



<b>1. Project Data:</b>		<b>Date Posted :</b> 02/08/2002	
<b>PROJ ID:</b> P001811		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Finance Sector Capacity	<b>Project Costs (US\$M)</b>	10.5	9.7
<b>Country:</b> Mozambique	<b>Loan/Credit (US\$M)</b>	9	8.48
<b>Sector(s):</b> Board: FSP - Central government administration (39%), Banking (30%), Law and justice (27%), General finance sector (4%)	<b>Cofinancing (US\$M)</b>	1	1.21
<b>L/C Number:</b> C2607			
	<b>Board Approval (FY)</b>		94
<b>Partners involved :</b> Swiss Development Coop.	<b>Closing Date</b>	06/30/2000	03/31/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Alice C. Galenson	John H. Johnson	Ruben Lamdany	OEDCR
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The project was expected to strengthen the institutions charged with implementing the financial sector policy and institutional reforms agreed under the Second Economic Recovery Program (SERP).			
<b>b. Components</b>			
(i) Training of Bank of Mozambique (BOM) staff in monetary management, foreign exchange management and bank supervision; (ii) training commercial bank staff in management, credit appraisal and trade finance; (iii) training Ministry of Plan and Finance (MPF) legal staff in drafting financial regulations for managing a deregulated financial system; (iv) recruiting experts to train local staff to build financial institutions' capacity; and (v) conducting financial sector policy analysis.			
<b>c. Comments on Project Cost, Financing and Dates</b>			
Total project costs were 92.4% of the original estimate. The main changes within the project were a decrease in costs of (iii) and an increase in (iv). IDA disbursed 94.3% of the credit, and the SDC disbursed US\$ 1.21 million. The government provided US\$0.01 million. Implementation delays led to two extensions of the closing date .			
<b>3. Achievement of Relevant Objectives:</b>			
The project succeeded in increasing the capacity of BOM staff to conduct monetary policy and supervise the financial sector. The Bankers Training Institute trained some commercial bank staff (but see (5) below). The legal and regulatory framework for the financial sector was improved. Technical advisors supported implementation of the SERP, capacity building in various government agencies, the development of strategic plans cum restructuring/privatization of the state-owned banks, and on-the-job training. A financial sector study was carried out under a trust fund, so credit resources allocated to this small component were redirected to finance project management.			
<b>4. Significant Outcomes/Impacts:</b>			
The project achieved a substantial improvement in capacity through training and development of systems. The privatization of the two state-owned banks, supported by the project, while fraught with problems, transformed a state-dominated financial system into a more diversified and competitive system, and eliminated a major source of inflation.			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
The number of commercial bank staff trained was well below the target, since the commercial banks refused to finance part of the training costs, as had been planned. The privatization of the state-owned banks was not fully satisfactory, but this was more a result of policy decisions made under the SERP (e.g. initial focus on restructuring rather than privatization, government retention of significant minority holdings) than a failure of this project. Implementation delays occurred in many of the activities.			

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<b>6. Ratings:</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Unsatisfactory	Satisfactory	See (9) below. The project achieved its objective, as stated in the President's Report and in (2) above.
<b>Institutional Dev .:</b>	Modest	Substantial	The project helped increase BOM capacity (see (3) above) and improved the legal and regulatory framework for the financial sector..
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Unsatisfactory	Satisfactory	See (9) below. The objectives were relevant, preparation and appraisal satisfactory, and supervision was responsive to changes in government policy.
<b>Borrower Perf .:</b>	Unsatisfactory	Satisfactory	See (9) below. However, the lags in implementation and problems with counterpart funds make this less than fully satisfactory.
<b>Quality of ICR:</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### **7. Lessons of Broad Applicability:**

(i) This project demonstrates that it is possible for a technical assistance project to have a major impact on a country's capacity to manage the financial sector through provision of training and systems . (ii) When project management is decentralized to the field, it is important to maintain good records on the dialogue between the Bank and the Borrower.

#### **8. Assessment Recommended?** Yes No

**Why?** The project has already been audited as part of a cluster of eight projects, including the SERP . The PPAR will be finalized shortly .

#### **9. Comments on Quality of ICR:**

The ICR is very thorough. However, its judgements on the ratings are based on the ambitious objectives of the SERP, rather than on the more limited objective of providing good technical assistance . The differences in ratings between the ICR and this Evaluation Summary stem from the fact that the ICR attributes the failings in the financial sector (particularly the bank privatization) to this project, whereas OED believes that the main fault lies with government policies and decisions taken under the SERP . In addition, given the substantial accomplishment in increasing the capacity of the central bank to supervise the financial sector and conduct monetary policy in the framework of the separation of the central bank from commercial banking activities, and considering the very low capacity at the beginning of the project, it would have been useful to consider the lessons provided by this project for effective provision of technical assistance .