redress mechanism (GRM) was active and functional throughout project implementation and covered all project components.

- GRM systems were operational for the road works in Tete and Nacala. Information on the mechanisms for handling complaints was relayed to project beneficiaries and to the wider population. A code of conduct for employees was disseminated via local radio, following the environmental and social action plan for the Nacala road works.
- A separate GRM system was developed for the IDCF, including a complaints handling mechanism, part of the implementation of a communication strategy. Channels to fill complaints were made available on-line and directed to the IDCF manager. Five cases were registered. Each IDCF sub-project was required to have a GRM system in place, part of the sub-project's environmental and social impact assessment and action plan.

Compliance with overall safeguards policies was rated moderately satisfactory.

b. Fiduciary Compliance

Procurement. The Financing Agreement (pages 19-23) required: (a) compliance with the *Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers* and the *Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers;* (b) the use of international competitive bidding for the procurement of goods and non-consulting services and quality- and cost-based selection for the procurement of consultant services; (c) the specification in a Procurement Plan of other methods of procurement; (d) the specification in the Procurement Plan of contracts requiring prior-review by the Bank, with all other contracts subject to post-review by the Bank; and (e) the use of procedures defined under the *Regulamento de Contratagdo de Empreitada de Obras Publicas, Fornecimento de Bens e Prestagdo de Servigos ao Estado* of the Republic of Mozambique of May 24, 2010, following Decree No. 15/2010, where national competitive bidding is used. According to the ICR (page 32), procurement issues delayed the implementation of the project. Post-procurement reviews and independent audits cited missing information for procurement execution, including delivery certificates and payments documentation. The Project Coordination Unit eventually addressed the procurement problems, leading to improved capacity and processes. Procurement was rated moderately unsatisfactory early on, but rated satisfactory beginning in 2017 and through the last Implementation Status and Results Report.

Financial Management. The Financing Agreement (page 18) required the government to maintain a financial management system following the *International Bank for Reconstruction and Development General Conditions for Loans* of 2012, including by preparing and submitting to the Bank quarterly interim financial reports and having the annual (fiscal year) financial statements audited. According to the ICR (page 32), early supervision missions cited the lack of a system to collect and summarize accounting data that would provide real-time information on project finances. The Project Coordination Unit was able to address this issue, however. The project was in compliance with financial management requirements and arrangements, and financial management was rated satisfactory throughout project implementation, including in the last Implementation Status and Results Report.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 34-35), with some adaptation.

Channeling assistance to farmers through support for structured commercial arrangements with agribusiness firms offers a viable mechanism to simulate agricultural development. This project supported the extension of IDCF grants to finance business linkage sub-projects between smallholder producers, individually or through their associations and cooperatives, and agribusiness value chains. These linkage projects, known variously as contract farming or out-grower schemes, coordinate commercial relations between producers, processors, and traders and lead to a vertical integration of the agricultural value chain. They provide agribusiness firms with opportunities to explore local markets, stimulate domestic demand, control production to dampen price volatility, and source locally for export markets. At the same time, they provide smallholder farmers ready access to farm inputs, seasonal credit, and technological knowhow and help farmers to improve product and quality standards.

The use of local development authorities to manage growth pole projects has the advantage of better integrating local needs in government decision-making processes. In this project, the Zambezi Valley Development Authority, the Integrated Development Agency of the North, and the Unit for Coordination of Integrated Development in Nampula helped plan and coordinate infrastructure investments that were linked to local demand, including food production for mining towns in Tete, water infrastructure for the Nacala Special Economic Zone, and out-grower schemes among smallholders and agribusiness chains in Zambezi Valley and the Nacala Corridor. For the IDCF, a local investment committee in Zambezi Valley and another local investment committee in the Nacala Corridor reviewed and approved proposals for IDCF grants. According to the ICR (page 35), the use of local authorities strengthened institutional and technical capacity at the local level, allowed for the prompt response to project implementation issues, and ensured better monitoring of project results.

Output and performance-based road contracts provide incentives to deliver quality and efficient services. According to the ICR (page 65), this project successfully adopted output-based contracts, which had been used elsewhere globally, for the maintenance for the R604 and R605 roads in Tete. In an output and performance-based road maintenance contract, the contractor is paid on an output basis, maintaining the road at a specified service standard, rather than on an input basis, as occurring under traditional maintenance contracts. By paying contractors based on the level of service they deliver, output-based contracts provide a clear financial incentive for contractors to meet performance standards. Private contractors are also incentivized to improve their efficiency and minimize waste because they are compensated at a set level for performance. With the use of this approach in Tete, the National Road Administration has built up the capacity to introduce and manage these contracts and has since adopted them for other road maintenance projects in Mozambique, according to the ICR.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is consistent with the guidelines. It provides a fairly good record of the project. There was one revision to the project components; this is explained in *Revised Components* (pages 17-18). There were several changes to the output indicators; these are detailed in Table 2 (pages 18-19). There are more changes to the outcome indicators; these are noted in Table 1 (page 17). There were two restructuring episodes; the scope of the changes is explained in *Other Changes* (pages 19). The outputs and outcomes of the project are summarized in Table 4 (page 24) and Annex 1 - Results Indicators (pages 36-41). The full narrative is laid out in *Achievements of PDOs* (pages 21-24). More details are provided in Annex 1 - Key Outputs by Components (pages 41-44) and in Mobilizing Private Sector Financing (page 28).

The discussions of the efficacy and efficiency of the project were candid although the efficiency analysis was limited and lacked an analysis of the efficiency of the two groups engaged in agri-business and smallholder partnerships. Higher-than-reported public debt spurred donors to suspend budget support to Mozambique; the government was subsequently unable to provide counterpart financing for the rehabilitation of the Nacala Porto–Nacala-a-Velha link road, a key infrastructure investment in the Nacala Corridor. The percentage of output sold per smallholder farmers engaged in a partnership with IDCF grant recipients exceeded the target. However, the percentage of farm outputs that smallholders sold, versus the percentage that they consumed, was influenced by many other factors, other than simply being the results of their partnership agreements with agribusiness chains. The economic rates of return for the first and second components of the project were higher than estimated at appraisal. on the other hand, the returns for the third and fourth components and the lack of an efficiency analysis of the enterprises and smallholder partnerships dragged down the overall rating. The ICR provided useful lessons based on evidence in the ICR.

The ICR was crafted according to the Guidelines. One significant shortcoming, however, was the lack of a definition and a full accounting of the number of direct project beneficiaries (reported as 211,660) which was one of the outcome indicators. This was rectified by the authors of the ICR after its publication.

Despite some shortcomings, this Review rates the overall quality of the ICR as satisfactory.

a. Quality of ICR Rating
Substantial