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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

MOZAMBIQUE

Poverty Reduction Support Credits 3-5

Report No. 106459

JUNE 29, 2016

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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PROJECT PERFORMANCE ASSESSMENT REPORT

MOZAMBIQUE

THIRD POVERTY REDUCTION SUPPORT CREDIT
(IDA-42560)

FOURTH POVERTY REDUCTION SUPPORT CREDIT
(IDA-43830)

FIFTH POVERTY REDUCTION SUPPORT CREDIT
(IDA-45280)

June 29, 2016

IEG Sustainable Development
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = new Mozambican Metical (MZN)

2006	US$1.00	MZN26.23
2007	US$1.00	MZN23.64
2008	US$1.00	MZN25.35
2009	US$1.00	MZN28.45
2010	US$1.00	MZN32.39
2011	US$1.00	MZN26.76
2012	US$1.00	MZN29.70
2013	US$1.00	MZN30.00
2014	US$1.00	MZN32.00
2015	US$1.00	MZN38.00

Abbreviations

EU	European Union
e-SISTAFE	*Lei do Sistema de Administracao Finaceira do Estado* (electronic financial management system)
FY	Fiscal Year
GCCC	*Gabinete Central de Combata da Corrupcao* (Central Office for Combating Corruption)
G-19	Group of 19 general budget support donors
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICR	Implementation Completion and Results Report
IEG	Independent Evaluation Group
PARP	*Plano de Accao para Reducao da Probeza* (Poverty Reduction Action Plan)
PARPA	*Programa de Acção para a Redução da Pobreza Absoluta* (Action Plan for the Reduction of Absolute Poverty)
PAF	Performance Assessment Framework
PRSC	Poverty Reduction Support Credit

Fiscal Year

Government: January 1 to December 31

Director-General, Independent Evaluation	:	Ms. Caroline Heider
Director, IEG Financial, Private Sector & Sustainable Development	:	Mr. Marvin Taylor-Dormond
Manager, IEG Sustainable Development	:	Ms. Midori Makino
Task Manager	:	Ms. Lauren Kelly

Contents

This report was prepared by Lauren Kelly and Jack W. van Holst Pellekaan, who assessed the project in November/December 2015. The report was peer reviewed by Aghassi Mkrtchyan and panel reviewed by Robert Mark Lacey. Daniel Palazov provided research assistance. Grace Ingrid Chilambo and Vibhuti Narang Khanna provided administrative support. Janice Tuten provided editorial support.

Figures

Tables

Principal Ratings

Mozambique: Poverty Reduction Support Credit— PRSC-3
IDA-42560

	ICR[a]	ICR Review[b]	PPAR
Outcome	Satisfactory	Moderately satisfactory	Moderately unsatisfactory
Risk to development outcome	Moderate	Moderate	Significant
Bank performance	Satisfactory	Satisfactory	Moderately satisfactory
Borrower performance	Satisfactory	Satisfactory	Moderately unsatisfactory

a. The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department.
b.The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Mozambique: Poverty Reduction Support Credit—PRSC-4
IDA-43830

	ICR[a]	ICR Review[b]	PPAR
Outcome	Satisfactory	Satisfactory	Moderately unsatisfactory
Risk to development Outcome	Moderate	Moderate	Significant
Bank performance	Satisfactory	Satisfactory	Moderately satisfactory
Borrower performance	Satisfactory	Satisfactory	Moderately unsatisfactory

a. The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department.
b. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Mozambique: Poverty Reduction Support Credit— PRSC-5
IDA-45280, TF-93203

	ICR[a]	ICR Review[b]	PPAR
Outcome	Satisfactory	Satisfactory	Moderately unsatisfactory
Risk to development outcome	Moderate	Moderate	Significant
Bank performance	Satisfactory	Satisfactory	Moderately satisfactory
Borrower performance	Satisfactory	Satisfactory	Moderately unsatisfactory

a. The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department.
b. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Mozambique: Poverty Reduction Support Credit PRSC-3

Project	Task manager/Leader	Division chief/ sector director	Country director
Appraisal	Gregor Binkert	Emmanuel Akpa	Michael Baxter
Completion	Antonio Nucifora	John Panzer	Luiz A. Pereira da Silva

Mozambique: Poverty Reduction Support Credit PRSC-4

Project	Task manager/leader	Division chief/ sector director	Country director
Appraisal	Antonio Nucifora	John Panzer	Michael Baxter
Completion	Antonio Nucifora	John Panzer	Luiz A. Pereira da Silva

Mozambique: Poverty Reduction Support Credit PRSC-5

Project	Task manager/leader	Division chief/ sector director	Country director
Appraisal	Antonio Nucifora	John Panzer	Michael Baxter
Completion	Antonio Nucifora	John Panzer	Luiz A. Pereira da Silva

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About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20–25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the Government and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the Government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: Government performance and implementing agency (ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) assesses the Poverty Reduction Support Credits 3, 4, and 5 in Mozambique implemented between 2007 and 2009. These operations were aimed at achieving better macroeconomic management and improved governance and at removing constraints to development by enhancing the business environment, improving infrastructure, and promoting agricultural growth.

The first credit for US$70 million was approved on January 25, 2007. The second credit for $60 million was approved on January 29, 2008, and the final credit for US$90 million was approved on November 4, 2008. Each credit was disbursed as a single tranche at the time of approval. The Government made no financial contribution to these operations.

This report was prepared by Lauren Kelly, Senior Evaluation Officer, IEG and Jack W. van Holst Pellekaan (consultant). The findings are based on a desk review of documentation, including the Project Appraisal Document, Implementation Completion and Results Report, legal and project files, and interviews with key stakeholders conducted during a two-week mission to Mozambique from November 20 to December 3, 2015, and in Washington, DC.

IEG is grateful for the generous and valuable assistance provided to the mission by the stakeholders interviewed, as well as the support provided by staff, particularly Clarisse Nhabangue, in the World Bank Country Office in Maputo.

Following standard IEG procedures, a copy of the draft PPAR was sent to the relevant Government officials and its agencies for their review and feedback and no comments were received from the Government.

Summary

Background and Context. Soon after Mozambique's independence from Portugal in 1975 a civil war started that lasted 15 years, caused considerable damage to infrastructure in rural areas, and decimated the national economy. A peace agreement in 1992 was followed in 1994 by the election of a representative Government, which turned its attention to maintaining peace and stability and to promoting private sector development through the removal of Government controls over economic activity. Following the formation of a stable democratic Government, Mozambique's economy, particularly the agricultural sector, started to grow rapidly. These policies and their results attracted many donors, including the World Bank, to support Mozambique's development during the 1990s.

In 2001 the Government's Poverty Assessment, *Programa de Acção para a Redução da Pobreza Absoluta* (Action Plan for the Reduction of Absolute Poverty) 2001–05—referred to by its Portuguese acronym of PARPA—was released and endorsed by the Bank and the International Monetary Fund. The PARPA provided a formal basis for the harmonization of assistance programs among development partners and led three years later to the Bank's first two budget support credits in Mozambique. PARPA was followed by PARPA II for 2006-2009, and *Plano de Accao para Reducao da Probeza* or PARP (Poverty Reduction Action Plan) for 2011-2014.

Poverty Reduction Support Credits. The World Bank financed Poverty Reduction Support Credits 1 and 2 in 2004 and 2005 (totaling $180 million) supported some of the objectives of PARPA through assistance for enhanced public sector capacity and accountability and measures to improve Mozambique's investment climate. The outcomes for both operations were rated satisfactory by IEG. Building on these achievements the Bank agreed to a request from the Government to support a second series of three such credits in 2007. They were Poverty Reduction Support Credits 3, 4, and 5 (PRSCs-3, 4, and 5), which provided Mozambique with credits of $70 million in 2007, and of $60 million and $90 million early in 2008. All three operations provided general budget support and were disbursed in single tranches. They are the focus of this Project Performance Assessment Report. Six more PRSC operations with similar objectives were subsequently approved between 2009 and 2015, totaling US$522 million. This assessment was conducted six years after project close. It was carried out within the context of the entirety of the series, based on the long-term commitment between the Bank and the Government that reforms in one period should be sustained over time.

The objectives for PRSCs-3–5 were the same. They had a threefold focus: (a) on macroeconomic management, by consolidating and deepening the institutional reforms for better macroeconomic management; (b) on reforms in governance, by supporting decentralization/ deconcentration to enhance public investments and service delivery at the provincial and district levels, and by supporting public sector reform; and (c) on economic development, by enhancing the business environment, reducing infrastructure constraints, and promoting agricultural growth.

Relevance of Objectives. The program's objectives were well aligned with the Bank's assistance and partnership strategies and were *highly relevant* to the challenges facing Mozambique's economy. They were complementary to the concurrent policy support provided by the International Monetary Fund. They were also closely aligned with the objectives of the PARPA II for 2006–09. The objectives, however, made no attempt to be precise about poverty reduction. Rather, it was intended that poverty would be reduced through economic growth and improved services at the provincial and district levels. The objectives for PRSCs-3–5 were also relevant to and aligned with the priorities of development partners who were also providing general budget support to the Government.

Relevance of Design. The design of the PRSCs-3–5 series was *substantially relevant.* However there was an over-reliance on public financial management reforms to achieve the broader macroeconomic objective, to the exclusion of indicators of macroeconomic stability. Other activities, in relation to governance and economic were well aligned with the associated objectives. However, the program's design could have paid more attention at the design stage to the urban/rural distribution of pro-poor expenditure from the national budget as well as the quality of these expenditures

Efficacy. The efficacy of the first objective (macroeconomic management through institutional reforms for better economic management) is rated *modest*. Macroeconomic performance improved during the PRSCs-3-5 implementation period: for example there was strong GDP growth of between 6 and 7 percent per annum, total public debt as a percent of GDP was between 23 and 38 percent, and the current account balance of payments deficit declined from around 20 percent of GDP to 12 percent. After PRSC-5 closed in 2009 GDP growth was regularly about 7 percent, but other macroeconomic indicators deteriorated: for example public debt increased to about 40 percent of GDP between 2010 and 2013, and then to 57 and 74 per cent of GDP in 2014 and 2015. The current account balance of payments deficit increased to around 40 percent of GDP between 2010 and 2013 but remained high at 30 and 33 percent of GDP in 2014 and 2015. In addition, although the allocation of budget resources to priority sectors was held close to the target of 65 percent during the PRSCs 3-5 period and thereafter, there was no information on the distribution of these funds to the provinces or districts where the poor are located. In 2015 the Central Office for Combatting Corruption questioned the security of the country's electronic financial management system (e-SISTAFE) and auditing continued to be weak. Moreover, the Government acknowledged in April 2016 that it had guaranteed undisclosed borrowings of about $1 billion by state enterprises which contravened the program of macroeconomic management agreed with the IMF. The guarantee represented a serious contingent liability for the economy. The IMF suspended disbursements from its support program to Mozambique.

Efficacy of the second objective (reforms in governance through supporting decentralization/ deconcentration to enhance public investments and service delivery at the provincial and district levels, and by supporting public sector reform) is also rated *modest*. During the implementation of PRSCs 3-5 the preparation of a National Program for Decentralized Planning and Finance was not achieved, nor was an actuarial study for the investment strategy for the National Institute for Social Security completed. Both of these activities were prior actions for PRSC-5. There were consequently also weakness in aspects of governance reform such as the modalities for deciding on budget allocations to provinces and districts. Whereas this objective was aimed at enhancing public investments and service delivery at provincial and district levels there was no information available at the end of the series or since to assess the extent to which public investments and service delivery to provinces and districts had been enhanced.

The third objective (economic development through improving the business environment, removing constraints to growth, and promoting agricultural growth) is rated *substantial.* By the end of the implementation of PRSCs-3–5 it had become easier to start a business although the most recent PRSC series renewed efforts to improve the business environment, and in subsequent years national infrastructure, which was a constraint to growth, had improved. Growth in GDP from agriculture was between 5 and 6 percent per annum during the three-year implementation period, although it dropped to about 3.5 percent per annum between 2009 and 2014—still a sound and sustained performance given the sector's structural problems and the incidence of natural disasters.

Outcome. The program was *highly relevant* to Government and Bank development objectives and its design was *substantially relevant*, although there was an over-reliance on public financial management reforms to achieve the broader macroeconomic objective, to the exclusion of indicators of macroeconomic stability. The efficacy of two out of three objectives was *modest*. The outcome of this series of PRSCs is rated as *moderately unsatisfactory*.

While not rated, this assessment also considers the contribution of the PRSC 3-5 series to poverty reduction. Overall, poverty is estimated to have declined from 56 percent in 2002/2003 to 52 percent in 2008/2009. There is also a high degree of regional differentiation, with poverty decreasing in urban areas but increasing in the central rural regions, where the poverty headcount is estimated to be 71.2 percent. Moreover, the total number of poor in Mozambique is estimated to have increased by about 400,000 persons since 2002/2003.

Risk to Development Outcomes. Mozambique's economy is fragile because its major real sector (agriculture) continues to face structural, policy, and environmental constraints; and its growing mineral exports are subject to unpredictable fluctuations in world prices. The impact of a stagnant value of total exports of goods and services, along with a surge in the value of imports and lower foreign exchange inflows since 2009, undermined the current account balance of payments. At the same time total public debt increased rapidly to 74 percent of GDP in 2015. An IMF Standby Credit Facility was approved in December 2015 to assist the Government to address the balance of payments gap. However, as already noted, disbursements from this facility were suspended in April 2016 following the discovery of external borrowings guaranteed by the Government contrary to the agreement with the Fund. Given the weakening macroeconomic indicators and governance as well as the macroeconomic management issues that have emerged recently, the risk to the program's development outcomes is rated as *significant*.

Safeguards and Fiduciary Risks. PRSCs-3-5 did not trigger any action on environmental risks. The only prior actions in the series that could possibly have had an impact on Mozambique's environment were the rehabilitation and construction of roads as well as the rehabilitation and construction of 2,500 hectares of irrigation projects. This PPAR found that adequate safeguard provisions were made to avoid any detrimental impacts on the environment. The PRSCs were intended to reduce money metric poverty but evidence indicates that only modest proportional reductions were achieved. Nevertheless, social indicators improved at the national level during PRSCs-3–5. Despite an urban bias in some social service expenditures, such as urban water supplies, rural social services could have improved rural indicators to some extent. However, the translation of higher rural social indicators into lower money metric rural poverty, and therefore a lower incidence of poverty, will be slow.

Monitoring and Evaluation. The quality of monitoring and evaluation, in collaboration with the Government and budget support donors, was consistent with the requirements for development policy operations and implemented in a satisfactory manner. Monitoring and evaluation is therefore rated as *substantial.*

Bank performance. The three PRSCs were based on extensive analytical work, and on relevant objectives and prior actions that were aligned with Government and Bank strategic objectives as well as those of development partners. However, two important prior actions proved to be over ambitious. PRSC program documents identified risks to macroeconomic management because of elections and other political pressures, macroeconomic shocks such as natural disasters, deterioration of governance, institutional capacity issues, and rising external debt because of non-concessional borrowing. However, the Bank misjudged the risk that Government would not sustain sound macroeconomic management and good governance. The Bank's assessment of the external shocks likely to face Mozambique during the implementation of PRSCs-3–5 focused mainly on the impact of the global financial crisis and the earlier world price increases for food and fuel, while the risk of terms of trade shocks was considered low. The program documents had inadequate provision for training in macroeconomic management. Hence, overall, the program's quality at entry was rated *moderately satisfactory*. During the program's implementation the Bank and the IMF worked closely with the Government to reduce the financial risks to the economy of the large mining projects and the terms of trade risks. The Bank also consulted regularly with the general budget support donors as it monitored the progress of the program's implementation. On balance the Bank's performance during supervision is rated *satisfactory.* On balance the Bank's performance was *moderately satisfactory.*

Borrower performance. The Government claimed ownership of the program because it arguably took charge of meeting the prior conditions. But, as mentioned already, decentralization policy was not established, serious questions emerged with respect to implementation of a national financial management system (e-SISTAFE) because of concerns about its security, budget allocations to provinces and districts were poorly managed because of a lack of allocation criteria, and procurement standards and internal auditing arrangements were weak. Also, because the Government had not diversified the economy it placed too much reliance on the mining industry for its export income. The IMF provided short-term support at the end of 2015 when the country's external sector came under pressure but, as already noted, shortly thereafter it was discovered that Mozambique had seriously breached the IMF's macroeconomic management conditions. This PPAR concluded that after the PRSC-3–5 series closed, the Government did not sustain macroeconomic stability and governance deteriorated. Overall the Government's performance is rated *moderately unsatisfactory*.

Lessons

- **Carefully chosen objectives and prior actions for policy development operations can provide the basis for the necessary conditions for better macroeconomic policy, good governance, and sound economic development.** In the short term a number of reforms can be achieved either because of or in the wake of prior actions. For example the Central Revenue Authority was established in 2007 (a prior action for PRSC-4). Since then it received support from the Government of Switzerland (a member of the donor group providing general budget support) and performed well, raising tax collection from 15.9 percent of GDP in 2007 to 27.3 percent in 2014.

- **Policy development operations can reduce poverty by increasing growth and improving institutions that have responsibilities for poverty reduction, but that focus was not sufficient for significant poverty reduction in Mozambique.** For example, GDP growth was sustained at between 6 and 7 percent per annum, prior actions requiring the Government to allocate at least 65 percent of its annual budget to priority sectors maintained the capacity of ministries that had a responsibility for delivering social services to the poor, and a number of social indicators was well maintained. However, the incidence of money metric poverty was reduced by only 4 percentage points over six years from a high poverty incidence of 56 percent in 2002/2003 to 52 percent in 2008/2009.

- **Development policy operations that use general budget support as the instrument for providing assistance can also be appropriate vehicles for the harmonization of donor strategic assistance.** The Performance Assessment Framework agreed between the Government and general budget support development partners, if well crafted, can be the basis for fruitful cooperation among these partners. The downside risk is the possible constraint on the Bank's flexibility with respect to prior actions outside the Performance Assessment Framework. For example, the Bank needed to negotiate with general budget support donors to obtain their agreement to include additional actions on food security in PRSC-5 that were outside the Performance Assessment Framework.

- **The political economy context can have critical impacts on the achievement of policy reform.** Understanding the political economy context for reforms in policy is critical to assessing the likelihood that reforms will take place. For example, a National Program for Decentralized Planning and Finance was to have been achieved as a prior action for PRSC-5. However, the political barriers to achieving internal agreement on a national plan for decentralized planning and finance were seriously underestimated and a plan was not approved by the Government during the PRSC 3-5 series.

Marvin Taylor-Dormond
Director, Financial, Private Sector and
Sustainable Development Department

1. Background and Context

1.1 This Project Performance Assessment Report (PPAR) assesses the outcome and sustainability of a World Bank-financed series of three Poverty Reduction Support Credits (PRSCs-3, 4, and 5) in Mozambique that had the same objectives and were implemented between 2007 and 2010. These PRSCs provided general budget support to the Government of Mozambique in support of a number of policy actions it had already adopted. The funds provided for the three PRSCs— $70 million, $60 million, and $90 million for a total of $220 million—were disbursed as scheduled.

1.2 The outcomes of a series of development policy operations cannot validly be assessed immediately after closure because they were intended to promote institutional reforms that would be sustained over time, to achieve better macroeconomic management, improve governance, and remove key obstacles to economic development that would, in turn, lead to sustained growth and poverty reduction. The six PRSCs that followed PRSCs 3, 4 and 5 had the same or similar objectives. This assessment was conducted six years after project close. It was carried out within the context of the entirety of the series, based on the long-term commitment between the Bank and the Government that reforms in one period should be sustained over time.

Geography and Politics

1.3 *Considerable resources provide a basis for growth*. Mozambique has an area of about 800,000 square kilometers, which is close to the size of Pakistan, and yet, it has only 12 percent of Pakistan's population (23 million compared with 192 million). Pakistan has substantial mountainous areas in an earthquake zone with significant climatic variations, few mineral resources, a vast agricultural base, but a limited coast line. In contrast, Mozambique (which also experiences many natural disasters) has more than 2,500 kilometers of coastline with three deep water seaports and is endowed with considerable arable land, water, energy, natural gas, and mineral resources. Similar to Pakistan, Mozambique is strategically located, bordering six countries, four of which are landlocked and hence dependent on Mozambique as a conduit to global markets. With relatively rapid population growth— last measured at 2.8 percent per annum in 2008—the Government faces the challenge of creating employment opportunities for a fast growing and young labor force. Economic growth has been and continues to be a core objective for the Government to address this challenge.

1.4 *Postwar democratic Government established.* Following its independence from Portugal in June 1975, Mozambique endured a protracted 15-year armed conflict, fueled largely by regional powers and Cold War politics, leaving the country and its economy in ruins. Mozambique began a slow but successful transition to peace, political stability, and a democratic Government with an election two years after the formal peace agreement in October 1992. In this first election, the Front for the Liberation of Mozambique (Frelimo) edged out its civil war rival, the Mozambican National Resistance (*Renamo*). Frelimo has remained in power winning the fourth presidential and parliamentary elections in 2009 by 70 percent of the popular vote (an increase from the 60 percent achieved in the 2004 elections). As a result of elections in 2014 Frelimo has a two-thirds majority in the national parliament, 80 percent of the seats in the provincial assemblies, and majorities in all elected municipal assemblies.

Macroeconomic Context

1.5 *The civil war resulted in extreme destruction to Mozambique's economy*. The civil war created considerable havoc in rural areas where some of the fiercest fighting took place. In addition, national infrastructure such as roads and railways deteriorated because maintenance programs were not implemented. Following the peace agreement in 1992, and subsequent formation of a stable Government in 1994, Mozambique's economy as a whole started to grow and develop rapidly. The changes in the broad structure of the country's economy from about the time the civil war ended to 2014 are summarized in Table 1.1 and presented in more detail in figure 1.1. The table shows that since 2000–04 the relative importance of agriculture in the economy has remained about the same, while the relative importance of manufacturing declined in contrast to a substantial increase in industries that was due to the rapid growth in mineral processing and mining.

Table 1.1. Trends in the Structure of Mozambique's Economy, 1990–2014

Sectors	**1990–94**	**1995–99**	**2000-04**	**2005–09**	**2010–14**
			(percent of total GDP)[a]		
Agriculture	35.1	32.1	24.4	27.6	27.5
Manufacturing	13.1	14.0	16.4	14.4	10.4
Industry[b]	3.6	4.4	5.6	6.3	9.1
Services	48.2	49.3	53.6	51.7	53.1

Source: Mozambique National Institute of Statistics.
a. Some totals do not add up to 100 percent because of rounding. b. Includes extractive industries.

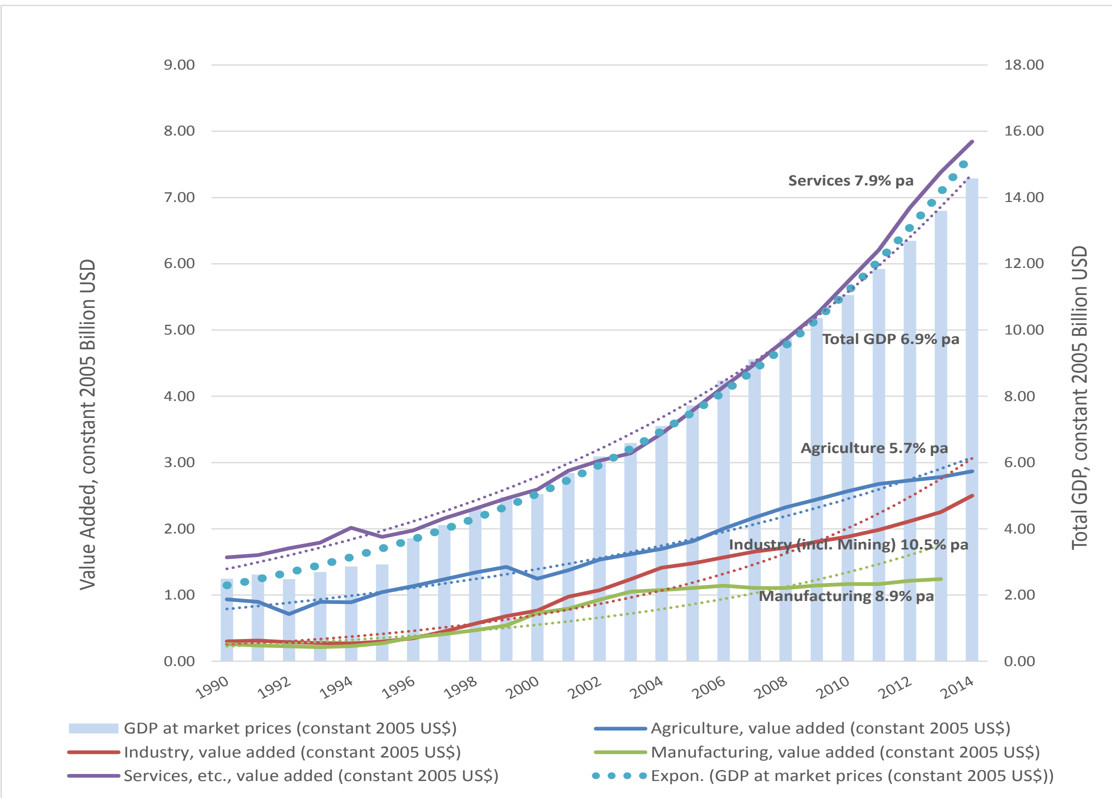
1.6 Between 1994 and 2004, Mozambique's total gross domestic product (GDP) grew by 8 percent annually, albeit from a very low base. During this period the official national poverty headcount index declined from 69 percent in 1996/97 to 54 percent in 2002/03. The conditions for substantial income growth and the poverty reduction were created by the introduction of more progressive Government economic policies, as well as the Government's success in maintaining national peace and stability. However, despite an average national growth rate of GDP of 8 percent between 2003 and 2009, the incidence of poverty fell, according to the Government, to only 54.7 percent in 2009 (Republic of Mozambique 2011, Table 1, page 6).[1]

1.7 *Growth in many sectors, but subsistence farming still dominant* The sectors that contributed most to economic growth between 1996/97 and 2002/03 were agriculture, transport, communications, infrastructure (notably roads), mineral processing, and mining. In the agricultural sector, where about 70 percent of the nation's labor force is employed, the Government's policy reforms led to a departure from the collectivization of agricultural

[1] Subsequent analysis of the same data by the World Bank led to an estimate of 52 percent. This analysis will be discussed later in this report.

production, and the post conflict resettlement of refugees in the rural areas to a market-based economy. The resulting expansion in the availability of land and labor resulted in a rapid increase in areas harvested, which caused agricultural production to grow by an average 6.8 percent per year from 1992 to 1997, and an average of 4.6 percent per year between 1997 and 2003. These developments led to poverty reduction in rural areas such as Zambezia province during those years.[2] However, marketing of surpluses is extremely difficult because the lack of all-weather rural roads increases transport costs and product prices that are not remunerative. Consequently the relative importance of the agricultural sector remains about the same as a decade ago and most farming households remain trapped in subsistence agriculture.

Figure 1.1.Trends in Total and Sectoral GDP



Source: World Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

1.8 *Growth in extractive and other industries started in 2000.* An increasingly important driving force for Mozambique's economy since the start of the new millennium was capital-intensive mineral processing and mining of coal and natural gas. The first major investment

[2] According to the Government's analysis the incidence of poverty in Zambezia declined from 68.1 percent to 44. 6 percent between 1996/97 and 2002/03. An analysis of the same data by the World Bank concluded that the incidence of poverty in the very similar Sofala and Zambezia rural areas was 64.28 percent in 2002/03 (see Appendix B, Table B6).

was the MOZAL aluminum smelter project commissioned in 2000, which increased its capacity between 2002 and 2004. These and other developments in mining provided strong confidence within the Government and the donor community that Mozambique's balance of payments problems were only temporary. There was also considerable development and modernization in other nonagricultural sectors. For example, urban water supply infrastructure was improved with Bank assistance in cities and towns along the coast. The telecommunications sector was liberalized with technical support from the Bank, as was the commercial air transport industry. In general, capital-intensive mineral processing and mining development and the growth of water, telecommunications, and air transport service industries in the urbanized coastal cities and towns left the remote agricultural areas behind.

1.9 *First and Second Poverty Reduction Support Credits (PRSC-1 and PRSC-2).* Following the successful transition from civil war to democratic Government, significant economic growth and poverty reduction, the Government, with Bank support, implemented two single tranche Poverty Reduction Support Credits (PRSCs-1 and 2) in 2004 and 2005 for, respectively, $60 million and $120 million. The program objectives for both credits were (a) building public sector capacity and accountability, (b) improving the investment climate, and (c) expanding service delivery in the education sector. This PRSC series was designed to be in line with the Government's first poverty assessment (PARPA), which had poverty reduction as its core objective. The Bank's country assistance strategy (CAS) in 2004 was also closely aligned with the PARPA, and consistent with the assistance strategies of most major donors operating in the country. Moreover, the PRSC series benefited from very close cooperation with the IMF, including in the area of tracking public expenditures in the context of the heavily indebted poor countries (HIPC) initiative.

1.10 Referring to PRSCs-1 and 2, the program document for PRSC-3 stated that "Over the five years of its implementation there was consistent economic growth, averaging 8 percent per annum and a major reduction in poverty, by 15.3 percentage points between 1996 and 2003. The number of children in primary school almost doubled from approximately 2 million to 4 million in the PARPA period. Maternal mortality was reduced from an estimated 1,000 per 100,000 live births in the early 1990s to 408 per 100,000 live births in 2003. Under-5 mortality rates decreased from 219 to 178 per 1,000 live births. Infant mortality decreased from 147 to 124 per 1,000 live births. The capacity of the health system was expanded to start providing free antiretroviral (ARV) treatment for HIV infection." The PPAR for these two credits concluded that overall progress on reforms during the PRSC-1 and 2 series was satisfactory, and that the Government demonstrated a commitment to continuing the reform agenda after the programs closed (IEG 2009).

1.11 *Challenges facing economic and social development remained.* Despite the achievements listed above, Mozambique's economic and social indicators were generally lower than averages for Sub-Saharan Africa. In the course of reviewing the achievements of PRSCs-1 and 2 the program document for PRSC-3 stated that, "While significant progress was made justifying an overall positive assessment, it has to be kept in mind that many challenges remain, that capacity is still weak, and that some reforms were implemented more slowly than originally envisaged. Reforms in strengthening public financial management made impressive progress and key pieces of legislation were adopted improving the investment climate; but public sector and judiciary reforms were slower than expected with the exception of decentralization" (World Bank 2006, paragraph 44).

1.12 *In 2005 Mozambique was still poor by many measures*. Average annual per capita income was $130, the average number of years of formal schooling for persons aged 15 and above was 1.2 years (1.7 for men and 0.8 for women), the average adult literacy rate was 47 percent (57 percent for men and 29 percent for women), and the average life expectancy at birth of 42 years. Malaria accounted for 35 percent of deaths for children younger than five years of age, and there was a very serious HIV/AIDs problem.

1.13 The next three PRSCs built on the reforms already achieved and on the Bank's analytical work between FY04 and FY07. They addressed three objectives: better macroeconomic management, reform in governance, and economic development.

2. Objectives, Design, and Relevance

2.1 *Program Objectives.* The program document for PRSC-3 stated that the aim of the series of PRSCs-3–5 was to support the implementation of PARPA II, which had the reduction of absolute poverty as its main objective. This objective was to be achieved by actions under three priorities or pillars: governance, human capital development, and economic development (World Bank 2006, paragraph 64). The Bank's focus was on a subset of these same pillars in the Government's Performance Assessment Framework (PAF) agreed with its development partners, which was also a subset of PARPA II's strategic matrix. Key reforms in public financial management were addressed in the text of PARPA II partly under the pillar of governance, and partly under the pillar of economic development. The program documents for each of PRSCs-3–5 stated that the series was designed to support the following (World Bank 2006, paragraph 64):

(1) **Macroeconomic management**- by consolidating and deepening the institutional reforms in this area.
(2) **Reforms in governance** - by supporting decentralization/deconcentration to enhance public investments and service delivery at the provincial and district level, and by supporting public sector reform.
(3) **Economic development** - by improving the business environment, removing constraints to growth, such as infrastructure, and promoting agricultural growth.

2.2 The program document for PRSC-3 did not define program objectives; rather it defined areas to support. However, when the program documents for PRSCs-4 and 5 were prepared, the "support" areas were redefined as objectives. For the purpose of this assessment, therefore, these three support areas represent the program objectives for the PRSC-3–5 series.[3] The objectives were not revised during implementation of the program.

[3] The objectives for PRSCs 6–8 series were (i) macroeconomic management; and (ii) economic development but not governance. The objectives for PRSCs 9–11 series were: (i) improve the business climate and to increase transparency in extractive industries; (ii) strengthen social protection;

The meanings of "better" macroeconomic management, "improved" governance, and "economic development" were not defined other than by the listing of sub-objectives shown in paragraph 2.1.

Relevance of Program Objectives

2.3 Despite the harmonization of the PRSCs-3–5 program's objectives with PARPA II's objective "to reduce the incidence of poverty from 54 percent in 2003 to 45 percent in 2009," (Republic of Mozambique 2006, paragraph 1) there was no explicit mention of the aim to reduce poverty in the objectives for PRSCs-3–5. While this appears to be a shortcoming in the statement of objectives of the three-year macroeconomic, governance, and economic development program, the national and provincial levels represented a collection of proposed achievements that were expected to reduce money metric and non-money metric poverty, including increased access to social services. Support for poverty reduction was therefore the critical underlying motivation for this PRSC series but no specifics regarding the extent of poverty reduction were stated in the objectives.

2.4 *The program's objectives were highly relevant to the Government's First Five Year Programme (2005–09) and to the Bank's country assistance strategy (CAS) for FYs04–07.* The Government's development program was aimed at the reduction of absolute poverty. It was closely aligned with PARPA II (adopted in 2006) which focused on human development (education, health and access to potable water), governance, economic development and cross cutting issues such as HIV/AIDS and gender. With respect to the Bank's CAS (World Bank 2003), pillar 1 was aimed at assisting the Government with its macroeconomic management and economic development to achieve sustained GDP growth and to reduce income poverty through improving the investment climate and facilitating public-private partnerships in infrastructure. Pillar 2 addressed expanding service delivery. It focused on the need to improve human development (Millennium Development Goals - MDGs), which were key to improving quality of life, as well as enhancing labor productivity and therefore income growth and poverty reduction. Pillar 3 addressed capacity building and accountability—governance. The Bank intended to assist the Government to improve its governance by upgrading public expenditure management and containing corruption through strengthening the rule of law, including systems supporting contract enforcement, and to enhance the Government's monitoring and evaluation capacity.

2.5 *The program objectives were highly relevant to the Bank's country partnership strategy (CPS) for FYs08-11*. The Bank's CPS when the project closed emphasized that the strategy's objectives and outcomes took into account PARPA II, the PAF, the Millennium Development Goals, Paris Declaration indicators, IDA-14 requirements, the World Bank Group's Africa Action Plan, and the programs and priorities of other development partners that provided general budget support (World Bank 2007a, pages 78-92). Pillar 1 of the CPS focused on increased accountability and public voice, which mainly covered the strengthening of public financial management systems. Pillar 2 provided for improved

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and (iii) strengthen public financial management by enhancing effectiveness of internal audit, developing a public investment management process, and improving public debt management.

Government effectiveness in the provision of services and the achievement of five service delivery outcomes— treatment for HIV/AIDS, health service delivery focused on child and maternal health care, improved access to and quality of higher education, expanding access to urban water supplies, and establishing institutions for improved water supplies in rural areas—and finally, sustainable solar energy systems for schools, clinics, and administrative posts in rural areas. Pillar 3 focused on enabling international and local investments and strengthening economic growth potential. The CPS was intended to "support second generation reforms and the removal of binding constraints to growth by financing investments in infrastructure, rural development, business climate, and regional integration" (World Bank 2007a, paragraph 86). Such investments would help lay the foundation for sustainable and broad-based growth; deepening and broadening the private sector would create jobs and generate significant resources for national development. In summary the objectives for PRSCs-3–5 remained relevant to the strategic priorities of the Bank's CPS for FYs08–11.

2.6 *Relevance to country economic conditions and the IMF program.* The program document for PRSC-3 noted that GDP growth was projected to be 7.9 percent in 2006, and was expected to remain around 7 percent in the subsequent three years. It also stated that the leading sector in the economy would be agriculture, followed by construction, and wholesale and retail trade. Inflation through to November 2006 was 7.2 percent. Inflation was expected to remain in the single digit throughout the program period ending in 2009 assuming an average increase in revenue of 0.5 percent of GDP per year. Apart from improved revenue mobilization, some of the factors contributing to a positive macroeconomic outlook included the adoption of conservative fiscal policies, no external borrowing on commercial terms, minimal subsidies to the productive sectors, and targeting about two-thirds of public expenditures to priority sectors for poverty reduction (World Bank 2006, paragraph 16). The program was also relevant to the ongoing IMF support program when the PRSCs closed in October 2009.

2.7 *Rural development was an important part of the PRSC 3-5 program and relevant to poverty reduction.* The Bank and the Government understood that rural development was a necessary and important complement to Mozambique's large extractive mining and processing exporting industries because they were not labor-intensive investments once completed. PRSCs-3–5 aimed to generate jobs and poverty reduction by focusing on enhanced rural development through decentralization, improved conditions for road traffic, as well as enhanced irrigation infrastructure and support services (extension) for increased productivity in agriculture.

2.8 Overall, important macroeconomic, governance, and economic development issues needed to be addressed in Mozambique. At the same time, there was a return to peace, a democratic Government, and a newly elected Government that was supportive of all aspects of the reform program. Government policy was explicitly focused on improving the efficiency of the agricultural sector and providing an enabling environment for the development of mineral processing and mining industries. Given the optimism regarding considerable export income anticipated from future exports of extractive resources, the political and financial risks of the PRSC program were considered to be low. In summary the relevance of the PRSC program objectives was ***high***.

Relevance of Program Design

2.9 This section addresses three design issues: (a) were the three annual programs providing general budget support relevant instruments to address the challenges facing the Mozambique economy; (b) was the program's policy matrix and results framework clear in terms of representing the results chain to the program's outcomes; and (c) were the prior actions, and triggers that in most cases led to prior actions, embodied in the framework for each of the PRSC operations appropriate.

2.10 *General budget support was a relevant instrument.* General budget support under PRSCs-3–5 was a way of reducing the administrative burden of large volumes of external project financing by transferring ownership of investment decisions to the Government authorities in Mozambique and away from multi- and bilateral donors. At the same time the context for the general budget instrument support is an agreement between the program aid partners and the Government on the Performance Assessment Framework (PAF) which provided a tool to monitor the Government's implementation of general budget support by development partners including the Bank.

2.11 A European Commission evaluation of general budget support provided by a range of other donors in Mozambique between 2005 and 2012 concluded that: "our assessment of the Government Poverty Assessment Framework (PAF) is that it fulfils its intended purpose reasonably effectively and compares well with the PAFs used in other budget support recipient countries. In stating this, we acknowledge that all indicator-based assessments of public sector performance have at least two inherent limitations. Firstly, they must focus on what is measureable, which is not always the same as what is important, and, secondly, the adoption of indicators as policy targets almost inevitably creates perverse incentives in the collection and reporting of data and/or in the process of policy implementation. Indicator-based assessments—such as PAFs—should therefore be used as an overall guide to progress and should not be the sole method of assessment" (European Commission 2014a, paragraph 95).[4]

2.12 The same evaluation also concluded that "the framework of mutual accountability incorporated within the PAF has been highlighted as one of the most important gains in the relationship with development partners. Government officials were unanimous in stressing the importance of this mutual commitment to enhance ownership and to create a balanced relationship in the budget support dialogue. Moreover, Mozambique has become an international reference point for this mutual accountability framework" (European Commission 2014a, paragraph 81).

2.13 *The program was based on a logical policy matrix and results framework.* The program documents for PRSCs-3– 5 presented successive results frameworks based on the

[4] This assessment was based on five propositions; briefly they were that the PAF is closely aligned to poverty reduction, choice of indicators is strategic, the number of PAF indicators was reduced from 54 to 35, indicators are for the most part measurable, and the level of ambition for the indicators looks broadly right (see paragraph 94).

Government's commitments to prior policy actions before each of the three programs could be approved by the Bank's Board. The causal relations between the prior actions and the medium-term project objectives were apparent in the results framework, although it was not always clear which institutions were responsible for the achievement of various medium-term objectives. Nevertheless, the frameworks provided logical results chains from one PRSC to the next in that there was a clear relationship between prior actions in successive PRSCs even though for some chains of actions there were delays compared with the policy matrix as originally framed for the three-year program in PRSC-3. The intermediate indicators were kept roughly unchanged over the three operations in the series.

2.14 The Government and the Bank agreed to some adjustments in the content and sequence of the triggers defined in PRSC-3 when deciding on the prior actions in the Financing Agreements for PRSCs-4 and 5. The flexibility in the approach to the triggers and their conversion to prior actions for the release of funds from these PRSCs facilitated the dialogue between the Government and the Bank. However this flexibility should not have included adjustment of prior actions in the light of the evolving circumstances and the understanding of technical and policy issues. Despite the adjustments made, to a very large extent, the reform program that had originally been agreed to in the context of PRSC-3 was pursued as prior actions in the successive PRSCs.

2.15 The prior actions for PRSCs-3–5 were substantially relevant to the three program objectives, with the exception of the actions associated with the macroeconomic management objective. For these there was an over-reliance on public financial management reforms to achieve the broader macroeconomic objective, to the exclusion of indicators of macroeconomic stability. Appendix table B.2 presents the final agreed prior actions in the three Financing Agreements for PRSCs-3–5.[5] The prior actions were a subset of actions in the much more comprehensive PAF framework agreed between the Government and general budget support donors.

2.16 This PPAR assesses the relevance of the prior actions required for the program's three objectives in the following paragraphs. It concludes that overall the prior actions in the Financing Agreements were ***substantially*** relevant to the objectives of better macroeconomic management, improved governance, and economic development. Where the prior actions are repeated in successive PRSCs (with some adjustments on coverage such as for different ministries) they are considered as one prior action in the following assessment of their relevance to the program objectives.

(a) Relevance of Prior Actions to Better Macroeconomic Management

2.17 As designed, was an over-reliance on public financial management reforms to achieve the broader macroeconomic objective, to the exclusion of indicators of macroeconomic

[5] Note that the project document for PRSC-3 included the prior actions for that credit and also listed the anticipated prior actions (called "triggers") for PRSCs 4 and 5 (see Appendix Table B.1). Later the triggers, amended or replaced, became the prior actions in the Financing Agreements that the Government had met to become eligible for each of those two subsequent credits.

stability. Acknowledging this shortcoming, the following prior actions embody substantial contributions to the program objective:

(i) The share of the central Government budget's actual expenditures for 2005 and budgeted expenditures for 2007 and 2008 on PARPA priority sectors accounted for 65 percent of the total.

- Priority sectors included education, health, infrastructure, agriculture and rural development, social action, governance, and labor and employment. Increases in priority sectors were intended to make resources available for the improvement of the welfare of the poor and hence this prior action, which was required for all PRSCs in the series, was an important and substantially relevant contribution to better macroeconomic management.

(ii) Rollout of basic functionality of the integrated electronic financial management system (e-SISTAFE*)* to all ministries

- e-SISTAFE was potentially a major and substantially relevant contribution toward establishing an efficient financial management system within the central Government and for the transfer funds from the central Government to provinces and districts to effectively fund decentralized priority services and thereby contribute to better macroeconomic management.

(iii) Creation of the Central Revenue Authority

- The Government undertook to reform the collection of tax revenues by establishing the Central Revenue Authority in 2007. This was an important and substantially relevant step toward increasing tax collections, reducing the annual budget deficit, and enhancing macroeconomic management.

(iv) Increased budget coverage with enlarged Government revenues included in the 2007 budget, particularly the own revenues of seven major ministries

- The purpose of this action was to bring the revenues of central Government ministries into the consolidated revenue account and thereby take control over the allocation and management of all revenues in one budget. This was substantially relevant to better macroeconomic and sectoral management.

(v) Continuing the staffing and implementation of a new procurement system at the national and local levels; in PRSC-3 and as introduced in PRSC-4

- This was an important measure for improving the efficiency of the Government's procurement system, which, according to the Bank's Public Expenditure and Financial Accountability (PEFA) reports, had been below international standards; thereby making the most efficient use of financial resources was substantially relevant to better macroeconomic management.

(vi) Improving internal and external accountability controls in the central Government and in through audits in at least 20 percent of districts and municipalities

- According to the Bank's PEFA reports, audits had been either delayed or not performed by Government entities. The purpose of the improved accountability controls was to increase the coverage and quality of audits at the local level because a sound decentralized auditing system was necessary for the effective management of the Government's resources and hence substantially relevant to better macroeconomic management.

(vii) Issue of relevant opinion on at least 70 financial audits by the Court of Accounts.

- The Court had a very low effectiveness and hence the object of this prior action was to improve Mozambique's external audit institution (Court of Accounts) and to enhance its capacity to issue timely opinions on a larger number of financial audit reports each year and thereby achieve better macroeconomic management.

(viii) Ministry of Finance ensured that at least 25 percent of central and provincial level Government bodies have operational internal audit units

- This was a necessary, if inadequate, requirement for the improvement of audit coverage throughout Mozambique's Government. It was nevertheless substantially relevant to improving accountability for public expenditures.

(b) Relevance of Prior Actions to Improved Governance

2.18 PARPA II laid out a broad and ambitious agenda for governance reform**.** It focused on decentralization, public administration, the judiciary, and anticorruption measures. These actions were to be complemented by increasing popular participation at the local level, with the district as the key unit for service delivery. The focus of the prior actions in the PRSCs was on these issues:

(i) Definition of criteria for the allocation of investment budgets for districts in the 2007 budget

- The Government's PARPA II included a plan to accelerate decentralization to improve the quality of service delivery and empower communities to decide more about the investment programs in their districts. For this to have been successful the National Program for Decentralized Planning and Finance (NPDPF) at the district level was to have been established to provide equitable budget allocations to the provinces and the provinces. This action was agreed on the basis that the National Decentralization Strategy (already foreshadowed in 2006) would be available and that criteria would be established for the allocation of budgets to districts. This prior action, while substantially relevant to the objective of improved governance, was found not to be relevant to the political context in Mozambique at the time.

(ii) The Ministry of Civil Service has completed the census of Government civil servants and the Ministry of Finance has developed an e-SISTAFE-compatible payroll database for civil servants

- As the program document for PRSC-4 stated, the census allowed the creation of the register of civil servants (a prior action for PRSC-5). This register was an integrated database that allowed the development and implementation of strategic management of human resources, including the payroll. The e-SISTAFE-compatible payroll module and database had already been developed in mid-2007, so that the Ministry of Finance could pay salaries through e-SISTAFE. Salary payments using the new integrated payroll management system were expected to start in early 2008. This reform, which would have also assisted the Government to eliminate "ghost workers," was substantially relevant to improved governance (World Bank 2007b, paragraph 70).

(iii) The Ministry of Planning and Development has approved the National Program for Decentralized Planning and Finance (NPDPF)

- PARPA II and this PRSC series focused on decentralization because of its importance for effective governance of public investments and service delivery at the provincial and district levels. This prior action had been proposed for PRSC-4 but the NPDPF was delayed. Hence it became a prior action for PRSC-5, which was substantially relevant to improved governance.

(iv) The Ministry of Civil Service has created a single registry of state officials and civil servants

- There was no integrated database on personnel that would allow the development and implementation of a human resources management strategy. This prior action was therefore important for achieving sound human resource management and an enhanced institutional capacity to deliver public services. Hence this prior action was substantially relevant to improved governance.

(v) The National Institute for Social Security has completed an actuarial study for the elaboration of its investment strategy

- The actuarial study was aimed at assessing the financial sustainability of the national pension system and any quasi fiscal liabilities, and to identify any required adjustment to the level of contributions required to cover the services provided by the system. The actuarial study was also critical for the design of a new investment strategy in 2008 and to ensure the adoption of best practices in the management of its funds. A sound investment strategy would contribute to strengthening the long-term financial stability of the social security system and was therefore substantially relevant to improved governance.

(c) Relevance of Prior Actions to Economic Development

2.19 In the area of economic development, the program document for PRSC-4 stated that "Accelerating shared growth requires improvements in the climate for private sector development, adequate infrastructure, improved smallholder productivity, and tackling key challenges such as the impact of the HIV/AIDS epidemic, and the need to improve significantly the management of natural resources" (World Bank 2007b, paragraph 73). PRSCs-3–5 addressed only some of these issues as prior actions:

(i) Simplification of business procedures to open a business through publication of company registration, including on the Government's official website

- A private sector–led growth strategy calls for a strengthening of the business environment. Improving the business environment (reducing the number of days to open a business) had always been a priority for the Government to attract foreign investment and generate economic development and growth. This prior action to simplify procedures to open a business was therefore substantially relevant to stimulating economic development.

(ii) The National Roads Administration has rehabilitated and maintained Mozambique's national classified roads network to ensure that at least 71 percent of the roads network is in good or fair condition

- The Government correctly perceived that shortcomings in the nation's infrastructure were constraints to growth. To address this problem PRSC-4 focused on road improvements including rural roads. Despite the fact that this prior action was vague in its definition of the quality of roads, its basic thrust was substantially relevant to stimulating economic development.

(iii) The Ministry of Agriculture has constructed and rehabilitated at least 2,500 hectares of irrigated areas in Mozambique

- The emphasis here was to extend the country's irrigated areas focusing on an appropriate policy framework to increase water storage and distribution, and to strengthen beneficiary organizations. This prior action was substantially relevant to stimulating economic development.

(iv) The Ministry of Agriculture has increased access to technologies and extension information to at least 21 percent of farmers in Mozambique

- This action replaced a prior action for PRSC-4 that required reporting on the access of farmers to new technologies, but abandoned because it could not be measured annually. This alternative prior action introduced in PRSC-5 was measurable each year and relevant to the Government's objective of increasing productivity in the agricultural sector to combat food insecurity and generate growth in the agricultural sector, thereby stimulating economic development.

3. Implementation

3.1 The series of three operations was implemented over three years. Disbursements were made in the first quarter of the budget year being supported, except for PRSC-5, which was disbursed at the end of the preceding budget year in response to the Government‘s request to accelerate the disbursement to assist it to cope with the impact of the global food and fuel prices crisis. There were no changes to the closing dates for any of the PRSCs in the series.

3.2 This disbursement performance was achieved despite a suspension of budget support disbursements in late 2009 by bilateral donors. The suspension reflected the donors’ concerns about the Government’s inaction on accusations of fraud during the recent elections. The donors requested the Government to take action on electoral reform, corruption, and conflicts of interest, as well as on the growing role and influence of the governing Frelimo party on private sector development. The Bank did not align itself with these donors and it maintained its disbursement schedule for PRSC-5. The bilateral donors concerned eventually resumed their general budget support programs but the suspension had a lasting negative impact on their interest in general budget support and the size of their contribution.

3.3 Implementation of the PRSC series followed compliance with the prior actions before Board approval for PRSC-3. Subsequent tranches for the program series were based on compliance with additional prior actions (typically foreshadowed as “triggers” in the program document for PRSC-3) in two separate Financing Agreements for PRSCs-4 and 5.

3.4 Despite some delays in Government actions on governance, investment climate, and decentralization, there was compliance with the prior actions before World Bank Board approval of the three credits and the reform program continued to be on track with a clear focus on the three areas in the program’s objectives: macroeconomic management, governance reforms, and a better investment climate.[6] When delays occurred the Government took corrective actions. Joint monitoring with the Group of 19 general budget support donors (G-19) made the implementation of the program and the policy dialogue more effective.[7] However, in the event prior actions on decentralization and an actuarial study for the National Institute for Social Security were not implemented.

3.5 Appendix table B.3 presents a summary of the prior actions for each of the three PRSC operations as well as how they were implemented— namely whether they were implemented on time with or without modification, delayed with or without modification, or dropped.

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[6] These delays were mentioned in the Joint Annual and Mid-Term Reviews of April and September 2007/2008/2009 and the IMF’s Poverty Reduction Growth Facility (PRGF) review of June 2007, and the IMF Policy Support Instrument (PSI) reviews of June 2008 and December 2009.

[7] The G-19 is the donor group that provides general budget support to the Government through a common framework agreement. During PRSCs-3–5 they were African Development Bank, Austria, Belgium, Canada, Denmark, European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and World Bank. The United Nations and United States are associate members.

4. Achievement of Objectives

4.1 The program documents for PRSCs-3–5 defined three "support areas" for the programs which, as noted above, are interpreted as the program's objectives. These objectives were the same for each PRSC and were not changed during implementation. Therefore, the assessment of program achievements will be made for all three PRSCs together. This assessment was conducted six years after project close. It was carried out within the context of the entirety of the series, based on the long-term commitment between the Bank and the Government that reforms in one period should be sustained over time. While not rated, this assessment also reviews the extent to which the series has contributed to reductions in absolute poverty—the core PARPA II objective.

Objective 1: Macroeconomic Management

4.2 This objective would be achieved by "consolidating and deepening the institutional reforms for better macroeconomic management." As mentioned above, there was an over-reliance on deepening public financial management reforms in relation to the macroeconomic objective, to the exclusion of indicators of macroeconomic stability. However, to assess the objective, this review will measure the extent to which the Government pursued better macroeconomic management (in the context of its adherence to a completed reform program with the IMF), balance of payments, public debt, enhanced revenue generation capacity, improved focus of budget allocations to priority sectors for poverty reduction, improved public financial management, the quality of procurement practices, and the coverage and efficiency of audits.

4.3 *Macroeconomic management.* The broad objectives of macroeconomic management were to establish the enabling environment for sustained growth while maintaining macroeconomic stability measured by the extent to which it can manage debt, withstand external balance of payments shocks, control fiscal imbalances, and manage fluctuations in interest rates and exchange rates. When the PRSC-3–5 series started in 2007, Mozambique was receiving no financial support from the IMF.[8]

4.4 Between December 2005 and December 2015, Mozambique engaged with the Fund through a Policy Support Instrument, which it describes as a flexible tool that secures Fund advice and support without a borrowing arrangement. Between 2007 and 2010, average annual inflation rates fluctuated between 3.3 and 12.7 percent (see Table 4.1) but the high inflation rates in 2008 and 2010 were due to the effects of drought, the food and fuel crises, and the global financial crisis.[9] During the same period, growth rates of GDP in constant

[8] Mozambique eventually received $176 million from the IMF in July 2009 under the Fund's Exogenous Shocks Facility to address its deteriorating balance of payments position resulting from the global financial crisis.

[9] Among countries in Sub-Saharan Africa, Madagascar and Mozambique experienced by far the greatest average annual damage due to droughts, earthquakes, floods, and storms (IMF 2015a).

prices were regularly between 6 and 7 percent per annum and average per capita GDP in constant prices grew at an average rate of about 5 percent per annum (see Figure 1.1).

4.5 *Enhanced revenue generation capacity*. Government efforts achieved strengthened management of the Central Revenue Authority that resulted in significant increases in total collected revenues, without raising taxation rates. The Public Expenditure and Financial Accountability (PEFA) reports (Republic of Mozambique 2008 and European Commission 2015a) show good improvement in the transparency of taxpayer obligations and liabilities (PEFA indicators PI-13) some improvement in the effectiveness of measures for taxpayer registration and tax assessment (PEFA indicators PI-14).

4.6 The total revenue to GDP ratio has consistently increased over the last decade. Between 2004 and 2006, for example, the total revenue to GDP ratio rose from 13.1 percent to 15.6 percent. During the PRSC 3-5 period (2007-2009), the total revenue to GDP ratio rose from 15.9 percent to 17.4 percent, despite temporary diesel and kerosene taxes between June and December 2008 and the global financial crisis. After the PRSC 3-5 period, the total revenue to GDP ratio continued to grow, reaching 25 percent in 2015, the latest date at which estimates were available (see Table 4.1). This represented an impressive and sustained increase in revenue collection performance since the PRSC 3-5 period began.

4.7 The fiscal deficit (before grants) was relatively stable between 12 and 15 percent of GDP between 2007 and 2011. It then declined in 2012 to 8.9 percent as a result of a rise in capital gains tax receipts and dropped again in 2013 to 7.9 percent following an increase in total revenue to 26.3 percent of GDP. However, while the revenue performance remained high, the fiscal deficit increased sharply to 14.8 percent of GDP in 2014 following increased expenditures on goods and services, but dropped back to an estimated 10 percent of GDP in 2015. The changes in the consumer price index had been generally high until 2011 but subsequently declined to around 2 percent per annum through 2015 (see Table 4.1) although there were considerable fluctuations.

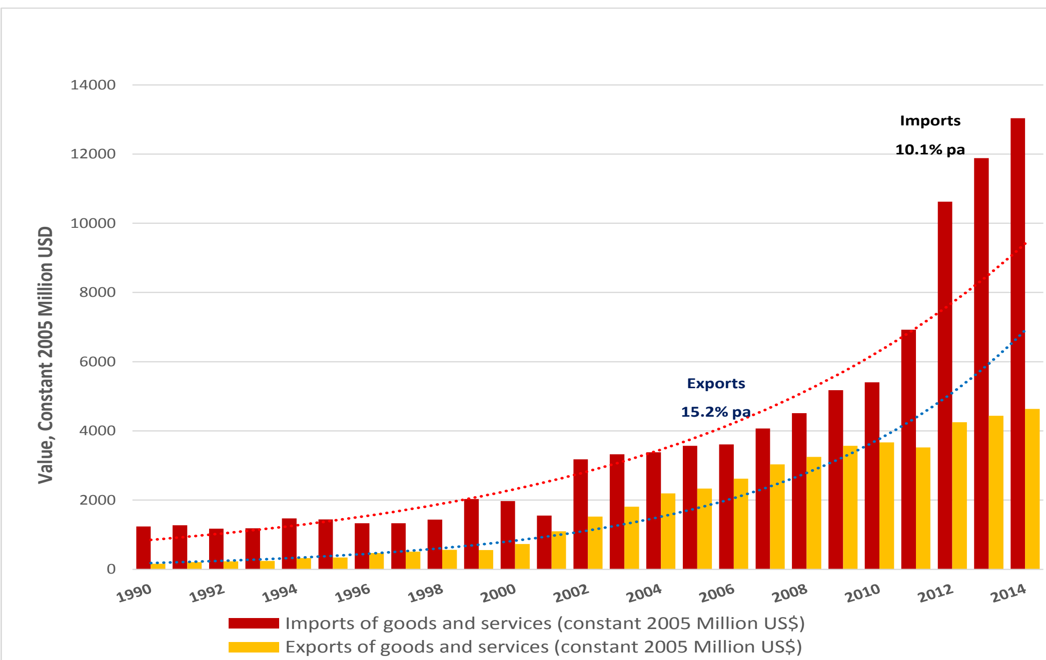
4.8 While most economic indicators up to 2015 were encouraging, there were signs that serious problem were emerging. The current account balance of payments deficit, which had declined from about 20 percent of GDP in 2007 and 2008 to about 12 percent of GDP in 2009 and 2010, started to increase rapidly in 2011 until it reached 44.7 percent of GDP in 2012. This was mainly due to imports for large mining projects, nuclear reactors, electrical machinery and vehicles as the value of exports stagnated. As figure 4.1 shows, the current account deficit remained high in 2014 and 2015 at 34.1 and 30 percent of GDP, respectively. In the meantime total nominal public debt increased to a high level of 57 percent of GDP in 2014 and is estimated to have increased to 74 percent in 2015). As a consequence of these developments, the IMF Board considered a request for emergency assistance from the Government on December 18, 2015 and approved a Standby Credit Facility effective until June 2017, with an initial disbursement of $120 million.

Table 4.1. Economic and Financial Indicators, 2007–15

Item	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP (% change)	7.0	6.8	6.3	6.6	7.3	7.2	7.1	7.2	6.3
CPI (period average % change)	8.2	10.2	3.3	12.7	10.4	2.1	4.2	2.3	1.9
Current account balance of payments before grants (% of GDP)	-19.4	-20.4	-12.1	-11.7	-24.3	-44.7	-39.1	-34.1	-30
Total external reserves coverage (months of imports)	4.7	4.4	5.4	3.3	2.9	4.2	4.9	4.8	4.0
Total Nominal Public Debt (% of GDP)	38.1	22.5	38.2	46.1	39.3	39.9	50.9	56.6	74
Total revenue (% of GDP)	15.9	15.8	17.4	19.6	20.7	21.9	26.3	27.3	25
Overall fiscal balance before grants (% of GDP)	-13.1	-11.6	-14.8	-13.2	-13.1	-8.9	-7.9	-14.8	-10.0
Overall fiscal balance after grants (% of GDP)	-3.4	-3.1	-5.4	-4.3	-5.3	-3.9	-2.7	-10.6	-6.0

Sources: World Bank and IMF data bases. Official data up to 2014. Data for 2015 are based on IMF estimates.

Figure 4.1. Trends in Total Exports and Imports



Source: WTO data base. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

4.9 *Deterioration of macroeconomic management*. The continuing substantial balance of payments deficit and the rapidly rising public debt was put under the spotlight when the IMF announced in April 2016 that an amount in excess of $1 billion of external debt guaranteed by the Government had not been previously disclosed to the Fund. It is understood that these undisclosed guaranteed debts were contracted in 2013 and 2014. This was only four to five years after PRSC-5 closed. Such guarantees were counter to the Government's commitment to the World Bank when requesting assistance for the PRSC 3-5 and throughout the subsequent series that it "remains committed to maintain macroeconomic stability, improve public financial management and enhance governance."[10] Disbursements from the Standby Credit Facility provided by the IMF have been suspended. The Fund has stated it would continue to work with Mozambique "to evaluate the macroeconomic implications of this disclosure and identify steps to consolidate financial stability, debt sustainability, and enhance Government oversight of public enterprises" (IMF 2016b).

4.10 *Improved focus of budget allocations to priority sectors for poverty reduction.* Prior actions for all three PRSCs in this series were conditional on a Government commitment to allocate and maintain 65 percent of the Government's annual budget to the six PARPA priority sectors: education, health, agriculture, rural water supply, infrastructure, and governance. The IMF report on its Article IV consultations in 2009 recorded that the proportion of national budget expenditures to PARPA priority sectors was 62.3, 73.0, and 70.9 percent respectively in 2007, 2008, and 2009 (IMF 2009, table 9). The overall achievement of the 65 percent allocation to priority sectors was also confirmed by an EU evaluation of PRSC operations in Sub-Saharan Africa, which concluded that Mozambique was regularly close to meeting the commitment during the program implementation period (European Commission 2014b). However, there was no information in the project documents, nor in the Implementation Completion and Results Report, regarding the distribution of these allocations by provinces, districts, and sectors (part of the program objective) and would have provided a better picture of the geographical coverage of funding and the likely impact of the broad commitments on allocations to priority sectors on the welfare of the poor. Such details (relevant to the program objectives) were also not considered in either the PRSCs-3–5 program documents or the PAF monitoring framework. Other issues concerning the impacts of services provided by the allocation of funds to priority sectors will be discussed below when addressing the achievements in improving governance.

4.11 *Improved public financial management.* The implementation of the integrated electronic financial management system (e-SISTAFE) progressed well following its initiation under PRSC-3. The system was rolled out to all ministries at the central and provincial levels by the end of 2007, and to the 31 districts that had the prerequisite infrastructure as prior actions for the approval of PRSC-4 and PRSC-5. Additional extensions of the system at the end of December 2008 led to the coverage of the electronic accounting system to a total of 50 districts out of 128 and to 25 autonomous institutions at the central Government level. The rollout of e-SISTAFE was accompanied by an extensive training program involving 1,850 users (about six users per budget execution unit). Users acquired operational skills such that

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[10] "Program Document for a Proposed Third Poverty Reduction Support Credit" Report No. 37970-MZ, December 19, 2006, World Bank, Washington, DC; Annex 4, Letter of Development Policy for the Third Poverty Reduction Support Credit and the others in this series. The same commitment was made for the Sixth Poverty Reduction Support Credit and the others in the series. Similar commitments were made in the final PRSC series (PRSCs 9-11).

at the end of PRSC-5 they were able to formulate requests for additional functions for the system.

4.12 The Government and the Bank have emphasized that the e-SISTAFE system has permitted control and up-to-date information on expenditures and revenues. For example, by the end of 2007, budget execution units in the Government started to make their payments directly by bank transfer from the Single Treasury Account, such that as of end-2009, more than 95 percent of goods and services and investment transactions of budget execution units were carried out live through e-SISTAFE. This led to significant benefits in terms of improved information on public spending and build-up of arrears, predictability in the availability of funds for expenditures and commitments by budget holders, and in internal control and transparency.

4.13 Effective institutions for efficient resource allocation and accountability are important in a country such as Mozambique with remote provinces and districts, large public expenditures relative to total revenues, and governance issues. E-SISTAFE has been widely praised by the Bank[11] and the IMF[12] during the PRSCs-3–5 period and credited with supporting the successful decentralization of financial management by central Government ministries to provincial and district Governments. While e-SISTAFE in principle provides a good platform for efficient resource allocation and accountability, it relies on behavior that is fully consistent with the spirit and the letter of the e-SISTAFE Law that guides its overall implementation. As reported by a recent evaluation conducted by the IMF – that focused on fiscal transparency –"the e-SISTAFE Law establishes a mixed accounting system comprising accrual-basis accounting for expenditure and cash-basis accounting for revenue. These principles, however, are not fully applied as most expenditures and revenues are recorded on a cash-basis, and the commitments were not reported in the last published year-end financial statements (General Account of the State 2012; IMF 2015a, paragraph 33)."

4.14 In addition, in December 2015, the Director of Mozambique's Central Office Combatting Corruption (GCCC) called for an urgent review of the state's electronic financial management system (e-SISTAFE) on the grounds that in the hands of dishonest officials it permits the theft of large sums of money from the public treasury.[13] It is apparent that there are serious concerns about the efficacy of the manner by which this otherwise sound technical platform for public financial management (e-SISTAFE) is being used.

4.15 *Enhanced procurement practices.* In light of improvements in procurement practices supported by PRSCs-1 and 2 and the associated technical assistance, development partners relied increasingly on Mozambique's systems for national competitive bidding, with fewer exceptions to the national regulations. As a result, donors moved more to the use of organically integrated project implementation units. Nevertheless, at the close of PRSC-5 a system was not yet in place to ensure that all district-level Units for the Execution and

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[11] PRSC 3-5 Program Documents and the Country Partnership Strategy for FY12–15 (paragraph 17).
[12] See for example Teresa Daban and Mario Pesoa, *IMF Technical Assistance: Budget Reform Holds Promise in Mozambique*, IMF Survey Magazine: Countries and Regions, November 26, 2007.
[13] *Noticias*, Tuesday, 9 December, 2015.

Management of Acquisition systematically reported procurement information to Central Procurement Supervision Units, highlighting the need for a more robust M&E system (one of the major recommendations of the Mozambique Country Procurement Assessment Report—CPAR). This CPAR also highlighted the need for an effective complaint mechanism to disclose abuse of the systems and allow for effective remedies while maintaining the efficiency of the process. The latest PEFA report using, a more comprehensive methodology (though consistent with the previous methodology) rated "transparency, competition and complaint mechanisms in procurement" was rated D+ (European Commission 2015b). The advances in procurement practice achieved under PRSCs-1 and 2—such as a new procurement code and the use of standard bidding documents, which started the transparency of the procurement process (see IEG 2009) —were not sustained.

4.16 *Increased coverage and efficiency of Government audits.* Mozambique's Supreme Audit Institution (*Tribunal Administrativo*—TA) continued the progress achieved under the two previous PRSCs by doubling the number of audits carried out in 2007 to 361. From these the auditors completed 281 reports, substantially surpassing the target of 90 financial audit reports (prior action for PRSC-5). The TA audited each of the 128 districts at least once. While the increase in the number of verification audits by the TA was impressive, the scope of these audits remained limited; it was estimated that in 2007 they covered only about 26 percent of total expenditures. In line with the findings of the Public Expenditure and Financial Accountability (PEFA) assessment, the Tribunal shifted its focus from the number of verification audits to expanding the share of the state budget covered by the verification audits. The TA increased verification audits of the accounts of various public institutions at the central and decentralized levels from 361 in 2007, to 600 in 2010. The result was that the coverage of audits of the state budget increased from 30 percent in FY08 to 37 percent and 40 percent in FY10 and FY11, respectively (World Bank 2013, paragraph 50). However, the percentage of recommendations from audits implemented by the entities audited/inspected by the internal control unit and the General Inspectorate of Finance was only 15 percent in 2015. It was proposed that during the implementation of PRSC-11 (approved in December 2015) this percentage be raised to 40 percent (World Bank 2015b, page 1).

4.17 *Response to the audit findings remain limited.* The Mozambique law empowers the Tribunal to impose fines or to recommend corrective actions as a result of its audits, but in practice during the implementation of PRSCs-3–5 the follow up has been largely limited to future audits by the Tribunal and to follow up on corrective actions in them such as verifying the implementation of recommendations. On the other hand, an IMF evaluation of fiscal transparency in Mozambique concluded in 2015 that the Tribunal's external audits are generally "good." For example, the IMF evaluation noted that "The General Account of the State (CGE) is audited by the Tribunal. Currently its opinion focuses mainly on the legality of budget execution, but also includes comments on the reliability of information, the budget performance and provides detailed conclusions and recommendations. The Tribunal does not express an opinion on whether the financial statements present a true and fair view. This audit report is transmitted to the Parliament and is published in the website of the Tribunal after the deliberations by the Parliament." However the IMF evaluation also pointed out that, while the Administrative Tribunal noted some progress in the quality of financial information, it had identified, in its most recent audit report, several concerns about the completeness and reliability of the financial information provided in the 2011 CGE. A PEFA report in 2015 also stated that “there is no systematic process to ensure follow up by the Executive or the audited entity in all cases” (European Commission 2015b, Annex One). Overall, while there have been advances in the coverage and quality of audits in public institutions, there are some significant shortcomings in terms of their response to audit findings.

4.18 This assessment concludes that during the implementation of PRSCs-3–5, the growth of the economy was high and inflation was relatively low in years when there were no disruptive exogenous events such as droughts and floods. In addition, revenue collections showed significant improvements and the budget deficit had declined substantially during the implementation period for PRSCs-3–5. The current account balance of payment and total public debt increased significantly. In addition, recently reported experience indicates that there has been no deepening of macroeconomic reforms; indeed in some areas macroeconomic performance has deteriorated. Also, recent analysis mentioned above indicates significant weaknesses in the achievements of institutions such as the e-SISTAFE financial management system, as well as public procurement and auditing, which could have implications for the accuracy of assertions about budget allocations in 2007, 2008, and 2009 to the priority PARPA sectors.

4.19 *Summary*. While macroeconomic management was strengthened under PRSC 3-5, development outcomes over time associated with the first project development objective exhibit significant shortcomings. As measured over time, in line with the program performance assessment methodology, efficacy of macroeconomic management is therefore rated ***modest.***

Objective 2: Governance Reform

4.20 The second objective of the PRSC series was geared towards governance reform that was to be achieved by supporting the decentralization/deconcentration agenda with the aim of enhancing public investments and service delivery at the provincial and district level, and by supporting public sector reform. This section will therefore assess the extent to which the Government pursued the (1) improvement of institutional capacity of local Governments, (2) improved service delivery at the provincial and district levels, and (3) improved human resource management in the public sector.

4.21 *Strengthened institutional capacity of local Governments*. The achievement of the governance reforms included as objectives in PRSC 3-5 was predicated on the approval of the National Program for Decentralized Planning and Finance. However, during the PRSC 3-5 period, there were delays in putting in place the program and institutional arrangements associated with the planned decentralization reforms. Thus, it is unclear why, the program document for PRSC-5 noted that “The decentralization efforts of the Government are notable and much progress was made in 2006 with the introduction of the investment budget for districts.” At the same time, with regard to the decentralization process, the same document points to “concerns about the implementation of the investment budget and the lack of appropriate guidelines. Corruption and conflict-of-interest remain central issues” (World Bank 2008a, page 32).

4.22 In the absence of a decentralization program, there is evidence that some deconcentration took place. In 2006, grants were allocated to districts but on a very rudimentary basis. In total, these grants were about 5 percent of GDP in 2008. Since the PRSC 3-5 period, when the decentralization program was planned but not prepared, the action has been dropped by subsequent PRSCs (6-11). However, the Government's current Five Year Plan for 2015–19 includes decentralization as one of its pillars.

4.23 ***Improved service delivery at the provincial and district levels*** Compliance with the expenditure of 65 percent of the central Government budget on priority sectors was achieved and there are indications that performance in some social sectors has improved. This agreed allocation to priority sectors has been maintained after the conclusion of the series: allocations to priority sectors averaged 65.6 percent between 2012 and 2014, with significant growth in the budget envelope. Between 2005 and 2010 - broadly the implementation period for PRSCs-3–5 - enrollments at primary and secondary school levels, water sources, and sanitation all improved (See Table 4.2) At the same time, the incidence of HIV infections (among the highest in Sub-Saharan Africa) has not changed significantly. In terms of human and social development, such as access to primary and secondary education, as well as access to health services, positive results were reported in the latest household survey. The PARP (third poverty reduction strategy) report noted that the proportion of the population with access to schooling rose from 30.8 percent in 2002–03 to 37.3 percent in 2008–09. The percentage of illiterate women fell significantly from 54 percent to 40.8 percent between 2004 and 2008. As table 4.2 shows, there was also progress in reducing the gender gap in basic education enrollment; health indicators improved although life expectancy is still relatively low.

4.24 While the sustained maintenance of these allocations is noteworthy, there is a lack of outcome level evidence to validate the objective of enhanced service delivery at the provincial and district level as anticipated according to the program's objective. The budget indicator utilized, although in line with the minimum criteria set by the HIPC, falls short of allowing for a validation of the statement of objective. Neither the quality nor the impacts of the expenditures on the priority sectors was measured at the provincial and district level. This was a concern among a number of bilateral and multilateral donors. There are very limited data available on education outcomes or the impact of improved water supplies (for example, higher graduation rates and reduced incidence of water-borne diseases) in rural areas.

4.25 *Improve human resources management in the public sector.* PRSCs-1 and 2 had supported a census of civil servants that allowed the establishment of a single registry of state officials and public servants in 2007 (Cadastro Unico dos Funcionarios Publicos— CAF). This was a prior action for PRSC-3. The CAF is an integrated database that allows the development and implementation of features that support the strategic management of human resources, including the payroll. The coexistence of the CAF and a payroll module within e-SISTAFE enabled an improved control of salary payments, and in particular the potential elimination of salary payments to ghost workers, as well as the direct payment of salaries through e-SISTAFE. This was a significant achievement allowing control and updated information on the payroll. In addition, a new medium-term salary policy was approved

Table 4.2. Selected Social Indicators 2000–14

Items	2000	2005	2010	2014[a]
Net enrolment rate, primary, both sexes (%)	55.2	72.1	86.9	87.6
Gross enrollment ratio, primary, both sexes (%)	73.7	96.1	108.9	104.1
Gross enrolment ratio, primary and secondary, gender parity index (GPI)	0.7	0.8	0.9	0.9
Mortality rate, under 5 (per 1,000)	171.1	133.8	102.8	81.2
Mortality rate, infant (per 1,000 live births)	115	90.4	71.9	58.5
Life expectancy at birth, total (years)	48.7	50.6	53.2	55.0
Immunization, DPT (% of children ages 12–23 months)	70	80	74	78
Immunization, measles (% of children ages 12–23 months)	71	78	82	85
Prevalence of HIV (% of population ages 15–49)	8.9	11.4	11.2	10.6
Women's share of population 15 years and older living with HIV (%)	57.6	59.0	59.4	60.0
Improved water source (% of population with access)	41.1	44.8	48.5	50.9
Improved sanitation facilities (% of population with access)	14.1	16.5	18.8	20.4

Source: The World Bank, World Development Indicators. a. Last year for which data are available.

by the Council of Ministers in September 2008 (prior action for PRSC-6) and after a successful pilot an electronic salary payment system was completed in 2010 and launched in 2011 (World Bank 2013, Data Sheet, Indicator 9). However, the PRSC-3–5 program did not develop explicit indicators to monitor progress of the public service in terms of its size and its wage bill.

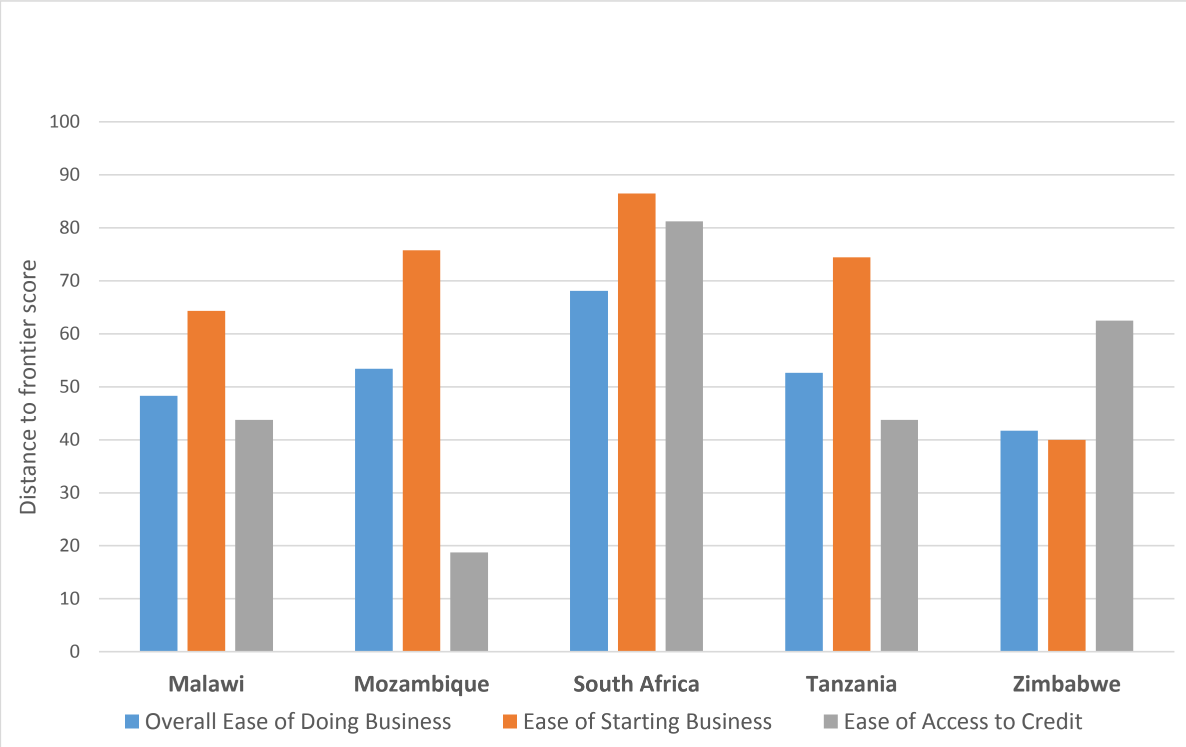
4.26 *Summary.* Overall the sustained achievement of improved governance during PRSCs-3–5 was ***modest.***

Objective 3: Economic Development

4.27 The program document indicated that this objective would be achieved by improving the business environment, removing constraints to growth such as poor infrastructure (in particular roads and irrigation), and promoting agricultural growth.

4.28 *Improving the business environment.* The results of *Doing Business 2010*, the first opportunity to make valid intercountry comparisons, showed that Mozambique ranked 135 out of 183 countries surveyed. Though this was an increase of five rankings over *Doing Business 2009*, Mozambique remained well below the Southern Africa Development Community's (SADC) top performers—Mauritius and South Africa (ranked 17 and 34, respectively)—and fell to rank just 12 out of 15 SADC countries. Yet in terms of the objective of an improved business environment, Mozambique was making progress at a time when the impact of reform policies pursued during PRSCs-3–5 may have been felt by the business community. Figure 4.2 shows that "overall ease of doing business" and "ease of starting a business" were comparable to Tanzania and Malawi, and behind South Africa. However, in ease of access to credit, Mozambique ranked well below all other comparator countries.

Figure 4.2. Overall Ease of Doing Business, Ease of Starting a Business, and Ease of Access to Credit, 2010



Source: World Bank, Doing Business Indicators.

4.29 *Improved infrastructure— roads.* The road density in Mozambique is the lowest in all of Africa: road density has been estimated at 0.05 kilometer per square kilometer. The majority of the road network is not classified. The length of the classified road network is estimated to equal 30,000 kilometers, of which less than 20 percent is paved, of which only two-third of this area is in good or fair condition. At present, the World Bank estimates that the road network provides access to 32 percent of the population, measured by those living within 2 kilometers of an all-season road. PRSCs-3–5 supported an improvement in the proportion of roads that were in good or fair condition— from 64 to 71 percent (against a target of 73 percent). But from a poverty-reducing perspective—as discussed between the IEG PPAR mission that overlapped with a Bank transport mission that had managed a multi phased adjustable program loan for the road sector— these achievements did not make much progress. However, in those discussions the Bank team underlined the increased connectivity of coastal populations, resulting from the rehabilitation of the primary road network in Mozambique.

4.30 The Bank's adjustable program credit helped to increase road transport connectivity from a baseline of 11 percent in 2007 to an outcome of 32 percent in 2015, as measured by the percent of the population living within 2 kilometers of an all-season road. While this progress is notable, much of this increased connectivity was achieved after the PRSC period. From the perspective of poverty reduction, more attention should have been paid to the lack of road redundancy[14] and the condition of secondary and feeder roads, which are critical for linking rural producers to markets and enabling the rural poor to gain timely access to services. Regarding redundancy, interviews with the Bank transport team revealed that when floods hit, many poor rural areas are cut off completely from the economy as well as health and welfare-related services.

4.31 *Improved infrastructure— railways and ports.* A recent Bank report noted that there has been a significant increase in the use of public-private partnership arrangements (PPPs) for large infrastructure projects since 2011, with many supporting the development of infrastructure for coal mining. It mentioned that projects are underway to develop ports in key areas (such as Pemba and Palma) to facilitate the transportation of natural resources, and that projects designed to increase energy generation and export are ongoing. The Mozambique Ports and Railways Company is involved in a number of PPPs, including a large-scale initiative to construct the railway link between the Minas Moatize coal mine in Tete province and Nacala, and to expand the Nacala port. This project, estimated to cost $5 billion, started in 2013 and is planned for completion in 2017. The report emphasized the importance of such projects but also noted their substantial fiscal implications (World Bank 2016, page 22).

4.32 *Promote agricultural growth.* With regard to agriculture, in Mozambique, Cunguara and Kelly (2009) examined the impact of the Government's policy of stimulating production in the agricultural sector and concluded that "PARPA II failed to increase agricultural production and productivity and thus reduce poverty. The variation in maize production is mostly explained by variation in rainfall patterns across agricultural seasons, and not by technological progress or adoption of better cropping practices. Poverty reduction strategy plans should promote agro-processing and diversification of both off-farm activities and crops. In order to increase agricultural productivity, access to improved agricultural technologies should be increased and more investments should be made in irrigation and water conservation technologies." These two issues were addressed in PRSCs-3–5 to promote growth in the agricultural sector and are discussed below.

4.33 PRSCs-3–5 intended to provide an improved environment for agricultural sector growth. The PRSCs also provided resources for the development of irrigation systems. According to official data, agricultural GDP had a long-term growth rate of 5.7 percent per annum between 1990 and 2014 (see figure 1.1) although it dropped to about 3.5 percent per annum between 2009 and 2014—still a sound and sustained performance given the sector's structural problems and susceptibility to drought. GDP per agricultural worker grew at only 3.3 percent per annum—below typical inflation levels in rural Mozambique and 33 percent lower than for all workers, and this gap has been widening (see figure 4.3). However, as shown in figure 4.4, the demand by high-income urban consumers for wheat and rice has resulted in high imports of these grains (growing at a rate of 13.5 and 7.8 percent per annum for rice and wheat since 1990) even though, with appropriate technology, rice and wheat

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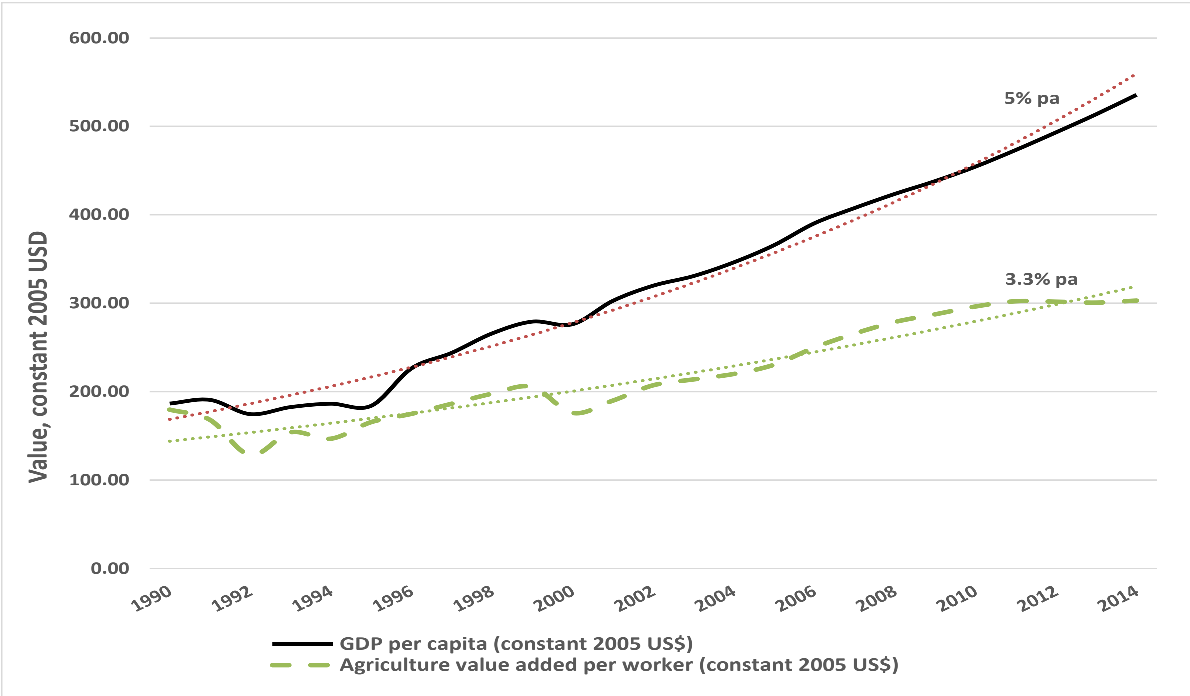
[14] Network redundancy (in this case the road network) is a process through which additions or alternatives are installed within network infrastructure. It is a method for ensuring network availability in case of failure or unavailability of part of the network

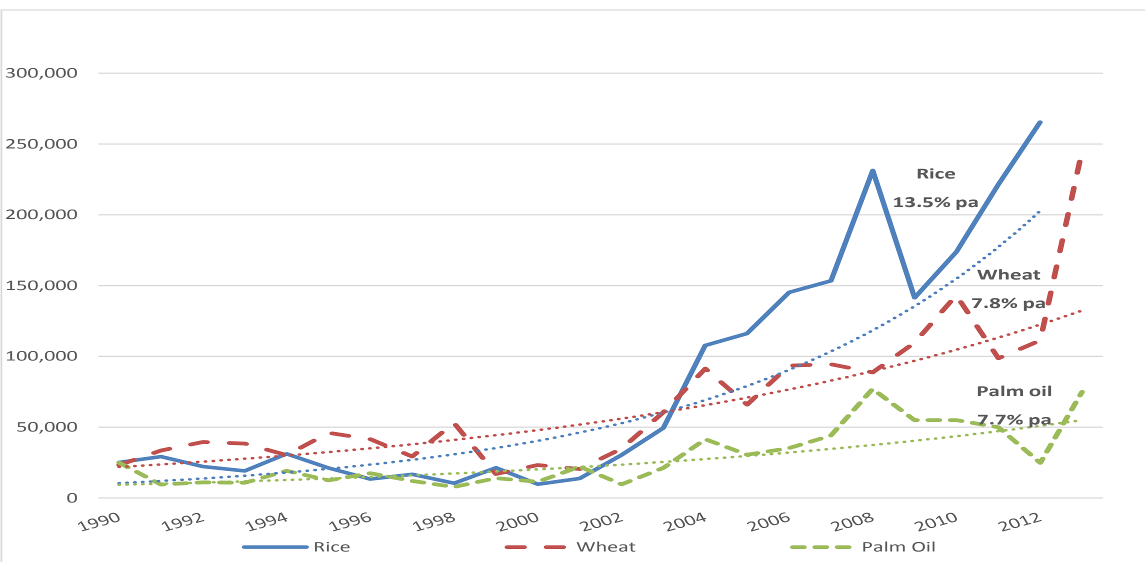
could be produced in Mozambique. The rapid growth in imports of basic foods suggests inefficiency and weak competitiveness of Mozambique's agricultural sector.

Figure 4.3.Trends in per Capita GDP per Worker in Agriculture Compared with the Economy as Whole in Mozambique, 1990–2014



Source: World Development Indicators.

Figure 4.4. Trends in the Value of Annual Food Imports (US$), 1990–2012



Source: FAO STAT.

4.34 PRSCs-3 and 4 provided support for increased access of small-scale farmers to improved agricultural technologies through extension services. While the expected outcome was that 411,000 farmers would benefit from extension services in 2009 as compared to 193,500 in 2006, the number of farmers benefiting reached 365,000. The Government's policy response to the higher food prices in 2008 focused on promoting economic growth and agricultural production. In this context, in June 2008, the Government approved an Action Plan to Increase Food Production, which articulated an aggressive push to increase agricultural production over the three-year period, 2008–11. The expansion of extension services along with the construction or rehabilitation of irrigation were the major instruments deployed to implement the Government policy of increasing agricultural production.

4.35 *Promote construction and rehabilitation of agricultural infrastructure to increase food production.* PRSCs-4 and 5 included support for the construction or rehabilitation of 3,200 and 4,000 hectares of irrigation schemes, respectively. The PRSC-4 target was set at 3,200 hectares, but this was reduced to 2,500 hectares. Similarly, some 3,500 hectares were rehabilitated against a PRSC-5 target of 4,000 hectares. These shortfalls reflected higher than anticipated unit costs. Moreover, investments in irrigated production take many years to yield results and these investments would have had no positive impact on either domestic food supplies and hence food prices in the short term in Mozambique.

4.36 *Responses to higher food prices.* In response to the global food crisis, a policy action was introduced into the PRSC series in 2008 that led to the specification of (a) a prior action for PRSC-5 calling for an increase in the annual budget for the agriculture sector and (b) targets for 2008/09 and 2009/10 agricultural seasons pertaining to increases in (i) the production of maize and rice seeds and (ii) the area under cultivation for the same crops supported in part by the proposed increase in irrigated area. The ICR provided no evidence whether the targets for 2008 and 2009 were achieved. To finance the measures, the Government realized expenditure savings from non-release of 10 percent of the budget for recurrent expenditures in selected programs and domestically financed investment expenditures, while protecting expenditures in PARPA priority sectors and programs (World Bank 2010, paragraph 122).

4.37 *Poverty reduction.* The Government's overarching objective in its three poverty reduction strategies is variously defined as "reduce the incidence of poverty from 54 percent in 2003 to 45 percent in 2009" (PARPA II) to "combating poverty and promoting a culture of work, with a view to achieving inclusive economic growth and reducing poverty and vulnerability in the country" (PARPA). Using official Government estimates of poverty, the data show that, although the national incidence of poverty declined between 1996/97 and 2002/03 from 68 to 69 percent to 54 to 56 percent—it remained between 52 to 55 percent in 2008/09. However, because the population of Mozambique grew faster than the rate of poverty reduction, there were 400,000 more people living in poverty in Mozambique in 2009 than there were in 1997. Evidence from the World Bank working paper "Poverty in Mozambique: New Evidence from Recent Household Surveys (2012) confirms an average national incidence of poverty of 2008/09 of 52 percent. At the same time, the paper points to a high degree of regional differentiation with regard to poverty reduction, with poverty decreasing dramatically in urban areas but increasing in the central rural regions, where the poverty headcount is estimated to be 71.2 percent. This is reflected in the Gini coefficients (a measure of dispersion in the data that is a measure of inequality) for urban and rural poverty which were higher in 2008/2009 than in 2002/03. Appendix table B.5 summarizes the available data on the incidence of poverty in money metric terms derived from household surveys in Mozambique for 1996/97, 2003/04 and 2008/09.

4.38 Overall there were positive outcomes for the ease of doing business, but access to credit for businesses fell short of the level achieved in neighboring countries. Importantly, aggregate growth of GDP per capita in real terms was maintained at about 5 percent per annum and, although per capita growth in GDP per worker was lower at about 3.5 percent per annum in the agricultural sector, this was still a creditable performance. Although progress was made on upgrading the main trunk roads in Mozambique, the increased access was mainly enjoyed by urban and peri urban populations. There were, however, considerable investments in major railway and port infrastructure improvements that will reduce the constraints on mineral exports. Achievement in irrigation development fell short of program targets but the totals were small and the shortfall made little difference to the total area under irrigation in Mozambique and could not have had any significant impact on total food supplies. However, agricultural growth remained robust at 3.5 percent per annum between the end of the PRSC series (2009) and 2014. The balance of trade for goods and services was heavily dependent on mineral exports and, while the value of imports and exports both increased during the program implementation period, the value of imports always exceeded the value of exports. There was a substantial deterioration in the current account balance payments deficit after the end of the PRSC-3–5 series due to the worldwide decline in prices for aluminum and coal but also because of large increases in a range of imports. Figure 4.1 shows that the value of imports rose rapidly from 2011 onward while the value of exports remained virtually stagnant. It was ascertained that much of the increase in the value of imports was due to development projects such a railway equipment, machinery related to mining activity, and food. These were all essential imports for long-term growth and stability but they generated a rapid increase in the current account balance of payments.

4.39 *Summary.* This assessment concludes that the economic development objective (improved business environment, reduced infrastructure constraints, and the promotion of agricultural growth) were achieved during the implementation of PRSCs-3–5 and subsequently sustained. The achievement of this objective is rated ***substantial***.

5. Outcome

5.1 The relevance of the objectives of the program is rated *high* and that of their design *substantial*, however there was an over-reliance on public financial management reforms to achieve the broader macroeconomic objective, to the exclusion of indicators of macroeconomic stability. Within the context of the entire PRSC series, the achievement of PRSC 3-5 in consolidating, deepening and sustaining macroeconomic reforms is rated *modest* because of considerable deterioration of macroeconomic indicators. Reforms in governance through decentralization, enhanced public investments and service delivery at provincial and district levels, and supporting public sector reform is also rated *modest.* With respect to the third program development objective on economic development, the objective is rated s*ubstantia*l. The PRSCs 3-5 helped to enhance the business environment, reduce infrastructure constraints through improvements such as in roads, railways, and ports; and to stimulate agricultural growth. Based on the above ratings, outcome is assessed as ***moderately unsatisfactory***.

5.2 While not rated, this assessment also considers the contribution of the PRSC 3-5 series to poverty reduction. While, overall, poverty is estimated by the World Bank to have declined from between 56 percent in 2002/2003 to 52 percent in 2008/2009, there is a high degree of regional differentiation with regard to poverty reduction, with poverty decreasing in urban areas but increasing in the central rural regions, where the poverty headcount is estimated to be 71.2 percent. This result is reflected by the Gini coefficients which were higher in 2008/2009 than in 2002/03 (see Alfani et al, 2012).

6. Risk to Development Outcomes

6.1 In Mozambique, political commitment to the program's three objectives has not always been reliable because of civil conflict and internal political turmoil, although the Government retained majority political support during the program period. Moreover, there are significant risks to the sustainability of the programs pursued in PRSCs-3–5.

6.2 Affirmation of a sustained commitment by the Government to sound macroeconomic management, good governance, and economic development can be found in the consultations the IMF conducted on the Mozambican economy where the conclusions on Government macroeconomic management were regularly positive. With respect to the Bank's involvement, there have now been 11 PRSCs in this series and the Government made commitments to sound macroeconomic management, improved governance, and sound economic development for all of them.

6.3 ***Growth in the Real Sectors.*** However, staying the course on the core macroeconomic management issues is difficult for an economy that is so dependent on one main group of exports: raw and processed minerals. In addition, the main real sector in the economy (agriculture) is also highly vulnerable to floods and droughts. Mozambique's economy is therefore fragile. The program document for PRSC-11 noted in November 2015 that "Despite its positive overall economic outlook, the Mozambican economy faces significant downside risks, such as a sharp drop in commodity prices" (World Bank 2015, paragraph 26).

6.4 ***Balance of Payments and Debt Situation.*** Also, the current balance of payments deficit and public debt both increased to high levels after 2012. In 2015, the former widened considerably as export revenues shrunk drastically, while the value of imports decreased by only 1.2 percent (IMF 2015b, table 1). In the light of these developments the IMF and the Government reached agreement on assistance from a Standby Credit Facility in December 2015 to provide Mozambique with the financial resources to address the balance of payments problem caused by the reduction in the value of merchandise exports in 2014 and to cope with the potential exchange rate fluctuations and macroeconomic instability. The revelation in April 2016, mentioned previously about large undeclared Government guaranteed borrowing by state owned enterprises which neither the Bank nor the IMF were aware of, resulted in the suspension of disbursements from the Fund's Standby Credit Facility. It also raised questions about the quality of the country's macroeconomic management and the sustainability of the reforms supported by the PRSC series.

6.5 ***Waning Donor Support.*** Since 2009**,** several bilateral donors in Europe started to reduce their contributions to general budget support. An evaluation commissioned by the EU on general budget support programs in Mozambique stated the following in the course of reviewing the changing context of the budget support from 2005 to 2012: "The relative shift in European opinion at public and official levels regarding the desirability of budget support has also represented an important change in the context for budget support. This is evidenced in the international withdrawal from budget support by the Netherlands, and in the changes in budget support policies introduced by the European Commission, Sida, SECO, and DFID. These changes have promoted more rigorous assessments of fiduciary risks and attempts to develop more explicit links between disbursement modalities and the results of budget support" (European Commission 2014a, page 77). Because of the serious deterioration in macroeconomic management and continuing governance issues the risk to development outcome of the PRSC series assessed in this PPAR is rated ***significant***.

7. Safeguards and Fiduciary Risks

Environmental Risks

7.1 This series of PRSCs did not trigger any action on environmental risks. The only prior action in the PRSC-3–5 series that could possibly have had an impact on Mozambique's environment, forests, and other natural resources was the rehabilitation and construction of roads and of 6,000 hectares of irrigation projects. The program document for PRSC-3 stated that "Potential environmental impacts of such interventions will be analyzed and monitored by the responsible authority." For the rehabilitation and construction of the road network, the National Roads Authority had received institutional strengthening for environmental management under the Bank-supported Roads and Bridges Management and Maintenance Program. Similar assistance had been provided to the Ministry of Agriculture (including from the Bank) to build up its capacity to carry out environmental impact assessments. The institutional framework for the water sector in Mozambique is largely consistent with international good practice (World Bank 2006, paragraphs 25, 66, 79, 93).

Social Risk

7.2 The program document for PRSC-3 stated that better macroeconomic management would keep inflation low. An earlier Country Economic Memorandum had estimated that if growth could be maintained at the expected levels of 7 percent per annum in the coming years, and inequality remains stable, the poverty rate can be reduced significantly increasing the likelihood that Mozambique will reach the Millennium Development Goal for poverty reduction by 2015 by reducing its poverty headcount from 54 percent in 2002/03 to 31 percent in 2015 (World Bank 2006, paragraph 96). This rate of poverty reduction did not occur (see para 4.37). Poverty reduction, especially in rural areas, is stymied by the lack of structural change in the smallholder agriculture sector, an absence of improved agricultural technologies leading to improved yields, weak markets for production surpluses, as well as droughts and floods. With about 70 percent of poor households living in rural areas, any sustained change in the average poverty level will depend on a substantial reduction in poverty in rural areas, irrespective of the high rate of GDP growth nationally fueled by the expansion of the service and extractive industries.

7.3 Social indicators improved during the implementation of the PRSC series (see Table 4.2), however some services such as improved domestic water supplies were mainly delivered to urban areas. However, the translation of higher rural social indicators into lower money metric rural poverty, and therefore a lower incidence of national poverty, will be slow. Consultations with stakeholders and beneficiaries were not put in place for the PRSCs. Policy actions were drawn from the PAF, itself part of the strategic matrix of PARPA II, which was prepared by the Government through broad-based participatory consultations with major stakeholders and civil society. However, this could have been complemented by specific consultations, as needed, with stakeholders affected by the PRSCs-3–5 reforms. Monitoring of implementation was open to participation of the public and representatives of civil society organizations, through the work of the development observatories, and through their participation in the two annual G-19 reviews.

Fiduciary Risks

7.4 One of the objectives of this PRSC series was to improve public financial management, public procurement, and auditing of public entities. The performance on fiduciary issues in the context of this series of programs has been discussed elsewhere in this PPAR. The issues here are the fiduciary risks associated with the implementation of the project. The Financing Agreements for the three programs required that all project disbursements should be deposited into a unique Government account and an equivalent amount was to be transferred into the Government's budget management system. The Bank was advised that this procedure was followed and certified audits were provided.

8. Monitoring and Evaluation

Design

8.1 The program documents for PRSCs-3–5 stated that "The Bank's supervision of the PRSCs is aligned with the supervision of the joint general budget support program of the G-19" (World Bank 2007b, page 34). The Performance Assessment Framework (PAF) agreed upon by the Government and the general budget support donors originally included 49 indicators. There were also processes and institutional arrangements to monitor and revise the PAF.[15] The indicators and actions for PRSCs-3–5 were aligned with a subset of the

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[15] The PAF had a joint steering committee that was made up of representatives from the World Bank and the European Commission as permanent members and the previous, current, and future chairs of the general budget support group on a rotational basis. During PRSCs-3–5, 29 other PAF groups also convened, including sector working groups and a budget working group. Working groups prepared progress reports, proposed targets for each year, and served as the locus for sector-specific policy dialogue at a technical level. While the PRSCs were limited to a key number of focal areas, the Bank

PARPA strategic matrix selected jointly by the Government and the G-19 and set out in the PAF for 2007–09. Overall, the PRSCs made good use of the monitoring and evaluation framework for the PARPA.

8.2 The Government, with technical assistance from IDA and other development partners, had worked since the beginning of 2006 to strengthen the monitoring system of the strategic matrix in PARPA-II to develop an integrated national monitoring and evaluation system. Sector working groups, including representatives from relevant sector ministries, the Ministry of Planning and Development, and donors worked together to select the key PARPA II objectives in each sector and corresponding results indicators, actions, and output indicators. A quality control group led by the Ministry of Planning and Development and by the chair of the G-19 was set up to oversee finalization of the strategic matrix and identification of key indicators.

8.3 An Institutional Development Fund (IDF) grant was approved to assist the Government in strengthening the overall monitoring and evaluation (M&E) framework. It financed a study of the M&E system commissioned by the then Ministry of Planning and National Development (MPD), which concluded that there was (a) fragmentation of the M&E system in a multitude of different systems and instruments at national, sectoral, provincial, and district levels without standardization or integrated methodology; (b) insufficient support by MPD for institutionalization of structures, clarity of methodology, and processes; and (c) absence of a strong statistical system and integrated mechanism of data production and dissemination to support the preparation of the annual Progress Report of the Economic and Social Plan.

Implementation

8.4 Implementation of sector-specific matrices was carried out by line ministries and sector agencies, while the overall poverty monitoring was the responsibility of the National Statistics Institute (INE). A work plan to define decentralized levels of responsibility in monitoring indicators involving provincial levels of Government was established. However, limited direct information was provided about the implementation of the M&E system in the documentation for PRSCs-3–5. In addition, while PAF working groups met frequently to discuss the progress in achieving the PAF indicators, little information is available from the G-19 Joint Reviews regarding progress on (a) improvement of the PARPA M&E framework or (b) its implementation.

Utilization

8.5 There was evidence that data were collected in a timely manner permitting its use in the context of the PRSCs, and that it was used to assist the Government in decision making. Administrative data on the progress toward PARPA (and PAF and PRSC) indicators was collected annually and published in the *Progress Report of the Economic and Social Plan*

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was engaged in a broader general budget support dialogue through its participation in most working groups.

(BdPES). In addition, specific reports on individual reform areas were produced on a regular basis (for example, annual e-SISTAFE reports and an annual report by the Supreme Audit Tribunal).

8.6 In summary, the quality of monitoring and evaluation was consistent with the requirements for development policy operations and implemented in satisfactory manner; it is therefore rated as ***substantial.***

9. Bank Performance

Quality at Entry

9.1 *The program's objectives were in line with the conclusions of the Bank's economic and sector analysis.* The Country Economic Memorandum in September 2005 suggested policies for the optimal use of Mozambique's natural resources and for integrating their management into the overall growth strategy. Analytical work on rural development advocated a dual agricultural development strategy of enhancing smallholder productivity and strengthening the market bargaining power of smallholders. Many of these findings were incorporated into PARPA II and were also used to define the prior actions for PRSC-3 and the triggers for continued support from PRSCs-4 and 5. Preliminary information from a comprehensive analysis of factors that influenced household incomes and livelihood patterns using data from a non-representative survey for a World Bank report concluded that, "for most households overall welfare still depends on agriculture," which provided the rationale for continuing the emphasis of the series' objectives to achieve agricultural growth and the development of rural areas in general (World Bank 2008b, paragraph 2.40). Other Bank reports that were relevant to the choice of the PRSC series' program objectives were a *Country Procurement Assessment Review* and a *Public Expenditure and Financial Accountability Review*. The second reference, known by its acronym of PEFA, noted significant improvements in the quality of public financial management systems and processes between 2004 and 2006.

9.2 *The program's objectives were informed by conclusions from the Bank's public expenditure reviews before Project appraisal.* Public Expenditure Reviews for Mozambique were prepared in FY02 and in FY04 with the participation of central and sectoral Government institutions, local and international academic and research institutes, the private sector, and a variety of donors. Their recommendations focused on improving budget formulation, execution, and reporting to enable better tracking and informed decision making concerning poverty-related expenditures through reforms supported by the first PRSC series. These recommendations from PRSCs 1 and 2 were highly relevant to the budget management challenges faced by the Government but were only partly addressed among the program's objectives.

9.3 *The program was not adequately designed to address PARPA II poverty reduction objectives*. The program's design should have paid more attention to pro-poor in priority sectors expenditure from the national budget as well as the quality of those expenditures.[16] The ICR stated this was difficult because of the lack of related indicators in the PAF for pro-poor expenditure and the lack of a corresponding budget classification. Bank staff indicated that attention was drawn to these challenges in the policy dialogue with Government and arrangements were in place to regularly discuss these issues among stakeholders (see World Bank 2008a, paragraph 33). However, there was no indication in the program documents that progress on increasing the focus on pro-poor expenditures from the budget was expected. The only requirement (based on an old HIPC condition) was that 65 percent of the budget should be allocated to priority sectors. This was much weaker than the recommendations in the ICR for PRSCs 1 and 2 mentioned in paragraph

9.4 In addition, the inability of the program to achieve the National Program for Decentralized Planning and Finance (a prior action for PRSC-5) undermined the extent to which the governance objective was achieved. As the ICR pointed out, the risk of serious delay on the decentralization issues could have been better identified and mitigated during preparation of PRSC-3 and subsequent programs in the series. There was another governance shortfall with respect to the actuarial study of the investment strategy of the National institute for Social Security (also a prior action for PRSC-5) which was not completed before the series closed and was to be addressed as part of PRSC-6. However, at the conclusion of PRSC-8 pension reform which was part of the macroeconomic management objective for the PRSC 6-8 series, had still not been achieved.

9.5 The introduction of a new activity to address the impact of the global food crisis that had inflated domestic food prices considerably was relevant to the program's objectives and timely. The Bank had worked with the Government and designed a new activity for PRSC-5 to specifically address this issue (World Bank 2008a, paragraphs 18–22). Overall quality at entry was *moderately satisfactory*.

Quality at Supervision

9.6 *Arrangements for supervision of the PRSCs were part of the overall G-19 procedures for monitoring general budget support operations.* The G-19 review process was continuous with two main reviews per year, in April and September. The April reviews looked at performance in the preceding year, while those in September reviewed performance during the current year and prepared the program for the following year. There were 29 joint donor-Government working groups, most of which also met monthly. To ensure full and regular participation in these reviews, the PRSC task team leader and other core Bank specialists were based in Maputo. The Bank also participated regularly in IMF program review and technical assistance missions. However, in retrospect the Bank misjudged the Government's long-term commitment to sound macroeconomic management and good governance. On balance, the Bank's supervision performance is rated as *satisfactory.*

[16] The importance of the quality of public expenditures was eventually underlined in the Bank's recent "Mozambique Public Expenditure Review" published in September 2014 (World Bank 2014).

9.7 In summary the overall Bank performance, in line with the guidelines when one aspect of Bank performance is rated moderately satisfactory and the other is rated satisfactory the overall rating is rated as ***moderately satisfactory.***

10. Borrower Performance

10.1 *Government ownership and commitment to achieving development objectives.* According to Bank staff associated with this PRSC series, the Government took ownership of the reform program and, in particular, macroeconomic management and public financial management (PFM) reform. The overall progress made, especially with respect to the PFM reforms during the implementation of PRSCs-3–5, was substantial according to Bank and IMF assessments. This assessment also found that progress was made through the PRSC 3-5 on the real sectors, with achievements made in the area of infrastructure and urban water supply.

10.2 Good macroeconomic management, which characterized the implementation of the program between 2007 and 2009, was not sustained however. Technical achievements, such as the public financial management system put in place, (e-SISTAFE) have been undermined by the manner in which the system has more recently been used, as emphasized by Mozambique's Central Office for Combatting Corruption (GCCC). Also some ill-advised borrowing strategies involving Government guarantees resulting in high contingent liabilities for the Government have placed the economy in a highly risky situation. Public debt also reached high levels as a percentage of GDP. There was limited progress on decentralization reforms needed to deepen efforts to reduce poverty, especially in rural areas. Although overall poverty has declined on average between 2003-2009 by an estimated four percentage points, the actual number of poor has increased over the same period of time, with some 400,000 people added to the total poor.

10.3 The Government's overall performance is rated as ***moderately unsatisfactory***.

11. Lessons

The following lessons have been drawn from this PPAR:

- **Carefully chosen objectives and prior actions for policy development operations can provide the basis for the necessary conditions for better macroeconomic policy, good governance, and sound economic development.** In the short term a number of reforms can be achieved either because of or in the wake of prior actions. For example the Central Revenue Authority was established in 2007 (a prior action for PRSC-4). Since then it received support from the Government of Switzerland (a member of the donor group providing general budget support) and performed well, raising tax collection from 15.9 percent of GDP in 2007 to 27.3 percent in 2014.

- **Policy development operations can reduce poverty by increasing growth and improving institutions that have responsibilities for poverty reduction, but that focus was not sufficient for significant poverty reduction in Mozambique.** For example, GDP growth was sustained at between 6 and 7 percent per annum, prior actions requiring the Government to allocate at least 65 percent of its annual budget to priority sectors maintained the capacity of ministries that had a responsibility for delivering social services to the poor, and a number of social indicators was well maintained. However, the incidence of money metric poverty was reduced by only 4 percentage points over six years from a high poverty incidence of 56 percent in 2002/2003 to 52 percent in 2008/2009.

- **Development policy operations that use general budget support as the instrument for providing assistance can also be appropriate vehicles for the harmonization of donor strategic assistance.** The Performance Assessment Framework agreed between the Government and general budget support development partners, if well crafted, can be the basis for fruitful cooperation among these partners. The downside risk is the possible constraint on the Bank's flexibility with respect to prior actions outside the Performance Assessment Framework. For example, the Bank needed to negotiate with general budget support donors to obtain their agreement to include additional actions on food security in PRSC-5 that were outside the Performance Assessment Framework.

- **The political economy context can have critical impacts on the achievement of policy reform.** Understanding the political economy context for reforms in policy is critical to assessing the likelihood that reforms will take place. For example, a National Program for Decentralized Planning and Finance was to have been achieved as a prior action for PRSC-5. However, the political barriers to achieving internal agreement on a national plan for decentralized planning and finance were seriously underestimated and a plan was not approved by the Government during the PRSC 3-5 series.

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Appendix A. Basic Data Sheet

POVERTY REDUCTION SUPPORT CREDIT-3
Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	70	70	100
Loan amount	70	70	100
Cofinancing	-	-	-
Cancellation	-	-	-

Note: **"-"** ***means dates not known or not relevant***

POVERTY REDUCTION SUPPORT CREDIT-4
Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	60	60	100
Loan amount	60	60	100
Cofinancing	-	-	-
Cancellation	-	-	-

POVERTY REDUCTION SUPPORT CREDIT-5
Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	90	90	100
Loan amount	90	90	100
Co-financing	-	-	-
Cancellation	-	-	-

Total Cumulative Estimated and Actual Disbursements (PRSCs-3–5)

	FY07	FY08	FY09
Appraisal estimate (US$M)	60	130	220
Actual (US$M)	60	130	220
Actual as % of appraisal	100	100	100
Date of final disbursement: *PRSC-5 was fully disbursed at effectiveness on December 4, 2008.*			

Project Dates (PRSC-3)

	Original	Actual
Initiating memorandum	-	-
Negotiations	-	-
Board approval	01/25/2007	
Signing	-	-
Effectiveness	-	02/15/2007
Closing date	09/30/2007	09/30/2007

Project Dates (PRSC-4)

	Original	Actual
Initiating memorandum	-	-
Negotiations	-	-
Board approval	01/29/2008	
Signing	-	-
Effectiveness	-	03/24/2008
Closing date	08/31/2008	08/31/2008

Project Dates (PRSC-5)

	Original	Actual
Initiating memorandum	-	-
Negotiations	-	-
Board approval	11/04/2008	-
Signing	-	-
Effectiveness	-	12/014/2008
Closing date	10/31/2009	10/31/2009

Staff Time and Cost

PRSC-3

Stage of project cycle	Staff time and cost (Bank budget only)	
Lending	**Number of staff weeks**	**US$ thousands (including travel and consultants costs)**
FY07	54.05	207.6
FY08	-	-
Total:	**54.05**	**207.6**
Supervision/ICR		
FY07	na	na
FY08	na	na
Total:	**na**	**na**

Note- "*na" means information is not available*

PRSC-4

Stage of project cycle	Staff time and cost (Bank budget only)	
Lending	**Number of staff weeks**	**US$ thousands (including travel and consultants costs)**
FY07	5.48	68.63
FY08	53.48	206.22
Total:	**58.96**	**275.26**
Supervision/ICR		
FY07	na	na
FY08	na	na
Total:	**na**	**na**

PRSC-5

Stage of project cycle	Staff time and cost (Bank budget only)	
Lending	**Number of staff weeks**	**US$ thousands (including travel and consultants costs)**
FY08	na	na
FY09	23.36	118.45
Total:	**23.36**	**118.45**
Supervision/ICR		
FY08	na	na
FY09	na	na
Total:	**na**	

Task Team Members

Name	Title	Unit
Antonio Nucifora	Senior Economist	AFTP1
Gregor Binkert	Task Team Leader	AFTP1
Francisco Carneiro	Senior Economist	AFTP1
Maria Teresa Benito-Spinetto	Research Analyst	AFTP1
Ligia Murphy	Program Assistant	AFTP1
Adelina Mucavele	Team Assistant	AFCO2
Peter Nicholas	Country Program Coordinator	AFCMZ
Paola Ridolfi	Country Officer	AFCMZ
Aniceto Bila	Senior. Operations Officer	AFCMC
Ludes Malate	Executive Assistant	AFCO2
Louise Fox	Lead Economist	AFCO2
Rui Benfica	Poverty Analyst	AFTPM
Eduardo de Sousa	Senior Agricultural Services Specialist	AFTPM
Daniel Sousa	Senior Private Sector Dev. Specialist	AFTS1
Gilberto de Barros	Education Specialist	AFTS1
Ana Ruth Menzes	Senior Education Specialist	AFTPS
Xiaoyan Liang	Lead Operations Officer	AFTED
Jean Jacques de St. Antoine	Senior Health Specialist	AFTED
Humberto Cossa	Health Specialist	AFTH1
Bina Valaydon	Senior Urban Specialist	AFTH1
Kate Kuper	Senior Urban Specialist	AFTU1
Jane Walker	Lead Water and Sanitation Specialist	AFTU1
Ali Alwahti	Urban Specialist	AFTU1
Guenter Heidenhof	Lead Public Sector Specialist	AFTPR
Jose Luis Macamo	Public Sector Specialist	AFTPR
Ravi Ruparel	Senior Financial Sector Specialist	AFTFS
Mohamed Khatouri	Senior Monitoring and Evaluation Specialist	AFTKL
Brighton Musungwa	Senior Management Specialist	AFTFM
Alberto Ninio	Lead Counsel	LEGAF
Luz Meza-Bartrina	Senior Counsel	LEGAF
Jordi Agusti-Panareda	Legal Analyst	LEGAF
Beth Dabak	Operations Analyst	LEGEN
Slaheddune Ben-Halima	Senior Procurement Specialist	AFTQK
Isabel Nhassengo	Procurement Assistant	AFCO2

Name	Title	Unit
Anil Bhandari	Senior Adviser	AFTTR
Dieter Schelling	Lead Transport Specialist	AFTTR
Kavita Sethi	Senior Transport Specialist	AFTTR
Wendy Hughes	Senior Energy Specialist	AFTEG
Joseph Narkevic	Senior Water and Sanitation Specialist	EWDAF
Natasha Beschorner	Senior ICT Policy Specialist	CIPTO
Isabel Neto	Senior ICT Policy Specialist	CIPTO
Charles Schlumberger	Senior Air Transport Specialist	TUDTR
Jacques Morisset	Lead Economist	AFTP4
Nwanze Okidegbe	Adviser	ARD
Diepak Elmer	Economist	AFTP1
Christian Albert Peter	Senior Natural Resources Management Specialist	AFTEN
Anne Louise Grinsted	Economist	AFCS2
Patrick Verissimo	Senior Agricultural Sector Economist	AFTAR
Pedro Arlindo	Agricultural Economist	AFTAR
Samuel Maimbo	Senior Financial Sector Specialist	AFTFS
Mazen Bouri	Private Sector Development Specialist	AFTFE
Luiz Tavares	Lead Water and Sanitation Specialist	AFTU1
Uri Raich	Senior Urban Specialist	AFTU1
Lisa Bhansali	Senior Public Sector Specialist	AFTPR
Gert van Der Linde	Lead Financial Management Specialist	AFTFM
Jonathan Nyamukapa	Financial Sector Analyst	AFTFM
Modupe Adebowale	Senior Financial Management Specialist	AFTFM
Renaud Seligmann	Senior Financial Management Specialist	AFTM
Suzanne F. Morris	Senior Finance Officer	LOAFC
Cecile Ramsay	Operations Adviser	AFTQK
Lourdes Pagaran	Senior Operations Officer	AFTRL
Andrew Osei Asibey	Senior Monitoring and Evaluation Specialist	AFTRL
Irina Luca	Lead Procurement Specialist	AFTPC
Antonio Chamuco	Procurement Specialist	AFTPC
Eduardo Brito	Senior Counsel	LEGAF
Edgardo Favaro	Lead Economist	PRMED
Jose Domingos Diogo Chembeze	Transport Specialist	AFTTR
Nathalie Munzberg	Senior Counselor	LEGAF
Wolfgang Fengler	Lead Economist	EASPR
Sebastian Dessus	Lead Economist	DECVP

Name	Title	Unit
Susan Hume	Senior Operations Officer	AFCS2

Other Project Data

Follow-on Operations			
Operation	**Credit no.**	**Amount (US$ million)**	**Board date**
Poverty Reduction Support Credit-6	IDA 46600	110.00	11/12/2009
Poverty Reduction Support Credit-7	IDA 48440	85.00	12/16/2010
Poverty Reduction Support Credit-8	IDA 50650	71.70	3/15/2012
Poverty Reduction Support Credit-9	IDA 52990	110.00	7/16/2013
Poverty Reduction Support Credit-10	IDA 55600	110.00	12/5/2014
Poverty Reduction Support Credit-11	IDA 57570	35.00	12/22/2015

Appendix B. Other Information and Data

Table B.1. Original Prior Actions and Triggers for PRSCs-3–5
(Based on Table 5 in the program document for PRSC-3)

Government medium-term objectives (from PARPA/PAF)`	**PRSC-3 prior actions**	**PRSC-4 triggers**	**PRSC-5 triggers**
	Macroeconomic management (by consolidating and deepening the institutional reforms for better macroeconomic management)		
Improve efficiency and effectiveness of public financial management	Actual expenditures for 2005 and budgeted expenditures for 2006 were at least 65 percent for priority sectors	Actual expenditures for priority sectors were at least 65 percent in 2006	Expenditures for priority sectors in budget planning and execution in line with the medium term expenditure framework (MTEF) in 2007
	Rollout of basic functionality of e-SISTAFE to 3 more ministries (agriculture, health, public works) by July 2006	Rollout of basic functionality of e-SISTAFE to 22 ministries by end 2006	Rollout of basic functionality of e-SISTAFE to 25 ministries, organs, and at least 291 Unit for Budget Execution—UGE's by end 2007
	Creation of the Central Revenue Authority	Elaboration and approval of the Information Technology Development Plan of the new Central Revenue Authority	
Improve comprehensiveness of the budget	Increase in the 2007 budget of own revenues of the Ministries of Education and Culture, Health, Agriculture, Public Works, Tourism, Mineral Resources, Youth and Sport		
Make the state procurement system for goods and services transparent and efficient	Implementation of new procurement system up to district level (first phase – create the Central Procurement Supervision Unit—UFSA, issue standard bidding documents)	Implementation of new procurement system up to district level (second phase—UFSA fully staffed; website operational; monitoring database available; capacity building at central and	Implementation of new procurement system up to district level (third phase—performance measurements: number of contracts complying with procedures; capacity building; number of

		local level; audits taking place)	controls/audits taking place)
Increase coverage and efficiency of internal and external audit bodies		Audit of 20% of districts and municipalities by the Inspectorate General of the Ministry of Finance by end of 2006	Increase in number of central and provincial level bodies with operational internal controls
		Conclusion of court opinion of 70 financial audits by Court of Accounts in 2006	Conclusion of court opinion of 90 financial audits by Court of Accounts in 2007
Governance (by supporting decentralization/deconcentration to enhance public investments and service delivery at the provincial and district levels, and by supporting public sector reform)			
Strengthen institutional capacity of local Governments	Definition of criteria for allocation of the investment budget for districts for the 2007 budget	National strategy for planning and finance at district level approved, including a common M&E framework; National Decentralization Strategy completed	
Improve human resources management in public sector		Completion of the census of civil servants, and creation of an integrated payroll system	
Improve efficiency and celerity in the provision of justice services			Disposition of 150 court cases per judge per year in 2007
Economic Development (by improving the business environment, removing constraints to growth, such as infrastructure, and promoting agricultural growth)			
Improve investment climate	Simplification of the procedures for starting a business		
Improve conditions for road traffic		Rehabilitation and maintenance of 71% of national road network in 2006	Rehabilitation and maintenance of 75% of national road network in 2007

Improve insurance and social protection sector		Completion of actuarial study of the National Pension System and elaboration of its investment strategy	Implementation of recommendations of the National Pension System actuarial study and its investment strategy
Promote construction and rehabilitation of agricultural infrastructures		Construction and rehabilitation of 3,200 hectares of irrigated area and put under the management of beneficiaries in 2006	Construction and rehabilitation of 4,000 hectares of irrigated area and put under the management of beneficiaries in 2007
Increase access to technologies and extension information		Adoption of at least one new technology in 2006 by 30% of farmers assisted by public extension services	22,300 peasants assisted by public extension services including subcontracting in 2007

Table B.2: Prior Actions and Triggers in Financing Agreements for PRSCs-3–5[a]

Macroeconomic policy	Good governance	Economic development
Financing Agreement for PRSC-3		
1. Budget allocation for the priority sectors, as defined in the recipient's action plan for the reduction of absolute poverty, with 65% of total expenditures allocated to priority sectors in the budget execution for 2005, as evidenced in the Budget Execution Report 2005; and in the budget planning for 2006, as evidenced in the Budget Law 2006.	**6**. Definition of criteria for allocation of the investment budget for districts for the 2007 budget, as evidenced by the recipient's Medium-Term Fiscal Framework 2007–09 and Letter of Development Policy for PRSC-3.	**7**. Simplification of the procedure to open a business, as evidenced by the Decree 41/2006, enabling publication concerning company registration also through publication on the official website of the Government of Mozambique.
2. Increased budget coverage with enlarged recipient's revenues included in the 2007 budget, particularly the own revenues of the Ministries of Education and Culture, Health, Agriculture, Public Works, Tourism, Mineral Resources, and Youth and Sport, as evidenced by the Letter 348/DNO/MF/2006 of the National Budget Director.		
3. Rollout of basic functionality of the integrated electronic financial management system (e-SISTAFE) to the Ministries of Finance, Planning and Development, Education and Culture, Agriculture, Health, and Public Works, as evidenced in the International Monetary Fund (IMF) Report on Mozambique's Public Financial Management.		

4. Creation of the Central Revenue Authority (ATM), as evidenced by Law 1/2006, creating the ATM; Decree 29/2006, approving its bylaws; and Decree 30/2006, approving its staff rules.		
5. First phase in the implementation of a new procurement system, consisting of the creation of the Central Procurement Supervision Unit (UFSA) by Diploma Ministerial 141/2006; the appointment of its director, as evidenced by appointment issued by the Finance Minister of June 30, 2006 and UFSA Director Note 28/UFSA-DNPE/MF/2006; and the publication of standard bidding documents, as evidenced by the Diplomas Ministeriaes 145-151/2006. 61/DNO/MF/2006 of the National Budget Director.		
Financing Agreement for PRSC-4		
1. MOF has ensured that the recipient's actual expenditures of its priority sectors: Education, Health, Infrastructure, Agriculture and Rural Development, Social Action, Governance, and Labor and Employment has reached at least 65% for total expenditures in 2006.	**4.** MOF has continued the implementation of the recipient's new procurement system by completing the following activities in the second phase of implementation: hiring of, inter alia, UFSA's director, lawyer, and administrative staff to ensure that it is fully operational; and establishment of UFSA's website.	**8**. Administracao Nacional de Estradas–ANE (National Roads Administration) has rehabilitated and maintained the recipient's national classified roads network to ensure that at least 71% of said roads network is in good or fair condition.
2. MOF has rolled out the basic functionality of e-SISTAFE to at least 22 recipient's ministries.	**5**. Inspectorate General of the Ministry of Finance has increased the coverage and efficiency of internal audits of recipient's districts and municipalities by carrying out the audit of at least 20%	**9**. Ministry of Agriculture has constructed and rehabilitated at least 2,500 hectares of irrigated areas in the recipient's territory.

	of said districts and municipalities.	
3. Autoridade Tributária de Moçambique has elaborated and approved the Information Technology Development Plan for January 1, 2007-January 1, 2010.	**6.** The recipient's Court of Accounts has issued the relevant court opinions for at least 70 financial audits of Recipient's ministries and state agencies.	**10.**Ministry of Agriculture has increased access to technologies and extension information to at least 21% of farmers in the recipient's territory.
	7. MFP has completed the census of the Recipient's civil service, and MOF has developed an e-SISTAFE compatible payroll database for the Recipient's civil service.	
Financing Agreement for PRSC-5		
1. The MOF has confirmed that the total allocation to priority sectors in the 2008 budget is in line with the MTEF.	**6**. The Ministry of Planning and Development has approved the National Program for Decentralized Planning and Finance.	**9.** Ministry of Agriculture has increased access to technologies and extension by ensuring that at least 222,300 small-scale farmers have been assisted by public extension services in 2007, including subcontracting.
2. The MOF has rolled out the basic functionality of e-SISTAFE to 24 ministries by end 2007.	**7.** The MFP has created the single registry of state officials and civil servants (*Cadastro Unico dos Funcionários Publicos*–CUF).	**10.** The Council of Ministers has approved the Medium Term Expenditure Framework 2009-2011 (*Cenário Fiscal de Médio Prazo 2009-11)*, which envisages an increase in the allocation to agricultural sector to at least 6%of the budget (excluding projects) in 2009 and at least 7% in 2010.
3. The MOF has continued the implementation of new procurement system up to the district level by ensuring that the monitoring system is operational, and allows performance measurements establishing baselines for a monitoring system that allows performance measurements (as indicated by (a) availability of information on public purchases available from UFSA that show that at least 50%	**8.** The Social Security Institute (Instituto Nacional de Segurança Social–INSS) has completed the actuarial study and the elaboration of its investment strategy.	

of contracts of the public sector were subject to public tender in accordance with the current Mozambican procurement legislation, (b) information on other modalities of contract with the due justification in at least 90% at the central level and 50% at the district and provincial level communicated to UFSA, (c) the process of complaints, as defined in the current Mozambican procurement legislation, is operational and UFSA has data on the process and decisions available).		
4. The MOF has ensured that at least 25 percent of central and provincial level bodies have operational internal audit units (also referred to as internal control units) in 2007.		

Note: MOF = Ministry of Finance (now the Ministry of Economy and Finance; UFSA = Central Procurement Supervision Unit.

a. Numbers in sections refer to the numbers given to the prior and trigger conditions in the Financing Agreements.

Table B.3: Actual Prior Actions for PRSCs-3–5

PRSC-3		
Prior actions[a]	**Status at project close**	**Objective**
Actual expenditures for 2005 and budgeted expenditures for 2006 were at least 65% for priority sectors	Implemented without change	Macro management/public financial management (PFM)
Rollout of basic functionality of e-SISTAFE to 3 more ministries (agriculture, health, public works)	Implemented without change	Macro management/PFM
Creation of the Central Revenue Authority	Implemented without change	Macro management/PFM
Increase in the 2007 budget of own revenues of the Ministries of Education, Health, Agriculture, Public Works, Tourism, Mineral Resources, Youth and Sport	Implemented without change	Macro management/PFM
Implementation of new procurement system up to district level (first create the Central Procurement Supervision Unit—UFSA, issue standard documents)	Implemented without change	Macro management/PFM
Definition of criteria for allocation of the investment budget for districts for 2007 budget	Implemented without change	Governance
Simplification of the procedures for starting a business	Implemented without change	Economic development
PRSC-4		
Prior actions	**Status at Project Close**	**Objective**
Actual expenditures were at least 65% in 2006	Implemented without change	Macroeconomic management/PFM
Elaboration and approval of the 2007–10 Information Technology Plan of the new Central Revenue Authority	Implemented without change	Macroeconomic management/PFM
Implementation of new procurement system up to district level (second phase–UFSA fully staffed, website operational, monitoring database available, capacity building at central and local level, audits taking place) ***Finally agreed wording:*** *Implementation of new procurement system up to district level (second phase): (i) Central Procurement*	Implemented without change	Macroeconomic management/PFM

Supervision Unit fully staffed, (ii) website operational		
Audits of 20% of districts and municipalities by the Inspectorate General of Finance, in the Ministry of Finance, by end 2006	Implemented without change	Macroeconomic management/PFM
National strategy for planning and finance at district level approved, including a common M&E framework; National Decentralization completed	Delayed to PRSC-5: subsequently dropped	Governance
Completion of census of civil servants and completion of an integrated payroll data base	Implemented without change	Governance
Completion of actuarial study of Instituto Nacional de Segurança Social–INSS and elaboration of its investment strategy	Delayed to PRSC-5	Governance
Rehabilitation and maintenance of the national roads network such that at least 71% will be in good or fair condition by end-2006	Implemented without change	Economic development
Construction and rehabilitation of 3,200 hectares of irrigated area and put under the management of the beneficiaries in 2006 ***Finally agreed wording****: Construction and rehabilitation of 2,500 hectares of irrigated area and put under the management of the beneficiaries in 2006*	Revised target lowered to 2,500 hectares	Economic development
Adoption by 30% of farmers assisted by public extension services that adopted at least one new technology in 2006 ***Finally agreed wording:*** *Adoption by 21% of farmers assisted by public extension services that adopted at least one new technology in 2006*	Revised target lowered to 21%	Economic development
PRSC-5		
Prior actions	**Status at project close**	**Objective**
Total allocation to priority sectors in 2008 budget is line with MTEF	Implemented without change	Macroeconomic management/PFM
Rollout of basic functionality of e-SISTAFE to 25 ministries, organs, and at least 291 Unit for Budget Execution—UGEs by end 2007	Implemented without change	Macroeconomic management/PFM
Total revenues are increased by at least 0.5% of GDP	Dropped to reduce total number of prior actions	Macroeconomic management/PFM

Implementation of new procurement system up to district level (third phase–monitoring system operational and allows performance measurement): *(i) availability of information on public purchases available from Central Supervision Unit that showed that at least 50% of contracts of the public sector were subject to public tender in accordance with the current Mozambican procurement legislation, (ii) information on other modalities of contracting with due justification in at least 90% at the central level and 50% at the district and provincial level communicated to the Central Supervision Unit, (iii) the process of complaints as defined in the current Mozambican procurement legislation is operational and Central Supervision Unit has data on the process and decisions available.*	Implemented without change (as per comments italics)	Macroeconomic management/PFM
The share of central and provincial level bodies with operational internal audit units (also referred to as internal control units) is at least 30% in 2007 ***Finally agreed wording:*** *The share of central and provincial level bodies with operational internal audit units (also called internal control units) is at least 25%.*	Revised target lowered to 25% and implemented on time	Macroeconomic management/PFM
Mozambique's Court of Accounts (TA) has concluded its opinion of at least 90 financial audits of ministries and state agencies in 2007	Implemented without change	Macroeconomic management/PFM
The Ministry of Planning and Development has approved the National Programming for Decentralized Planning and Finance	Implemented without change	Governance
Finally agreed wording: The Ministry of Civil Service has created the single registry of state officials and civil servants (*Cadastro Unico dos Functionarios*) Development and implementation of the unified personnel information system (ANFP, MF, and TA)	Implemented without change	Governance
Completion of the actuarial study of the Social Security Institute and elaboration of its investment strategy	Implemented without change	Governance
Rehabilitation and maintenance of the national roads network such that at least 76% will be in good or fair condition by end-2006	Dropped because it was closely associated with physical	Economic development

	investments (and not in line with OP 8.60) and also to reduce total number of prior actions	
Construction and rehabilitation of 3,500 hectares of irrigated area and put under the management of the beneficiaries in 2006	Dropped because closely associated with physical investments (and not in line with OP 8.60) and also to reduce total number of prior actions	Economic development
222,300 peasants assisted by public extension services, including subcontracting in 2007	Implemented without change	Economic development
The Council of Ministers as approved the MTEF for 2009–11, with an increase in the allocation to the agricultural sector to at least 6% of the budget (excluding projects) in 2009, and at least 7% in 2010 in response to the world food price crisis	Implemented without change	Economic development

Source: Adapted from World Bank 2010, table 4.
a. The prior actions listed as in the three Financing Agreements although their order may not be the same because the order for PRSCs-4 and 5 in this table is based on the order for prior actions established in the Financing Agreement for PRSC-3.
Note: OP = Operations Policy.

Table B.4: PARPA II Working Groups by Subject

Thematic pillars	Working groups
1. Poverty and macroeconomic management	Growth and macroeconomic stability Poverty analysis and monitoring systems Public financial management consisting of 5 subgroups: budget analysis group, tax reform, procurement reform, SISTAFE, and audit
2. Governance	Public sector reform Decentralization Justice sector reform
3. Economic development	Financial sector Private sector Agriculture and rural development Road sector (including telecoms and railways) Energy sector
4. Human capital	Health HIV/AIDs Education Water and sanitation
5. Cross-cutting	Gender, Environment, Demining, Natural Disasters, Food and Nutrition Security, Science and Technology

Source: PARPA II, table 1.

Table B.5: Trends in the Incidence of Poverty and Inequality (1996–2009)

Zone	Poverty incidence			Inequality (Gini coefficient)		
	1996/97	**2002/03**	**2008/09**	**1996/97**	**2002/03**	**2008/09**
Niassa	70.6	52.1	31.9	0.36	0.36	0.43
Cabo Delgado	57.4	63.2	37.4	0.44	0.44	0.35
Nampula	68.9	52.6	54.7	0.36	0.36	0.42
Zambezia	68.1	44.6	70.5	0.35	0.35	0.37
Tete	82.3	59.8	42.0	0.40	0.40	0.32
Manica	62.6	43.6	55.1	0.40	0.40	0.35
Sofala	87.9	36.1	58.0	0.43	0.43	0.46
Inhambane	82.6	80.7	57.9	0.44	0.44	0.38
Gaza	64.6	60.1	62.5	0.41	0.41	0.43
Maputo Province	65.6	69.3	67.5	0.43	0.43	0.39
Maputo City	47.8	53.6	36.2	0.52	0.52	0.51
Urban	62.0	51.5	49.6	0.47	0.48	0.48
Rural	71.3	55.3	56.9	0.37	0.37	0.37
National	**69.4**	**54.1**	**54.7**	**0.40**	**0.42**	**0.41**

Sources: Government of Mozambique, “Programa de Acção para a Redução da Pobreza Absoluta” (Action Plan for the Reduction of Absolute Poverty), 1996/97 and 2006–09; and “Programa de Acção para a Redução da Pobreza” (Action Plan for the Reduction of Poverty), 2008–09.

Table B.6*:* **Poverty Headcounts in 1996/97, 2002/03, 2008/09, by 13 Regions and National-Level**

Regions	***1996/97***		***2002/03***		***2008/09***	
	Official	***Revised***	***Official***	***Revised***	***Official***	***Revised***
Niassa and C. Delgado-rural	61.63	66.34	60.37	71.74	32.70	46.44
Niassa and C. Delgado-urban	66.88	56.43	59.93	51.10	43.38	40.06
Nampula-rural	65.44	81.16	57.81	69.32	56.67	65.68
Nampula-urban	82.76	82.90	44.91	53.47	49.90	46.38
Sofala and Zambezia-rural	74.83	70.69	42.07	64.28	69.69	76.70
Sofala and Zambezia-urban	67.18	58.04	41.72	37.72	56.66	35.67
Manica and Tete-rural	74.60	71.98	51.62	67.68	47.51	62.27
Manica and Tete-urban	65.57	53.46	54.09	40.27	48.67	30.01
Gaza and Inhambane-rural	75.31	71.68	73.14	54.49	65.19	45.76
Gaza and Inhambane-urban	63.77	42.75	62.72	31.61	44.86	21.17
Maputo Province-rural	76.81	66.39	81.18	46.12	76.33	39.26
Maputo Province-urban	48.24	41.35	61.83	30.40	63.66	19.96
Maputo City	47.84	37.14	53.60	23.20	36.15	9.35
National	**69.38**	**68.38**	**54.07**	**56.40**	**54.69**	**52.08**
Confidence intervals: National	**68.4/ 70.46**	**67.4/ 69.4**	**53.01/ 55.1**	**55.4/ 57.5**	**53.7/ 55.6**	**51.1/ 53.0**

Source: Federica Alfani, Carlo Azzarri; Marco d'Errico; Vasco Molini: – Poverty in Mozambique: New Evidence from recent Household Survey (Policy Research Working Paper No. 6217)

Appendix C. List of Persons Met

Name	Title	Institution
Government of Mozambique		
Raimundo Matule	National Director, Directorate of Planning and Cooperation	Ministry of Agriculture and Food Security
Vasco Correio Nhabinde	Director National of Studies	Ministry of Economy and Finance
Olegario dos Anjos Banze	National Director, National Directorate of Rural Development (DNPDR)	Ministry of Land, Environment and Rural Development
Isabel Cossa	Deputy Director DNPDR	Ministry of Land, Environment and Rural Development
Mateus Abelardo Americio Matusse	National Director of Industry	Ministry of Industry and Trade
Antonio Do Rosario Grispos	Chairman/Chief Executive Officer	Commodity Exchange of Mozambique
Edgar Baloi	Executive Director	Commodity Exchange of Mozambique
Eduardo Neves Joao	Executive Director	Commodity Exchange of Mozambique
Danilo Nalá	Director General	Special Economic Zones Office (GAZEDA), Ministry of Planning and Development
Dinis Lissave	Director of Special Economic Zone Services	Special Economic Zones Office (GAZEDA), Ministry of Planning and Development
Jacinto Tualufo	Head of Cadaster Department, National Directorate of Land	Ministry of Land, Environment and Rural Development
Mario Rui	Cadaster Department, National Directorate of Land	Ministry of Land, Environment and Rural Development
Lavinia Bechardas	Cadaster Department, National Directorate of Land	Ministry of Land, Environment and Rural Development
Halima Nguice	Planning Department, National Directorate of Land	Ministry of Land, Environment and Rural Development
Multilateral and Bilateral Donors		
Enrico Strampelli	Head of Cooperation	European Union
Geert Ankaert	Counsellor – Economics and Governance	European Union
Els Berghmans	Counsellor – Public Financial Management and Governance	European Union

Sheryl Stumbras	Deputy Director	USAID
Todd Flower	Feed the Future Coordinator - Agriculture, Environment and Business Office	USAID
Theodora B. Dell	Mission Economist	USAID
Alicia Herbert	Country Representative	Department for International Development
Kobi Bentley	Team Leader – Governance and Economic Policy	Department for International Development
Francois-Phillipe Dubé	First Secretary (Development)	High Commission of Canada
Miguel J. Rombe	Development Officer	High Commission of Canada
Cristina Gutiérrez Hernandez	Coordinator General – Spanish Cooperation	Embassy of Spain
Cristina Manzanares	Program Officer – Spanish Cooperation	Embassy of Spain
Andre Ameida Santos	Senior Economist	African Development Bank
Mirianaud Oswald Agbadome	Senior Evaluation Officer	African Development Bank, Abidjan
Carla Felix Silva	Evaluation Officer	African Development Bank, Abidjan
Latefa Cone Camara	Consultant	African Development Bank, Abidjan
International Monetary Fund and World Bank		
Alex Segura Ubiergo	Resident Representative	IMF, Maputo Office
Antonio Nucifora	Task Team Leader for PRSCs-3,4, 5, and 6	World Bank Office, Brasilia
Mark Austin	Program Leader – Sustainable Development	World Bank Country Office, Maputo
Jan Nijhof	Senior Agricultural Economist	World Bank Country Office, Maputo
Isabel Neto	Senior Operations Officer – Africa Energy Practice	World Bank Country Office, Maputo
Kulwinder Singh Rao	Senior Highway Engineer	World Bank, Washington, DC
Jumoke Jagun-Dokunmu	Country Manager for Mozambique and Angola	International Finance Corporation, Washington, DC
Private Sector and Academia		
William Grant	Global Practice Leader – Market Systems Development	DAI, London

Michael Baxter	Country Director, World Bank Country Office in Maputo during the implementation of the MLSDP – now retired and Managing Director of a private company	OZMOZIS, Maputo
Rafael Uaiene	Assistant Professor in International Development Agricultural, Food and Resource Economics	In-Country Coordinator, Michigan State University, Maputo
Khalid Sultan Ali	Director	Sarah Trading LDA, Nampula
Shrikantha K. Naik	Country Head	Export Marketing Co (ETG), Nampula

Appendix D. Borrower Comments

No comments were received from the Borrower.