

# Rebuilding the Mozambique Economy

COUNTRY ASSISTANCE REVIEW



## ABBREVIATIONS AND ACRONYMS

ARD	Agricultural Rehabilitation and Development	MAE	Ministry of State Administration
ASRD	Agricultural Services Rehabilitation and Development	MAF	Ministry of Agriculture and Fisheries
BCM	Banco Comercial de Moçambique	MFP	Ministry of Finance and Planning
BFE	Banco de Fomento e Exterior	MICOA	Ministry of Environmental Coordination
BPD	Banco Popular de Desenvolvimento	MINED	Ministry of Education
BST	Banco Standard Totta de Moçambique	NEMP	National Environmental Management Program
CAS	Country Assistance Strategy	NGO	Nongovernmental Organization
CESP	Country Environmental Strategy Paper	OED	Operations Evaluation Department
CFM	Caminhos de Ferro de Moçambique	PAU	Poverty Alleviation Unit
CG	Consultative Group	PCU	Project Coordination Unit
DDA	Direcção Distrital de Agricultura	PETROMOC	Petroleos de Moçambique
DNEP	National Directorate of Roads and Bridges	PFIs	Participating Financial Institutions
DPA	Direcção Provincial de Agricultura	PIU	Project Implementation Unit
EDM	Electricidade de Moçambique	PROAGRI	Agricultural Sector Investment Program
ENH	Empresa Nacional de Hidrocarboneras	PROL	Local Government Reform and Engineering Project
ERP	Economic Rehabilitation Program	PROLEC	Household Energy Project
ESW	Economic and Sector Work	PRU	Urban Rehabilitation Project
EFMTAC	Economic and Financial Management Technical Assistance Credit	RENAMO	Resistencia Nacional Moçambicana
FRELIMO	Frente de Libertação de Moçambique	ROCS	Roads and Coastal Shipping
FSCBP	Financial Sector Capacity Building Project	RRP	Rural Rehabilitation Project
GAPROMAR	Bureau of Maritime Projects	SADC	Southern Africa Development Community
GDP	Gross Domestic Product	SDA	Social Dimensions of Adjustment
GEF	Global Environment Facility	SERC	Second Economic Recovery Credit
HQ	Headquarters	SIDA	Swedish International Development Authority
HRDP	Human Resources Development Project	SIP	Sector Investment Program
ICR	Implementation Completion Report	SMEDP	Small and Medium Enterprise Development Project
IDA	International Development Association	TA	Technical Assistance
IERP	Industrial Enterprise Restructuring Project	TFCA	Transfrontier Conservation Areas
IMF	International Monetary Fund	TM	Task Manager
LIBOR	London Interbank Offered Rate	UN	United Nations



# Rebuilding the Mozambique Economy

## Assessment of a Development Partnership

COUNTRY ASSISTANCE REVIEW

Luis Landau

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Washington, D.C.



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**FOREWORD**

This Country Assistance Review (CAR) incorporates the findings of an OED team that visited Mozambique in October 1997. The Swiss Agency for Development Cooperation provided valuable financial support and intellectual guidance throughout all stages of CAR preparation. However, responsibility for the content and conclusions of this report is exclusively OED's.

The OED team held extensive discussions with government officials, representatives of Mozambique's civil society, other donors and NGOs, as well as with Bank Staff. With the support of the Bank's Resident Mission, the team distributed questionnaires to the ministries that had participated in Bank-financed operations. At the end of the mission, the team organized a workshop in Maputo for other donors, civil society representatives and NGOs, to exchange views on donor coordination. The valuable cooperation of all the individuals consulted is gratefully acknowledged.

In line with the practice established in recent CARs, the present report contains brief evaluations of all the projects in the Bank's Mozambique portfolio, including ongoing operations. These can be found in an Annex to the report.

During the critical early stages of the country's emergence from a devastating military conflict, the Bank contributed advice for most aspects of the reform program, particularly in launching social programs and helping key ministries in their capacity-building efforts. In addition, the Bank funded priority investments to rebuild the physical

**PREFACIO**

En el presente Examen de la asistencia a Mozambique se han incorporado las conclusiones de un equipo del DEO que visitó el país en octubre de 1997. El Departamento Suizo de Desarrollo y de Cooperación proporcionó valioso respaldo financiero e intelectual durante todas las etapas de preparación del Examen. Sin embargo, el contenido y las conclusiones del informe son de responsabilidad exclusiva del DEO.

El equipo del DEO sostuvo extensas conversaciones con funcionarios gubernamentales, representantes de la sociedad civil de Mozambique, otros donantes y ONG, así como con personal del Banco. Con el respaldo de la Misión Residente del Banco, el equipo distribuyó cuestionarios a los ministerios que habían participado en las operaciones financiadas por el Banco. Al finalizar la misión, el equipo organizó en Maputo un curso práctico para otros donantes y para representantes de la sociedad civil y ONG, con objeto de intercambiar opiniones acerca de la coordinación de los donantes. Agradecemos sinceramente la cooperación de todas las personas a quienes se consultó.

De conformidad con la práctica establecida en recientes exámenes de la asistencia a los países, el presente informe contiene breves evaluaciones de todos los proyectos comprendidos en la cartera del Banco relativa a Mozambique, incluidas las operaciones actualmente en curso. Las evaluaciones figuran en el anexo del informe.

La conclusión principal del Examen es que la asistencia prestada por el Banco en apoyo de la reconstrucción económica de Mozambique se adaptó satisfactoriamente al conjunto de

**PRÉFACE**

La présente Étude de l'aide apportée au pays intègre les conclusions d'une mission qu'une équipe du Département de l'évaluation des opérations (OED) a effectuée au Mozambique en octobre 1997. La Direction suisse du développement et de la coopération a fourni un concours financier et intellectuel précieux tout au long de la préparation de cette étude. La teneur et les conclusions de ce rapport n'engagent cependant que la responsabilité de l'OED.

L'équipe de l'OED a eu de longs entretiens avec des agents du gouvernement, des représentants de la société civile mozambicaine, d'autres bailleurs de fonds et des ONG, ainsi qu'avec les services de la Banque. Avec l'appui de la Mission résidente de la Banque, elle a distribué des questionnaires aux ministères qui avaient participé aux opérations financées par l'Institution. À la fin de sa mission, l'équipe a organisé une réunion à Maputo pour permettre aux représentants des autres bailleurs de fonds, de la société civile et des ONG d'échanger leurs vues sur la coordination de l'aide. Nous tenons ici à remercier toutes les personnes consultées de leur très utile coopération.

Conformément à la pratique adoptée dans les études les plus récentes, le présent rapport donne en annexe une brève évaluation de tous les projets inscrits au portefeuille de la Banque pour le Mozambique, les activités en cours y comprises.

La principale conclusion de l'étude est que la Banque a su adapter son aide à la situation particulière dans laquelle se trouvait la nouvelle nation indépendante.

Au début de la période critique où le pays sortait d'un conflit dévastateur,

**E N G L I S H** infrastructure and spear-headed the effort to arrange critically needed debt relief from the nation's creditors. The CAR's main conclusion is that the Bank's assistance in support of

Mozambique's economic reconstruction responded well to the unique set of circumstances facing the newly independent nation.

Mozambique has made remarkable progress in financial stabilization, economic liberalization, privatization of the banking system and much of the state-owned enterprises, and recovery of economic growth. But severe problems, inherited from the past, remain unsolved: extreme poverty, weak institutions, dual economy with a majority of the population submerged in subsistence agriculture, limited access to elementary social services, and excessive concentration of economic growth among narrow segments of the economy.

Many donors, official and non-governmental, are helping Mozambique overcome these problems. But the proliferation of donors imposes excessive administrative burdens on the thin layer of government officials, wasteful duplication of efforts, and initiation of projects in excess of the country's absorptive capacity or with questionable economic priority.

The ongoing Country Assistance Strategy process provides an opportunity to enhance the efficacy of aid coordination. Looking to the immediate future, it appears advisable for the Bank and donors to initiate intensive consultation with the Government regarding aid coordination arrangements in support of agreed policy reforms and capacity-building priorities.

**E S P A N O L** circunstancias únicas a que se enfrenta esa nación recientemente independizada.

Durante las primeras y críticas etapas en que el país salía de un conflicto militar devastador, el Banco aportó

asesoramiento sobre la mayoría de los aspectos del programa de reforma, especialmente sobre la iniciación de programas sociales y la asistencia a los principales ministerios en su labor de fortalecimiento de las capacidades. Además, el Banco financió inversiones prioritarias destinadas a la reconstrucción de la infraestructura física, y encabezó los esfuerzos encaminados a que los acreedores de la nación concedieran el tan necesario alivio de la carga de la deuda.

Mozambique ha logrado progresos extraordinarios en lo que respecta a la estabilización financiera, la liberalización económica, la privatización del sistema bancario y de gran parte de las empresas de propiedad estatal, y la recuperación del crecimiento económico. Pero hay todavía graves problemas, heredados del pasado, que es preciso resolver: la extrema pobreza, la debilidad de las instituciones, una economía dual en que la mayoría de la población está dedicada a la agricultura de subsistencia, el acceso limitado a los servicios sociales elementales, y una concentración excesiva del crecimiento económico en unos pocos segmentos de la economía.

Muchos donantes, oficiales y no gubernamentales, están ayudando a Mozambique a superar esos problemas. Pero la proliferación de donantes impone una carga administrativa excesiva a la escasa dotación de funcionarios gubernamentales, y es causa de una duplicación antieconómica de esfuerzos y de la iniciación de

**F R A N C A I S** elle a fourni des conseils sur la plupart des aspects du programme de réformes, en particulier pour faciliter le lancement de programmes sociaux et le renforcement des capacités des ministères clés. Elle

a par ailleurs prêté son concours financier à la réalisation des investissements les plus urgents pour reconstruire les infrastructures et joué un rôle moteur dans la mise en place de dispositifs qui ont permis d'obtenir des créanciers les allègements de dette dont le pays avait cruellement besoin.

Le Mozambique a considérablement progressé sur la voie de la stabilisation financière, de la libéralisation économique, de la privatisation du système bancaire et de la plupart des entreprises publiques, et de la relance de la croissance économique. Il reste cependant à résoudre de très graves problèmes hérités du passé : pauvreté extrême, faiblesse des institutions, dualisme de l'économie qui relègue la majorité de la population dans l'agriculture de subsistance, accès limité aux services sociaux de base et croissance économique trop compartimentée.

Par leurs financements, nombre d'organismes d'aide publique et d'organisations non gouvernementales aident le Mozambique à surmonter ces obstacles. Mais la prolifération des bailleurs de fonds fait peser un lourd fardeau administratif sur une fonction publique aux effectifs restreints, entraîne une répétition inutile des tâches et aboutit au lancement de projets qui dépassent la capacité d'absorption du pays ou dont la priorité économique est contestable.

La définition en cours de la Stratégie d'assistance au pays offre la possibilité de mieux coordonner l'aide. S'agissant de l'avenir immédiat, il semble souhaitable que la Banque et

E S P A N O L

proyectos que superan la capacidad de absorción del país o cuya prioridad económica es cuestionable.

El proceso actual de aplicación de la estrategia de asistencia al país ofrece la

oportunidad de hacer más eficaz la coordinación de la ayuda. Pensando en el futuro inmediato, parece aconsejable que el Banco y los donantes inicien consultas intensivas con el Gobierno acerca del establecimiento de mecanismos de coordinación de la ayuda en apoyo de las reformas de política convenidas y las prioridades en materia de fortalecimiento de las capacidades.

F R A N C A I S

les bailleurs de fonds engagent des consultations suivies avec les pouvoirs publics afin de définir les modalités de coordination de l'aide à l'appui des réformes convenues et des priorités retenues pour le renforcement des capacités.



Robert Picciotto  
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**EXECUTIVE SUMMARY**

Mozambique joined the Bank in September 1984, while in the midst of its third consecutive war. The extended conflict had resulted in the destruction of the country's economic and social infrastructure, in massive population displacement and in economic disruption. The newly independent country had inherited from its colonial past a highly dualistic economy, with few Mozambicans educated for government, the professions or commerce. Social conditions were among the worst in the world: life expectancy was estimated at 41 years, the literacy rate was a mere 7 percent, and the population was ethnically and linguistically heterogeneous. Faced with such constraints, the government chose the path of central planning, and failed to promote an entrepreneurial class or the institutional framework needed for a market economy.

That history left the country with little capacity for economic governance or for managing a development process. Out of a decade of failed socialism and after years of internal conflict, Mozambique has enjoyed a commendable and sustained period of recovery, economic transition, and adherence of all parties to the peace process. Starting from daunting conditions of extreme poverty (among the very poorest countries of the world) and of heavily damaged economic and social infrastructure, the country received substantial support from the international community.

Mozambique launched an economic transition process while the internal conflict was still underway. Peace was achieved in 1992; elec-

**RESUMEN**

Mozambique ingresó como miembro del Banco en septiembre de 1984, cuando se encontraba en medio de su tercera guerra consecutiva. El prolongado conflicto había provocado la destrucción de su infraestructura económica y social, desplazamientos masivos de su población y la perturbación de su economía. El país, que había obtenido la independencia hacía poco tiempo, había heredado de su pasado colonial una economía sumamente dual, en la que pocos mozambiqueños habían sido educados para la función pública, los estamentos profesionales o el comercio. Las condiciones sociales figuraban entre las peores del mundo: la esperanza de vida al nacer se calculaba en 41 años, la tasa de alfabetización era de tan sólo el 7% y la población era étnica y lingüísticamente heterogénea. Ante tales limitaciones, el Gobierno optó por la planificación centralizada y no promovió la formación de una clase empresarial o el marco institucional necesario para una economía de mercado.

Con ese pasado, el país tenía escasa capacidad de gestión económica o de administración del proceso de desarrollo. Sin embargo, a pesar de una década de experiencia socialista fracasada y años de conflictos internos, Mozambique ha disfrutado un largo y meritorio período de recuperación, de transición económica y de adhesión de todas las partes al proceso de pacificación. Partiendo de condiciones abrumadoras de pobreza extrema (se contaba entre los países absolutamente pobres del mundo) y con una infraestructura económica y social muy dañada, el país ha recibido un apoyo considerable de la comunidad internacional.

**RÉSUMÉ ANALYTIQUE**

Le Mozambique est devenu membre de la Banque en septembre 1984, alors même qu'il traversait sa troisième guerre consécutive. Les conflits prolongés qui déchiraient le pays avaient détruit son infrastructure économique et sociale, provoqué des déplacements massifs de population et bouleversé l'activité économique. Le pays avait hérité de son passé colonial encore récent une économie fortement dualiste et sa population était mal préparée à la fonction publique, aux professions libérales et au commerce. Au plan social, la situation était l'une des pires du monde : l'espérance de vie était estimée à 41 ans, le taux d'alphabétisation n'atteignait que 7 % et la population se caractérisait par son hétérogénéité ethnique et linguistique. Devant de telles difficultés, le gouvernement a choisi la voie de la planification centralisée, ce qui l'a empêché de promouvoir l'émergence d'une classe d'entrepreneurs et de mettre en place le cadre institutionnel qu'exige une économie de marché.

Dans ces conditions, le pays ne disposait que de moyens limités pour gérer l'économie et le processus de développement. À l'issue d'une décennie marquée par l'échec de l'expérience socialiste et de longues années de conflits internes, un effort louable et soutenu a permis au Mozambique d'entrer dans une phase de redressement, de transition économique et d'adhésion de toutes les parties au processus de paix. Une aide importante de la communauté internationale est venue l'aider à faire face à une situation d'une extrême gravité, caractérisée par la misère (le Mozambique était l'un des pays les plus pauvres du monde) et le délabrement de l'infrastructure économique et sociale.

**E N G L I S H** tions in 1994. The Bank has been instrumental to Mozambique's recovery process, in several respects: assessing the country's economic and institutional requirements; helping the government design the specifics of the evolving policy agenda; helping to mobilize donor support through the CG; and providing substantial IDA resources, initially to jump-start the economy, and subsequently for sector investment programs, capacity building, and balance of payments support for a stabilization and adjustment process. The Bank has clearly made critical financial, administrative, and intellectual contributions to Mozambique's transition and peace processes.

Inevitably, some aspects of the recovery program have fallen short of potential—through errors of pace, sequence or resource allocation, and through inadequate implementation. Lessons can be learned, and are suggested in this review, respecting both policy and implementation. The Bank has supported the gradualist pace of reform chosen by the government. This pace delayed progress in achieving price stability and in improving resource allocation efficiency. But it has had the great benefit of ensuring government ownership of the economic reform program.

In being a donor, the Bank developed a wide array of sectoral operations over more than a decade. By now, the government's capacities in some areas have gained considerable depth of knowledge and experience particularly in sectors such as structural adjustment, banking reform, and transport. The Bank has demon-

**E S P A N O L** Mozambique inició el proceso de transición económica estando todavía vivo su conflicto bélico interno. La paz se logró en 1992 y en 1994 hubo elecciones. El Banco ha tenido una importancia decisiva en el

proceso de recuperación de Mozambique, en varios aspectos: evaluó las necesidades económicas e institucionales del país; ayudó al Gobierno a formular los rasgos específicos del programa de políticas, en evolución; contribuyó a movilizar la asistencia de los donantes a través del Grupo Consultivo, y facilitó un considerable volumen de recursos de la Asociación Internacional de Fomento (AIF), en un principio para dar un impulso inicial a la economía y después para programas de inversiones sectoriales, fortalecimiento de la capacidad y ayuda para balanza de pagos dentro del proceso de estabilización y ajuste. Es indudable que el Banco ha hecho aportaciones en los campos financiero, administrativo e intelectual de importancia crítica para los procesos de transición y pacificación de Mozambique.

Inevitablemente, en algunos aspectos del programa de recuperación no se ha alcanzado todo el potencial previsto, debido a errores en el ritmo o secuencia de las medidas o en la asignación de los recursos, o a defectos en la ejecución de los programas o proyectos. Se puede aprender de la experiencia, y en este examen se indican algunas de sus enseñanzas, en lo que respecta tanto a las políticas como a la ejecución de las actividades. El Banco ha respaldado el ritmo gradual de reforma elegido por el Gobierno. Este ritmo ha demorado el logro de la estabilidad de precios y ha impedido lograr un mayor avance en cuanto a eficiencia en la asignación de recursos, pero ha tenido la enorme

**F R A N C A I S** Le Mozambique a commencé sa transition économique alors qu'il était encore aux prises avec un conflit interne. La paix a été conclue en 1992 et des élections ont eu lieu en 1994. La Banque a contribué au relèvement du Mozambique par plusieurs interventions : elle a évalué les besoins économiques et institutionnels du pays, aidé les autorités à organiser, dans les détails, l'évolution de leur programme d'action, contribué à mobiliser l'appui des bailleurs de fonds par l'intermédiaire du Groupe consultatif, et fourni des ressources importantes de l'IDA, d'abord pour relancer l'économie, puis pour financer des programmes d'investissement sectoriel, de renforcement des capacités et de soutien à la balance des paiements dans le cadre d'un processus de stabilisation et d'ajustement. De toute évidence, la contribution financière, administrative et intellectuelle de la Banque a joué un rôle crucial dans la transition et le processus de paix du Mozambique.

Inévitablement, sur un certain nombre de points, le programme de relèvement n'a pas produit tous les résultats escomptés du fait d'erreurs dans le rythme d'intervention, la programmation des activités ou l'affectation des ressources ainsi que dans l'exécution des opérations. L'expérience est toutefois porteuse d'enseignements, comme le signale le présent rapport, tant au plan des politiques qu'à celui de l'exécution. La Banque a souscrit à l'échelonnement des réformes voulu par les pouvoirs publics. Ce choix a retardé une relative stabilisation des prix, et les gains qu'on aurait pu escompter sur le plan de l'affectation des ressources ne se sont pas matérialisés. Il a eu en revanche le grand avantage de faire totalement

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strated some comparative advantages (and disadvantages) that appear clear to the major donors. In some social sectors the bilaterals are providing, on a grant basis, all the external funding that the concerned ministries can absorb effectively: in some areas the government prefers not to incur debt, even on IDA terms.

Looking to the future, therefore, it appears advisable for the Bank, in close consultation with the government and the donors, to take stock of where Mozambique has arrived at present, and decide how the Bank can most effectively play its role in the next few years. The development of the new CAS and the writing of this CAR can provide a suitable opportunity for such a review. The CAR's overall conclusions for such a consultation are as follows:

- The Bank should remain the lead agency in assisting the government as it continues to develop the policies and capabilities for economic governance, including expenditure management, investment planning, revenue enhancement, civil service and pay reform, trade policies, and financial sector reform and development. The Bank has demonstrated comparative advantage in economic governance assistance and in policy-based adjustment lending. However, the Bank's development effectiveness has been limited by weaknesses in aid coordination as well as excessive focus on investment projects and traditional technical assistance at the expense of

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ventaja de garantizar que el Gobierno asumiera como propio el programa de reforma económica.

En su función de donante, el Banco ha llevado a cabo una amplia gama de operaciones sectoriales a lo largo de más de diez años. Ahora, hay ciertas áreas en las que el Gobierno ha adquirido capacidad, conocimientos y experiencia considerables, especialmente en sectores como el ajuste estructural, la reforma bancaria y los transportes. El Banco ha demostrado algunas ventajas (y desventajas) comparativas que parecen evidentes a los principales donantes. En ciertos sectores sociales, los donantes bilaterales proporcionan en calidad de donación todo el financiamiento externo que los ministerios interesados pueden absorber eficazmente, y en ciertos campos el Gobierno prefiere no incurrir en endeudamiento, ni siquiera en las condiciones de la AIF.

Así pues, de cara al futuro parece aconsejable que el Banco, en estrecha consulta con el Gobierno y los donantes, haga balance de a qué punto ha llegado Mozambique en este momento y decida cuál sería la manera más eficaz de desempeñar su función en los próximos años. La formulación de la nueva estrategia de asistencia al país, así como la redacción del presente documento pueden ofrecer una oportunidad apropiada para tal examen. Las conclusiones generales del examen de la asistencia a Mozambique, en cuanto a dicha consulta se refiere, son las siguientes:

- El Banco debería seguir siendo el organismo principal de asistencia al Gobierno a medida que éste continúa desarrollando sus políticas y capacidad de gestión económica, con inclusión

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adhérer le gouvernement au programme de réformes économiques.

En plus de dix ans d'intervention au Mozambique en tant que bailleur de fonds, la Banque a pu lancer toute une gamme d'opérations sectorielles. Les connaissances et l'expérience du gouvernement se sont considérablement améliorées dans certains domaines, notamment dans celui de l'ajustement structurel, de la réforme du secteur bancaire et des transports. Les avantages comparatifs que la Banque a (et n'a pas) sur certains plans sont aujourd'hui clairs aux yeux des principaux bailleurs de fonds. Dans certains secteurs sociaux, les organismes d'aide bilatérale fournissent, sous forme de dons, l'ensemble des financements extérieurs que les ministères concernés peuvent absorber de manière efficace. Il existe en effet des domaines dans lesquels le gouvernement préfère ne pas contracter de dettes, même aux conditions de l'IDA.

S'agissant de l'avenir, il semblerait judicieux que la Banque dresse un bilan de la situation du pays, en étroite consultation avec les pouvoirs publics et les bailleurs de fonds, et détermine les modalités les plus efficaces de son intervention au cours des prochaines années. L'élaboration de la nouvelle Stratégie d'aide pour le Mozambique et la rédaction de la présente Étude de l'assistance offerte au pays pourraient s'y prêter. Les conclusions générales de l'Étude dans la perspective de l'établissement de ce bilan concerté sont les suivantes :

- La Banque doit rester le chef de file des organismes qui aident le gouvernement à élaborer les politiques et se doter des capacités nécessaires à une bonne gestion de l'économie,

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capacity building and results-based sectorwide programs.

- Mozambique will continue to receive large aid flows from numerous donors. It is incumbent upon the donors to look for ways to increase the effectiveness of these flows. While the donors have much to contribute in terms of their experience and comparative advantages in Mozambique, they still look to the Bank for intellectual leadership in the dialogue with the government on sector strategies. They also rely on the Bank to lead dialogue on critical policies they deem too sensitive for close bilateral intervention. A strong Bank performance in upstream ESW, adequately funded and effectively connected to the government's own resource allocation processes as well as to the aid efforts of other multilateral and bilateral donors, would strengthen the Bank in raising the quality of sector investments and public sector management.
- Accordingly, the Bank should deliver advisory and analytical services for sectoral and thematic programs in the context of the government's own public expenditures management program and in close collaboration with UN agencies and lead donors. This would be facilitated by shifting more responsibility from the Bank's country assistance program to the field.

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de la administración del gasto público, la planificación de las inversiones, el acrecentamiento de los ingresos fiscales, la reforma de la función pública y su remuneración, las políticas comerciales y la reforma y desarrollo del sector financiero. El Banco ha demostrado tener ventaja comparativa en los campos de la asistencia para la gestión económica y del financiamiento para fines de ajuste en apoyo de reformas de políticas. Ahora bien, la eficacia del Banco en cuanto al desarrollo se refiere se ha visto limitada por fallos en la coordinación de la ayuda, así como por una orientación excesiva hacia los proyectos de inversión y la asistencia técnica tradicional, a expensas del fortalecimiento de la capacidad y de los programas de ámbito sectorial basados en los resultados.

- Mozambique seguirá recibiendo cuantiosos flujos de ayuda proveniente de numerosos donantes. Incumbe a éstos buscar los medios de acrecentar la eficacia de esas corrientes de asistencia. Si bien los donantes tienen mucho que aportar en términos de su experiencia y ventajas comparativas en Mozambique, siguen buscando en el Banco liderazgo intelectual en su diálogo con el Gobierno sobre estrategias sectoriales. También confían en el Banco para que encabece el diálogo sobre políticas de importancia crítica que consideran demasiado delicadas para una intervención bilateral de primera mano. Una actividad vigorosa del Banco en materia de estudios

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notamment en matière d'administration des dépenses, de planification des investissements, d'accroissement des recettes, de réforme de la fonction publique et du barème des traitements, de politiques commerciales, et de transformation et de développement du secteur financier. En matière d'aide à la gestion économique et de prêts à l'appui de réformes, la Banque possède un avantage comparatif avéré. En revanche, les faiblesses de la coordination de l'aide et une attention excessive accordée aux projets d'investissement et à l'assistance technique traditionnelle, aux dépens du renforcement des capacités et des programmes sectoriels avec contrat d'objectif, ont limité l'efficacité de son impact sur le développement.

- Le Mozambique continuera à recevoir une aide importante de nombreux bailleurs de fonds. Il incombe à ceux-ci de s'attacher à accroître l'efficacité de l'assistance prêtée au pays. Si leur concours peut être très précieux du fait de leur expérience et de leurs avantages comparatifs, les bailleurs de fonds continuent à avoir besoin de l'autorité intellectuelle de la Banque dans le dialogue sur les stratégies sectorielles avec le gouvernement. Ils se tournent aussi vers elle pour engager le dialogue sur des politiques essentielles, mais trop délicates, à leur sens, pour être abordées dans le cadre étroit de consultations bilatérales. Une solide performance de la Banque au niveau d'études économiques et sectorielles préparatoires, adéquatement financées et

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The nature of Bank involvement in sectoral leadership should vary among sectors, depending on the Bank's own comparative advantages and proven performance; on the government's preferences, which should be informed by the Bank's intellectual inputs; and on donor comparative advantages, with care to avoid supplanting grant flows. The Bank might provide limited and more selective lending in a particular sector in conjunction with a policy dialogue or coordination role (as in the early Beira Corridor project). Greater concentration of Bank efforts and improved coherence of the overall development program would best be achieved through results-oriented management coalitions involving government agencies, local communities, voluntary organizations and external assistance agencies for priority sectoral and thematic programs. In this context, imaginative use of the Bank's non-lending services and adaptable lending instruments would facilitate a participatory approach to the implementation of the new country assistance strategy.

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económicos y sectoriales innovadores, con financiación suficiente y conectada eficazmente con los procedimientos de asignación de recursos del propio Gobierno, así como con las operaciones de asistencia de otros donantes multilaterales y bilaterales, ayudaría al Banco a elevar la calidad de las inversiones sectoriales y la administración del sector público.

- Por consiguiente, el Banco debería prestar servicios de asesoramiento y análisis para programas sectoriales y temáticos en el contexto del programa de gestión del gasto público del propio Gobierno y en estrecha colaboración con los organismos de las Naciones Unidas y los principales donantes. Contribuiría a facilitar esto que el Banco traspasara más responsabilidades de su programa de asistencia al país a las actividades en el terreno.

La índole de la participación del Banco en el liderazgo sectorial debería variar de un sector a otro, dependiendo de sus propias ventajas comparativas y desempeño comprobado, de las preferencias del Gobierno —a las cuales el Banco debería hacer una aportación intelectual— y de las ventajas comparativas de los donantes, con cuidado de evitar la suplantación de los flujos de ayuda en calidad de donación. El Banco podría facilitar financiamiento limitado y más selectivo en un determinado sector, en conjunción con un diálogo en materia de políticas o asumiendo una función de coordinación (como en el proyecto inicial del Corredor de Beira), o ambas cosas. La mejor manera de conseguir una mayor concentración de las actividades del Banco y el mejoramiento de la coherencia del programa de desarrollo

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efficacement liées aux mécanismes d'affectation des ressources publiques ainsi qu'à l'aide multilatérale et bilatérale d'autres sources, renforcerait l'action de l'institution en améliorant la qualité des investissements sectoriels et de la gestion du secteur public.

- Il conviendrait en conséquence que la Banque fournisse ses services de conseil et d'analyse au titre de programmes sectoriels et thématiques dans le cadre du programme de gestion des dépenses publiques du gouvernement et en étroite coopération avec les organismes des Nations Unies et les principaux bailleurs de fonds. Dans cette optique, il serait souhaitable de confier aux services de la Banque sur le terrain de plus grandes responsabilités dans la gestion du programme d'assistance au pays.

Le rôle moteur joué par la Banque sur le plan sectoriel prendra des formes différentes d'un secteur à l'autre en fonction des avantages comparatifs propres à l'institution et des résultats déjà enregistrés dans le domaine considéré, des options choisies par le gouvernement, qui devraient être éclairées par la contribution intellectuelle de la Banque, et des avantages comparatifs des bailleurs de fonds, de sorte que les concours fournis par la Banque ne viennent pas se substituer à leurs dons. La Banque pourrait octroyer des prêts limités de manière plus sélective dans un secteur donné, parallèlement à un dialogue sur les réformes à entreprendre et/ou des fonctions de coordination (comme au début du projet consacré au couloir de Beira). La meilleure façon de mieux focaliser l'action de la Banque et d'accroître la cohérence globale du programme de développement consisterait à

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global sería a través de coaliciones de gestión orientadas a los resultados en las que participarían órganos gubernamentales, comunidades locales, organizaciones de voluntarios y organismos de asistencia externa

para la realización de programas sectoriales y temáticos prioritarios. En este contexto, el uso imaginativo de los servicios del Banco distintos de los crediticios y de sus instrumentos de financiamiento adaptables facilitaría la adopción de un enfoque participatorio para la puesta en práctica de la nueva estrategia de asistencia al país.

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constituer des groupes soumis à des critères de performance, qui rassembleraient des services publics, des communautés locales, des organisations bénévoles et des organismes d'aide extérieure, et qui

interviendraient au niveau des programmes sectoriels et thématiques prioritaires. Dans cette perspective, une utilisation ingénieuse des services hors prêts de la Banque et d'instruments de prêts souples aiderait à adopter une démarche interactive dans la mise en oeuvre de la nouvelle stratégie d'assistance au Mozambique.



# Conflict and Its Aftermath

**W**hen Mozambique joined the World Bank in September 1984, the country was in the midst of its third consecutive war. The conflict led to the destruction of the country's economic and social infrastructure and to massive population displacement and economic disruption. This compounded the severe difficulties Mozambique had faced when it emerged as an independent state in June 1975. The colonial economy had been highly dualistic. The nonAfrican, mainly Portuguese, minority had staffed the government machinery

and the industrial, plantation management, and commercial sectors. When Portugal withdrew, most of the 250,000 Portuguese living in Mozambique fled. Their departure left the country without the skills that had been operating the transport system, factories, wholesale and urban retail trade, the professions, and government. Few Mozambicans had been educated for entrance into government or nonagricultural occupations. Social conditions were among the worst in the world. Life expectancy was estimated at 41 years and literacy was a mere 7 percent. The population of 11–12 million was ethnically and linguistically heterogeneous.

While Mozambique had underlying conditions favorable for economic growth (good agricultural conditions in parts of the country; promising mineral potential including natural gas; large-scale hydropower potential; tourism; low population density; and good

ports, well situated for providing external trade access to its land-locked neighbors), its modest capital stock had been crippled by the “scorched-earth” policy of the departing settlers. The country's difficulties were compounded over the next decade by flooding, prolonged droughts, and extensive loss of human life. Economic activity was severely constrained by border closures and the consequent loss of transit traffic and Mozambican employment in South African mines.

The government established a one-party state system closely based on the East European model, especially the reliance on a dirigiste, rather than market-based, economic system. The socialist or statist route was seen as the only viable option for a country that now lacked both an entrepreneurial class and the institutional framework for a market economy. In the first 2–3 years after Independence, the government's effort to

transform Mozambican society along revolutionary lines alienated some of the support FRELIMO (Front for the Liberation of Mozambique) had enjoyed during the struggle for independence. The more radical FRELIMO faction was dominated by southerners, mainly from the Shangane ethnic group. The perception of southern dominance was reinforced by the historic location of the capital in the country's deep south. The opposition

RENAMO (Resistencia Nacional Mocambicana) party, created through external intervention, developed considerable support among the populace in the central provinces. In the orderly post-conflict election of October 1994, RENAMO received 38 percent of the votes for parliamentary seats while FRELIMO attracted 44 percent of the votes.

#### BOX 1.1: A UNIQUE SET OF HISTORICAL CIRCUMSTANCES

Mozambique gained independence from Portugal on 13 June 1975, after more than 10 years of guerrilla warfare waged by the movement FRELIMO. However, independence was not followed by peace and stability, as the country was soon embroiled in further warfare arising out of the complex conflicts underway in the region. Four years (1976–79) of incursions from (then) Rhodesia were followed by an internal war which lasted from 1981 until 1992. The civil conflict pitted the government of FRELIMO against RENAMO, a rebel group that had been created by the Rhodesian intelligence service and that was subsequently supported by South Africa as a destabilizing force inside

Mozambique. When Mozambique joined the World Bank in September 1984, the country was in the midst of its third consecutive war, and while the country had underlying conditions favorable for economic growth, its modest capital stock had been crippled. The conflict brought on a collapse of production, trade, and social services, and extensive cultural rupture and psychosocial damage. Real per capita GDP had fallen by half compared with pre-independence.

The peace process in Mozambique has been generally seen as one of the most successful transitions from internal conflict to peace in recent years. Mozambique's recovery and the government's policy performance have been internationally recognized

as commendable, especially when compared to a number of other developing countries that are post-conflict and undertaking transitions from a dirigiste to a market economy. The process began in 1989 as both parties recognized that neither could win by force of arms. The domestic and external interests that had engendered the long conflict were now lined up to support the peace process. A UN operation was established to monitor and facilitate the terms of the agreement, including demobilization, cease-fire monitoring, the reconstitution of RENAMO as a political party, and the elections.

Two distributional issues have emerged. The first is the concern that the southern region of the

country has been heavily favored in the location of public investment. The Maputo region in particular will benefit from the recovery and enhancement of the east-west transport corridors that provide access to Mozambique's ports for its landlocked neighbors and for the northeastern region of South Africa. National integration is also hampered by inadequate road transport and by cultural and language differences. Growing regional imbalance of this kind could be worrisome in a country still recovering from years of bitter conflict. The second issue is that of distribution of investment, on the one hand foreign versus national investment, and on the other, investment by Mozambican nationals themselves. Participation by Mozambi-

## BOX 1.1: A UNIQUE SET OF HISTORICAL CIRCUMSTANCES (CONTINUED)

cans in the ownership of privatized enterprises has been limited to a relatively small group of individuals. Although, as a Bank study showed, 92 percent of privatized SOEs as of March 1996 were sold to Mozambique nationals and firms, thereby not substantiating assertions that Mozambique is being “recolonized” or that the privatization program has been “selling out” the country to foreigners, ownership is extremely concentrated among a handful of Mozambican entrepreneurs.

It is worth reemphasizing the adversity of the conditions that the Government of Mozambique faced at the start of the stabilization and reform process, since Mozambique was among the very poorest countries of the world. During the conflict, about one-third of the population was displaced, and many of Mozambique’s human and physical resources were destroyed. The country’s independent experience in economic management had been entirely dirigiste, based on East European models and tutelage. Crop failures in 1986 and 1992 caused contractions in

the GDP. Despite these unfavorable conditions, the reform strategy, supported by a substantial aid, has succeeded in stabilizing the economy and launching growth. Inflation was brought down to single digits in 1997 after running between 30–70 percent since 1988. GDP has grown at an average of 5 percent over the 1990s, over 6 percent in 1996, reflecting healthy expansion in agricultural production and exports and an upturn in industrial output after years of decline as the SOE sector underwent closure and privatization. The government of Mozambique has pursued its reform agenda without significant reversal of either strategic purpose or any major component. Soon after Mozambique joined the Bank, Bank staff provided technical policy advice that was critical for the design of the policy agenda—critical because the government of Mozambique policymakers had had no previous experience in nonsocialist economic management.

Donor satisfaction with Mozambique’s progress has been reflected in recurrent

endorsement of the government’s program at CG meetings (the most recent was in May 1997) and the continuing high levels of aid, and in the donor willingness to participate in the recurrent debt relief exercises. The steady course of reform has also led to a revival of direct investment inflow from Portuguese and South African investors, who are likely to have a better knowledge basis for risk assessment, and for the start of investor interest and inflow from further afield, e.g. Malaysia and the US. A dynamic private sector response is emerging to reinforce the effectiveness of the government’s economic strategy. In sum, the accomplishments of the past decade can be interpreted as having brought Mozambique in a virtuous circle. While the high levels of aid have facilitated recovery, they also reflect the country’s heavy dependence on unilateral transfers to cover its large fiscal and external imbalances, including service on its heavy external debt (even after extraordinary refinancing). In 1996, external aid financed around two thirds of Mozambique’s imports. Of course, Mozambique

should not be expected to become financially self-sustaining, in the sense of zero dependence on concessional flows, for some considerable time to come. On the other hand, dependence at present levels exposes the economy to the vagaries of aid flows, and should be reduced through major revenue enhancement measures. Heavy dependence also creates problems of coordinating numerous donor programs that reflect donor priorities and preferences not always well integrated with the government’s own strategies or administrative mechanisms.

Mozambique’s post-conflict experience thus far, and the adherence of the former combatants to a rule of law framework for orderly political competition, have been viewed rightly as a relatively successful case—combining conflict resolution, economic transition and creation of political and economic rules of the game that break substantially from Mozambique’s historical experience. Nevertheless, the fragility of this still brief experience must be emphasized.



# Evolution of the Bank's Strategy and Portfolio

For the first five years of Mozambique's membership (1984–89), the Bank's program included three credits totaling US\$205 million (June 1985 for US\$45 million; October 1987 for US\$70 million; and August 1989 for US\$90 million) for balance of payments support keyed to the government's macro stabilization program and the needs of post-conflict rehabilitation. The first sector credit was initiated in 1987. Of the five project credits that became effective by 1990, two were sectoral (energy and transportation) and three pursued the economic

reform agenda (economic management, industrial restructuring, and small and medium-scale enterprises). Thus, of the total credits effective through 1990 of US\$390 million, the macro reform program accounted for about 80 percent, including balance of payments support comprising 53 percent of the total.

## Rehabilitation and Adjustment

The core of the Bank's initial strategy was to provide foreign exchange and technical support for rehabilitation and adjustment. Stabilization, growth, and improved resource allocation were the broad objectives. The Bank recognized that the extremely adverse conditions prevailing until a peaceful settlement could be reached greatly constrained the extent and pace of the effort to stabilize the economy and lay a foundation for post-conflict recovery and growth. Thus, the first

adjustment credits supported sequences of incremental steps to tackle price and exchange rate distortions, macroeconomic imbalances, trade reform measures, and initially a restructuring rather than privatization of state enterprises.<sup>1</sup>

## A Broader Focus

In 1991, with some prospect of peace, the Bank began to develop a comprehensive assistance strategy for the rehabilitation and reform of the economy. The first Country Strategy Paper (June 1991) laid out directions for the Bank's portfolio evolution: these have not changed substantially. The Bank judged the government's initial policy performance as satisfactory, reflecting a high level of political commitment to reform. The paper saw two risks to the strategy: weak local capacity and the uncertain political situation. The strategy called

for limiting operations to 2–3 new projects a year (projects had grown from 3 in 1987, to 14 in 1990) to focus supervision efforts on economic and sector work (ESW) and on addressing capacity deficiencies.

The paper identified five priority policy areas for government and Bank attention: (i) public expenditure management, foreign exchange and trade policy reform, and financial sector reform; (ii) state enterprise restructuring and privatization; (iii) poverty reduction, including access to basic services and adjustment of the safety net system; (iv) improved food security; and (v) capacity building. To help the government develop policies and programs, the Bank would continue its high level of ESW, focusing on capacity building and studies to assist in postwar planning, including environmental issues. The portfolio would gradually shift from macroeconomic to sectoral adjustment.<sup>2</sup>

In the next four years, 1991–94, IDA projects of US\$922 million (including US\$13 million of IFAD funds) extended Bank operations into agriculture, education,

**P**overty reduction assumed formal stature as the Bank's essential objective in assisting Mozambique. institutional capacity building (legal; local government), the financial sector, and natural gas, with substantial additional resources going to transportation infrastructure and further financing of the government's macro program. By the end of 1994, the cumulative Bank program was large in relation to domestic capacities. It amounted to US\$1,127 million, of which balance of payments (or adjustment) support accounted for US\$585 million, or 52 percent; transport US\$313 million, 28 percent; agriculture US\$73 million, 6 percent; energy US\$43 million, 6 percent; and the industrial sector US\$82 million, 7 percent. Although many projects had technical assistance and institution-building components, the Bank characterized five projects as a capacity-building group (amounting to US\$100 million, or 9 percent): economic management, education, legal and public administration, food security, and the financial sector.

#### A New Strategic Principle and a Broader Portfolio

After the peace settlement in 1992, the Bank's strategy (and its characterization of the strategic principle for all parties in Mozambique, as laid out in the Second Economic Recovery Credit [SERC] report), called for proceeding "as quickly as possible without going so fast or

attempting so much as to cause the whole process to abort."<sup>3</sup> Although this principle has enabled the Bank and the government to maintain substantial agreement on the reform process on a strategic level, the formulation was imprecise, and differences have arisen between the Bank and the government, mostly around pace, reflecting different judgments as to the potential effects of specific measures on the "whole process." During Board discussion of the strategy paper, Executive Directors cautioned that this assistance strategy was highly ambitious, and would need careful monitoring and coordination with other donors. They urged staff to devote much more attention to creating public administration capacity, civil service rationalization, and to implementation problems.<sup>4</sup>

By 1994 the Bank had a fully worked-out assistance strategy that continued to adopt the government's objectives and policies as the Bank's own framework and reflected the declining priority of short-run measures. While the continuing large aid inflows were essential, the need to move toward financial (and implementational) self-reliance had emerged as a high-priority objective. The areas for Bank assistance remained wide-ranging: macro reform, capacity building, agricultural recovery and infrastructure reconstruction, poverty reduction, and access to basic social services. The Bank's portfolio had to be revised to take account of the changed circumstances: the cessation of conflict, access to the country at large, and the resettlement of refugees and the displaced. It included modest Bank support to the government's safety net programs for the vulnerable urban poor. Finally, the strategy statement records that the Bank had developed activities within sector projects or through ESW work addressing gender issues, environmental problems, and private sector development, and that activities in these areas would continue. The Executive Directors again expressed concern about the level of proposed project lending, and the need to address implementation problems and intensify supervision. They called on staff to cooperate with bilateral donors and address the proliferation of donor-funded projects.

#### Normalization and Consolidation

In the next CAS, issued in November 1995 after a third year of peace and normalization, the Bank's strategy was reoriented, and development effectiveness assumed greater importance. Poverty reduction assumed formal stature as the Bank's essential objective in assisting Mozambique. The strategy was to be built around three

elements: continued restoration of a stable macroeconomic framework and removal of cross-cutting impediments to growth; human resources development; and promotion of sectors with high growth potential. The Bank would increase the effectiveness of its assistance through improved portfolio management, ESW, closer aid coordination, and more selective lending.

The Executive Directors welcomed this CAS, and its emphasis on poverty reduction, governance, and developing human resources. Some Executive Directors questioned whether there was a strong link between the poverty focus and the proposed lending program, and whether the Bank was overcommitted in too many fields, with insufficient implementation capacity, and in some areas where the Bank did not necessarily have a comparative advantage. They urged the Bank to concentrate in areas in which it excelled, such as economic analysis and policy dialogue. The Bank's ESW had been highly relevant and useful, and had helped in donor coordination. The resident mission had also contributed effectively to enhance donor coordination.

In 1995 the Bank made no new loans. Many projects in the portfolio were encountering implementation delays. The government agreed to conduct a portfolio review, which resulted in the restructuring of several projects and reduction or cancellation of several components. Lending resumed in 1996 with a health loan for

about US\$99 million, followed by a US\$100 million loan for economic recovery support in 1997. In October 1997 there were 18 active IDA credits with an original volume of US\$837 million (US\$821 million after cancellations). The active portfolio (including projects near close-out) still covered a wide range of activities in health, education, transportation, agriculture and rural development, natural gas, public administration, economic management, industry, household energy, legal and other capacity building, and policy-based economic support. In addition, project components addressed urban, environmental, and water problems. The Bank's ESW activities included poverty assessment and work on the structural adjustment process and economic policy dialogue (fiscal management, public expenditures, capital markets development, and privatization).

Following a period of rapid growth and diversification in the Bank's country assistance program, the time has come to streamline and reform Bank activities to enhance development impact. The major challenge of the new CAS is to achieve greater development effectiveness through strategic selectivity and enhanced partnership. The record of Bank operations suggests that improved management of the portfolio of ongoing projects, more systematic focus on capacity building and policy reform, and greater attention to aid coordination should animate further Bank operations in Mozambique.



# Private Sector Development: Bank Strategy in the Enterprise and Financial Sector

Since 1989, assistance with financial sector reform and privatization has been key to the Bank's CAS. The Bank's strategy evolved from support for rehabilitation of state-owned banks and enterprises to promoting active participation of the private sector in all sectors of the economy. In 1989 the Bank originated two loans—Small and Medium Enterprise Development Project (SMEDP) and Industrial Enterprise Restructuring Project (IERP)—to resuscitate industrial production by rehabilitating state-owned enterprises. Unfortunately, this

lending was not based on solid financial sector work and proceeded despite conspicuous price, foreign exchange, and interest rate distortions and the absence of creditworthy companies.<sup>1</sup> All lending to enterprises ended up going through state-owned banks. However, these banks had neither the institutional capacity nor the right incentives to perform the pivotal role of enterprise restructuring. Again in 1992, in its first financial sector study, the Bank failed to diagnose the weak corporate governance in state-owned financial institutions and the potentially disastrous implications for the financial system and macroeconomic stabilization.<sup>2</sup>

In 1994 the Bank shifted toward a more decisive course on privatization—and, if necessary, liquidation—of state-owned banks and large enterprises. Furthermore, the Bank recognized the need for enterprise and banking sector reform to proceed in tandem. This

new vision of the sector was greatly advanced by extensive sectoral work and was clearly articulated in the policy conditionalities under the Second Economic Recovery Credit (SERC), which included the reform of Banco Comercial de Moçambique (BCM) and large state-owned enterprises, reduction of subsidies to other state-owned companies, and liberalization of prices. IERP was restructured to give UTRE, a unit within the Ministry of Finance, responsibility solely for privatization, while putting enterprise rehabilitation into a subloan component to be carried out through the banking system. Technical assistance for the financial sector reforms was carried out under the Financial Sector Capacity Building Project (FSCBP), which was instrumental in the privatization and financial strengthening of the Mozambican financial system. Since 1995 the Bank's major focus has been on improving a highly

cumbersome and overregulated business environment, accelerating privatization, and completing reforms in the financial sector.

#### **Instruments of the Bank's Assistance for Private Sector Development**

The Bank's technical advice and policy dialogue have been crucial to the development of the private sector, which currently accounts for more than 75 percent of the country's GDP, and to financial sector reform, including privatization of the former state-owned and bankrupt financial system. But the challenge of implementing private sector reforms in parallel with substantial volumes of lending in a country with virtually no market institutions carried risks. Rushed lending to the emerging private sector through state-owned financial intermediaries that were not ready to bring about the restructuring of state-owned enterprises proved costly.

Despite initially misguided efforts to support the rehabilitation of bankrupt state-owned enterprises through undercapitalized state-owned banks, the Bank's overall assistance to the financial sector and to enterprise privatization provided important support to Mozambique's program of structural reforms. The Bank's strategy resulted in a somewhat more business-friendly environment, a sounder financial system, and what may be the most successful privatization program in Africa.

#### *Enterprise Lending: A Dismal Early Record, but Recent Improvements in the Business Climate*

Despite the precarious financial situation, weak corporate governance, and nonexistent credit underwriting skills of the state-owned banks, the Bank went ahead with SMEDP. As a result, in 1996 the rate of default on the loans made by BCM and Banco Popular de Desenvolvimento (BPD), the two largest lenders, was more than 50 percent for loans whose grace period had passed. The final default rate is expected to approach 90 percent.

The Bank, through UTRE, had little choice but to rely on BCM for the rehabilitation component of the IERP. BCM underwrote almost 60 percent of the total loan amount—US\$18.5 million—by making two large subloans to just two companies. Only recently were the remaining funds utilized through private banks (Banco de Fomento e Exterior (BFE) and Banco Standard Totta de Moçambique (BST) and a newly established leasing company (United Leasing Company [ULC]). Although the grace period of up to 5–7 years makes it difficult to

gauge the credit quality of the banks' subloans, the improved macroeconomic environment and the larger size of subborrowers have reduced the risks of default. The recent privatization of BCM should also have a positive impact on its incentives to service and collect on the loans made by its state-owned predecessor.

Despite an initially ineffective enterprise lending record, the IERP, following three formal restructurings, has become an important source of financial support for enterprise reform. It has also provided technical assistance for privatization, legal reform, investment and export promotion, conferences on private sector development, capacity building in statistical collection and analysis, and capacity building in the Ministry of Industry, Trade, and Tourism for implementing reforms in the business environment. In particular, the project provided valuable technical assistance in institutional strengthening of government privatization agencies.

The overall perception of country risk by foreign investors, while still adverse, has improved somewhat over the past several years. Notable achievements include improvements in financial incentives (prices and foreign exchange), the emergence of markets for foreign exchange and credit, the adoption of a revised investment code, approval of export processing zones, privatization of customs, and a drastic reduction in the notary fees on the registration of collateral. On the negative side, corruption remains a serious problem.

#### *Assistance to the Financial Sector: Sequencing Missteps, but Eventual Restructuring of the Sector*

The Bank's strategy in the financial sector has been carried under the Economic and Financial Management Technical Assistance Credit (EFMTAC) and the FSCBC. The EFMTAC laid the groundwork for subsequent financial sector reforms by separating the commercial lending functions of the Bank of Mozambique from its central banking functions; the FSCBP moved on to privatization of the commercial bank functions and the strengthening of the central bank's supervision capabilities through a twinning arrangement with the South African Reserve Bank supervisors.

There were many missteps along the way to this ultimately successful outcome. From 1992 until July 1995—when the decision was made to privatize BCM—the Bank devoted substantial financial resources to its restructuring and technical strengthening, despite BCM's almost total deficiency of corporate governance and its widespread practice of politically motivated lending. The

Bank's technical assistance fell short of improving the interim governance of state banks and of imposing clearly monitorable restrictions on the banks' lending activities. As a result, shortly after its recapitalization, and despite the Bank's technical assistance and policy advice, BCM engaged in uncontrolled credit expansion and had to be recapitalized again before privatization. A year after BCM's privatization, the second largest state-owned bank (BPD) was privatized, marking a new stage in the development of the Mozambican financial system. The Bank's technical assistance during this period focused on strengthening the commercially viable banks and building the supervisory skills of the central bank through the FSCBC. Mozambique's bank supervisory standards are now at par with some neighboring countries at a more advanced stage of development.

Since the Commercial Bank of Mozambique was separated from the Bank of Mozambique, there has been a profound transformation in the structure of the financial sector. Lending and deposit rates were fully liberalized in June 1994, and the authorities have maintained positive real discount rates since 1995. Significant progress has been achieved in transforming an underdeveloped, state-owned financial system into a viable and fully privately owned banking sector. The restructuring and privatization of state-owned BCM and BPD have ended the uncontrolled expansion of credit to bankrupt enterprises and have been keys to the success of the macroeconomic stabilization program. Today, there are six private banks, a credit cooperative, a leasing company, three insurance companies, and 18 foreign exchange bureaus. In June 1996 the shares of non-government deposits and of lending to nongovernment sectors in the hands of the smaller private banks (excluding BCM) were 30 and 23 percent, respectively, and growing steadily. Moreover, the ownership of private financial institutions has been diversifying, with increasing participation of domestic and foreign capital.

#### *Privatization: Substantial Progress*

Since 1989 the Mozambican enterprise restructuring program, supported by the restructured IERP, has resulted in the privatization of over 800 of 1,250 public enterprises, including 70 large companies. Today the private sector accounts for over 70 percent of GDP. The privatization succeeded in increasing the efficiency and competitiveness of privatized firms and in attracting new investment. The Bank provided extensive technical assistance and financial support to the government's

infrastructure privatization efforts, including technical studies on the feasibility of private concessions for the Maputo, Beira, and Nampula ports and railroad corridors, and a toll road from Maputo to South Africa.

#### *Recommendations*

The Bank's support to Mozambique's privatization program and financial sector reforms has been highly relevant to the country's economic needs. The efficacy of Bank support was high in adjustment operations, where enforcement of policy conditionalities resulted in highly visible economic reforms. Lending programs for technical assistance and institution-building in the financial sector have also been successful in transforming state-owned banks into more commercially viable and efficient market institutions. Technical assistance for development of the private sector facilitated enterprise privatization and improved the country's business environment.

- The Bank's assistance to the enterprise and financial sectors has been accomplished at excessive cost because of the initial misuse of resources resulting from an improper sequencing of reforms.
- A stronger Bank presence, better sectoral work, and more policy dialogue with the government in the late 1980s and early 1990s might have helped to yield better results. The losses incurred by the state-owned banks under the SMEDP alone are likely to cost the government around US\$20 million dollars, while the cost of the final "clean-up" of the banking system after its initial recapitalization in 1993 has already reached US\$93 million, and may rise further.

#### *Financial and Enterprise Reform: Better Sequencing and New Tools*

The lack of credit underwriting skills and weak corporate governance made state-owned banks highly inappropriate conduits for channeling credit to enterprises. The capital needs of start-up small companies can best be addressed through nontraditional lenders or equity investors, such as venture capital funds or the IFC.

The Bank's support to Mozambique's privatization program and financial sector reforms has been highly relevant to the country's economic needs.

- In light of the poor performance of enterprise credit efforts and the rapidly developing Mozambican commercial banking system, the Bank's presence in the enterprise sector ought to be limited to policy dialogue with the government and technical assistance to small firms and government institutions.
- Less distorting ways should be used to provide assistance to the emerging Mozambican private sector than the current practice of providing funds at subsidized interest rates.
- Such assistance can be provided in the form of matching grant schemes to small- and medium-size firms to develop better management and information systems, improve their technical capabilities, and train workers.

The government's initial privatization program did not envisage any coherent social policy response to the problem of labor retrenchments following privatization. Although the IERP has a component for retrenched workers, it was never used by the government—which did not want to develop a worker training program—in large part because of lack of interest by workers. A study on *Evaluating the Impact of the Enterprise Restructuring Program*, carried out jointly with the government, addressed the major concerns of workers and their unions with respect to the impact of privatization. What workers wanted if they were laid off was what was due to them by law: back wages, pensions, and a severance allowance from the proceeds of the privatization sales.

### *Business Environment: Business Legislation Still Needs Reform*

Mozambique's economic legislation remains highly convoluted, inconsistent, and difficult to enforce. It falls short of clearly defining and protecting property rights and setting rules for their exchange. This results in high transaction costs, which are prohibitive for small- and medium-size entrepreneurs. In addition, there are serious omissions in the rules for entry and exit. The Bank, through the IERP, is currently providing assistance for the reform of business laws, including the commercial code. The IERP is also providing support for the Ministry of Industry, Trade, and Tourism to carry out the recommendations of the *Impediments to Industrial Sector Reform* study and the follow-on FIAS red-tape analysis.

### *Recommendations*

- The Bank should be more active in policy dialogue with the government and in providing technical assistance for land reform.
- Lack of clear property rights to land in agriculture, which employs 70 percent of the population, is the main obstacle to the emergence of small companies. Investors are still uncertain about the sustainability of many institutional reforms because of potential setbacks in economic policies and the anticorruption campaign. Corruption, a poorly trained and unmotivated civil service, outdated and cumbersome business legislation, and lack of business services and basic infrastructure still contribute substantially to the cost of doing business in Mozambique.

#### BOX 3.1: CASE STUDIES IN ENTERPRISE RESTRUCTURING

**A**gua de Maputo, a publicly owned and managed water company, provides service to 50 percent of all registered households in Maputo. The company exhibits all the problems of a traditional public water utility. On average, water is available for 10–12 hours a day. Although almost every apart-

ment is metered, only 50 percent of meters are operational. Although the reported unaccounted-for-water rate is 23 percent, there are strong reasons to believe that the real figure is much higher. For political reasons, water tariffs for residential consumers—which account for over 90 percent of the revenue—are kept very

low, at about 50 percent of the actual cost recovery rate. Until May 1997, the government had not raised rates for two years, despite an upsurge of inflation forcing the company to underbudget its maintenance and amortization expenditures—which are currently funded at 70 percent and 50 percent of required costs, respectively.

The revenue loss due to underpriced service is only partially compensated by the government capital grants, which have been rapidly declining over the past few years. The company, however, manages to pay wages without delays. Despite its vigorous disconnection policy, in 1997 the company's collection rate was under 70 percent.

**BOX 3.1: CASE STUDIES IN ENTERPRISE RESTRUCTURING (CONTINUED)**

The company consistently fails to generate enough revenue to cover its operating expenses, and as a result has accrued large accounts receivable. For instance, its annual debt to the local power company amounts to US\$4 million. Under these circumstances, the company is unable to expand the service coverage to new customers or to make even marginal improvements in the quality of service to present consumers. Currently, with the World Bank's assistance, the government is considering bringing in a private operator through a long-term concession. However, in the absence of an economically viable tariff-setting mechanism, such an undertaking would require major government subsidies, making the economics of the project contingent upon an unpredictable government budgeting process. Unless the government is prepared to set the rates at least equal to the cost recovery level, and use alternative regulatory instruments (for instance, rate-of-return caps), it may prove difficult to attract new investment for extending the service coverage and improving the quality of service.

Electricidade de Moçambique (EDM) was

founded in 1977. It is the only national power company, which operates all generation and transmission as a vertically integrated, state-owned monopoly. In 1995 the company was transformed into a public company, solely owned by the state. In 1996 EDM entered into a performance agreement with the government, which specified the right to operate the assets and collect the revenues. The agreement also set out the main service, operational, and maintenance quality standards, as well as the tariff escalation schedule. Under the contract, the company has assumed all the debts of its predecessor. Unfortunately, most of the loan proceeds had been used to pay for developing the power infrastructure that subsequently was destroyed by the war.

As with many other state-owned utilities, for political reasons, EDM's electricity prices are kept well below production costs. For almost two years the government delayed a recent 1997 tariff increase. This has had a negative impact on the company's financial position. As a result, the company postponed its plans to expand service to new customers and entered into

a debt restructuring agreement with the government. Nevertheless, the corporatization of EDM, with the subsequent conclusion of a performance agreement, has had a positive impact on the company's bottom line. Substantial progress has been made in improving revenue collection, reducing energy distribution losses, and cutting operational costs. In 1996 EDM launched an active loss reduction campaign in Maputo, which targeted energy losses and losses caused by poor collection. A special disconnection task force has been formed. EDM's efforts to collect from the government institutions, however, have failed, as threats to cut off the service could never be enforced. In less than two years, the collection ratio has improved—from 75 percent in 1995 to 93 percent, at the end of 1997—while energy losses have declined from 41 percent in 1995 to 26 percent in 1997. Similar costs and loss-reduction programs are currently under implementation in Beira and Nampula. At the moment, the company is introducing an integrated customer information and billing system, which will provide faster response to technical problems and

improve collection. To supplement its domestic revenue, EDM will be exporting energy to Zimbabwe. Its future export revenues are expected to account for 8 percent of the total domestically generated revenues. Despite the politically constrained tariff-setting mechanism, the company is expected to break even for the first time ever in 1998, which presents an opportunity for its privatization.

All this clearly illustrates the need to insulate Agua de Maputo and EDM from politically motivated government interventions. As has been demonstrated by EDM, a performance agreement which spells out the rights and contractual obligations of the parties can become the first important step toward financial sustainability of public utilities, improved cost efficiency, and better-quality service for consumers. Yet restructuring and performance agreements fall short of achieving these objectives. While the shape of reform has yet to be finalized, it is clear that the problems of a politically controlled tariff-setting mechanism and poorly enforceable collection can only be addressed through more private participation in these sectors.

## BOX 3.2: IFC AND FIAS: STRATEGY AND ACTIVITIES IN MOZAMBIQUE

When Mozambique became a member of IFC in 1984, the country was still in the middle of a war, and its economy was devastated. IFC made its first investment in a cotton production project, (Lomaco) in 1987, which was followed by another investment for the rehabilitation of the Polana Hotel in 1992.

In July 1990 FIAS was asked to assist the Banco de Mozambique in reviewing its debt-for-equity conversion program. FIAS found that the legal framework for debt conversion was seriously flawed, and proposed changes necessary to make the program more effective. These were accepted by the government. Subsequently, FIAS was asked to conduct a study of the investment climate. The report reviewed issues and procedures from a foreign investor's perspective and suggested measures to improve the investment framework. The study recommended adoption of a swift registration process and enactment of a new company law. Other recommendations related to investment incentives, taxes, ownership restrictions, foreign exchange allocation process, land ownership and labor laws. Many recommendations were adopted by the gov-

ernment. In FY94–95 FIAS was requested to review the legal framework for foreign direct investment. FIAS concluded that many of the measures proposed by the government changes were counterproductive, and the government subsequently revised its proposals, in part. This exercise also analyzed the legislative framework and operations of the Investment Promotion Centre (CPI) and made recommendations for a legal/operational structure of the CPI which were subsequently implemented.

Following the presidential and legislative elections in 1994, a joint Bank-IFC report on conditions for private sector development was issued in 1995. This report concluded that the main constraints to private business were to be found in the excessive transaction costs facing private companies, partly due to inordinately high bureaucratic barriers. In 1996 IFC and FIAS put together a report on administrative barriers to business. This report was drafted with the cooperation of the government agencies involved. The conclusions of the report were presented in various international forums and have been the basis for an administrative reform which the government is now undertaking.

The current strategy of IFC is in line with these developments, and the increasing interest in Mozambique from private investors, including foreigners. IFC's priority is to focus on sectors in which the country has competitive advantages. Those sectors include: (i) transport and port infrastructure because of the country's strategic location as a gateway for surrounding countries; (ii) mineral extraction sectors including natural gas; (iii) export-oriented sectors, in particular energy-intensive industries and agriculture; (iv) the financial sector which needs further diversification and depth; and (v) small- and medium-enterprises (SMEs).

IFC's first investment in the SME sector through the Africa Enterprise Fund (AEF) was approved in 1995. In 1995–96 IFC approved its first investments in support of the country's comprehensive privatization program (a cement company and cashew nut processor). IFC also approved its first investment in the financial sector, in a recently established private commercial bank. These investments have not yet been evaluated. IFC also conducted a study to establish regulations for the leasing industry.

In 1997 IFC assigned an investment officer to the Bank's Maputo office to reinforce its ties with the local business community. The improved business environment and the increased interest from the private sector translated into record approvals in 1997, including an investment in Mozal—an aluminum smelter—of up to US\$120 million and investments in agriculture and the fishing industries. As of September 1997, IFC's total committed and approved investments amounted to US\$144 million.

IFC will continue allocating significant resources to Mozambique in these sectors. IFC sees its role as: (i) providing scarce long-term financing; (ii) helping establish Mozambique as a good business address; (iii) ensuring that projects meet the requirements of IFC/World Bank Environmental guidelines; (iv) contributing to capacity-building in the private sector through its special initiatives—the Africa Project Development Facility (APDF) and African Management Service Company (AMSCO); and (v) helping to implement the World Bank Group strategy for private sector development in coordination with the Bank and FIAS.



# Instruments of Bank Assistance for Infrastructure Development

The government's strategy for the transport sector was to catch up on deferred maintenance of rail and port infrastructure in the three east-west corridors linking Mozambique's main ports to neighboring countries, to improve railroad transport through better maintenance and rehabilitation, to improve north-south connections within the country through strengthened coastal shipping, and to maintain the existing road system. The Bank considered the strategy to be sound, although it put rehabilitation of fixed

facilities (rail tracks, ports) as a second priority, behind maintenance.

The Bank's knowledge of the transport sector evolved gradually. Bank assistance to the sector started with the First Rehabilitation Credit in 1985, followed by support for the Beira Corridor rail and ports rehabilitation program in 1989. The first transport sector review took place in 1988–89. It recommended infrastructure and equipment investment in transit routes to the sea, development of feeder roads to the railway system, rehabilitation and maintenance of roads to the small and major ports, and development of appropriate capacities to transport commodities by road, rail, and coastal shipping. This incremental approach was realistic, given the continuing conflict in the country until the 1992 peace agreement. This strategy provided a strong basis for the Bank's operational involvement and for providing lead-

ership in a large, capital-intensive sector where a multitude of donors were operating with little if any coherence. With the 1992 peace agreement, the Bank was in a good position to address the critical transportation development issues for integrating Mozambique along its unusually long north-south distances (some 2,500 km) and the east-west main transport corridors of vital importance for Mozambique and its neighboring countries to the west.

## *Railroads*

Mozambique has three international corridors—Beira in the center, Nakala in the north, and Maputo in the south—that are important to Mozambique as a source of income and employment, and to its landlocked northwestern neighbors and South Africa as gateways. The Bank's contribution through the Beira Corridor Project,

mainly at the institutional and human resource levels, has been helpful despite various delays. It confirmed the Bank's concern that major improvements in the efficiency of the large investments of the Mozambique railroad (CFM) required some form of privatization or concessioning. This approach was developed under the second credit for railways, the Maputo Corridor Revitalization TA. After many delays and considerable effort by the Bank, the government and CFM recently agreed on an international tender for the concessioning of CFM's southern system.

### *Roads and Ports*

On the basis of the 1989 transport sector report and much project preparation work, the Bank extended two credits, in 1992 and 1994, for the rehabilitation and strengthening of the road and coastal shipping infrastructure, which is essential for Mozambique's north-south integration. An initial project focused on improvements in policy, institutions, and human resources. Major progress has been made, with important benefits for the economy as a whole. The second project was part of a major investment program in the sector, cofinanced at more than US\$400 million by a large number of donors. The Bank played a useful role as leader in this effort. However, the government has reduced the annual level of expenditure on the program. Moreover, differences in donor procedures have resulted in important delays in the implementation of major road rehabilitation work, including some financed by the European Union (EU).

Despite the large volume of work required, especially on the Road and Coastal Shipping Projects, and the many cofinanciers, supervision has been successfully carried out from HQ—and even with remarkably limited inputs—a reminder that high-quality staff inputs are more important than quantity.

The Bank contributed to shaping the sectoral strategy for transport from the beginning of its involvement in Mozambique.

### *Recommendations*

The Bank contributed to shaping the sectoral strategy for transport from the beginning of its involvement in Mozambique. The 1989 sector report was a healthy counterpoint to the government's initial focus on the country's traditional transit function for the neighboring inland countries. As

a result, the north-south transport system, which offered major opportunities for greater national integration,

was made a higher priority. The attention given in the sector report to major policy issues and in particular to the urgent need for catching up at the institutional and human resource development levels, helped shape the initial strategy for the sector.

Bank performance under the four project operations was basically sound. Major Bank efforts went into preparation and supervision. The Bank worked closely with the government and donors to achieve a streamlined, well-prioritized (but still very ambitious) investment program. A large number of donors have felt comfortable with Bank leadership. Excellent communications have been maintained, although no project officer has been stationed in Maputo. Progress in liberalizing and privatizing coastal shipping and trucking has also been favorably affected by Bank assistance.

The Bank should have taken a harder look at the fiscal feasibility of the agreed large investment program on the Second Roads and Coastal Shipping Credit. However, the establishment of a Road Fund was an important step toward ensuring that road user charges are channeled into the roads.

There are several recommendations for future work in the sector:

- The Bank's initiative to seek major efficiency improvements in the railways-ports corridors through privatization and concessioning should be continued, especially the efforts to address the excess personnel issue, as long as government support, in the context of the broader country dialogue, remains strong.
- The "big push" approach in the roads sector has already resulted in important progress on the policy and institutional and human resources development fronts. However, deeper fiscal and economic analysis is needed to ensure that investments are not divorced from fiscal realities.
- Strong aid coordination leadership, based on thorough analytical work, should continue and should lead to greater use of common procedures, especially on procurement. But donor rigidities in this area persist.
- In light of experience so far, a good case can be made for continued substantive Bank involvement in the sector, both in railways and ports (east-west corridors) and roads and coastal shipping (north-south), taking into account the need for closer linkages between the Bank's fiscal work and sector investment programs.

### Energy: Need for a New Look at the Sector

As a result of strong initial sector work in 1985–86, the Bank was able to establish soundly based dialogue with the government on an energy sector strategy and to develop a sequence of priority operational activities. This initial effort was especially important in a sector with a wide range of primary energy resources and a consumption base that relied mainly on traditional fuelwood sources. This dependency caused serious environmental problems. Energy pricing was highly distorted, with fuelwood trading freely, but other sources of energy sold at well below economic cost.

### Strategy and Implementation

The Bank's strategy emphasized meeting Mozambique's energy needs from domestic sources, where economic; developing the country's potential to benefit from transit trade in energy products for neighboring (inland) countries and trade in electricity; and investing in energy-intensive industries for export only if certain economic, financial, and market conditions were met. The strategy was underpinned by detailed recommendations to secure stable energy supplies, strengthen institutions dealing with energy, remove distortions in energy pricing, address the urban household energy crisis, and promote the interest of foreign oil companies in petroleum exploration.

The Energy TA and Rehabilitation Project of 1987 addressed institutional and policy issues, and financed some emergency requirements in power and petroleum supply. The project relied heavily on foreign experts. An Urban Household Energy Project followed in 1989, focusing on temporarily increasing fuelwood supplies while substituting commercial energy supplies for fuelwoods (by financing household wiring and coal stove construction) and correcting distorted prices. These ambitious projects involved several executing agencies and considerable coordination. In 1993 the Bank extended a credit for a Gas Engineering Project, after another energy project had provided useful assistance to the *Empresa Nacional de Hidrocarboneras* (ENH). The project proved the existence of additional gas reserves.

The Bank's role in the energy sector has been generally positive. The Energy Rehabilitation and Urban Household Energy projects have led to important progress in the sector. The fuelwood program has been remarkably successful, as has the new pricing policy for petroleum. But the household program for electricity wiring and coal stoves largely failed, and success in the

electricity sector has been uneven. Although the recent electricity law will open the sector to private activities, the financial soundness of the national electricity company, EDM, has remained shaky. The Gas Engineering Project helped strengthen ENH and increased its ability to negotiate a satisfactory joint venture agreement with a major foreign partner on use of the gas reserves. The energy sector is changing quickly, however, and there is an urgent need for a fresh review of the sector.

### Recommendations

While the Bank's effectiveness in the energy sector has been mixed, the sector is too important for the development of Mozambique not to give it the attention which the Bank could bring by using its comparative advantage.

Bank performance was highly satisfactory in the initial strategy development, but mixed in project conception and preparation and during supervision, and in continued strategy development and aid coordination. Substantial Bank involvement in the energy sector, where there are many other donors, requires not only intellectual leadership, which the Bank demonstrated in the initial energy sector work, but active leadership during implementation, with both government entities and donors. The Bank seems to have been more timid than in other sectors in coordinating activities and in seeking to influence those donors providing grant funds. The Bank should have been able to exert a healthy presence in the sector since there were relatively few donors—and many other opportunities for their grant financing in Mozambique.

- It is important to get across the message that grant financing cannot be considered “free” when it supports low-priority and unnecessary projects, and thereby impedes future, more important operations.

### Urban Development: Too Complex and Too Little

Rapid urbanization in recent decades, much of it a response to the protracted civil conflict, has placed a significant burden on Mozambique's urban infrastructure, housing, and institutional capacity. Close to 40 percent of the population now live in cities, about one-third of them in absolute poverty. Poor urban neighborhoods lack access to water, sanitation, and adequate health care, and crime is rampant. Environmental degradation is a serious problem.

In the past decade, the Bank has undertaken two urban development projects—one completed, the other

ongoing—and a sector review of urban local government and environment. Two water projects are currently under preparation and an “urban environment” project is in the pipeline. The Urban Rehabilitation Project (PRU), approved in August 1988 and closed in October 1996, was intended to assist the government in stemming the rapid deterioration of basic urban infrastructure and services in Maputo and Beira, the country’s largest cities, and to mitigate some of the social costs of structural adjustment through: (i) rehabilitation of urban infrastructure (roads, water, waste management) and housing; (ii) employment generation; (iii) strengthening local institutions; and (iv) support to government initiatives in cost recovery, institutional reform, and new policy directions.

A sector review was completed in 1991. It concluded that local governments lacked legal, administrative, financial, and political autonomy and that institutional reforms to decentralize decisionmaking and strengthen municipal governments were essential for more effective management of urban development. The review found that Mozambique’s urban environment was degrading rapidly because of deferred maintenance, lack of skilled personnel and financial resources, and the wide disparity between supply of and demand for urban infrastructure and basic services. The review proposed a Local Government Reform and Engineering Project (PROL), which was approved in September 1993. Its objective was to support the government’s decentralization program by assisting with its municipal reform and capacity-building initiatives. The principal output of the project has been a new legal framework for local governments, which is expected to lead to the first municipal elections (for some 33 provincial capitals and other urban areas) in April 1998. Other than that, the most tangible products associated with PROL—rapid mapping in the five participating cities—are those whose funding was picked up by other donors.

Despite these efforts, urban development has received insufficient attention from the Bank to date. Urban productivity is important for sustainable national economic growth, and the persisting problems of poverty and environmental degradation associated with rapid urbanization and weak local institutions need to be systematically addressed. PRU was too ambitious and complex for Mozambique’s limited institutional and financial capacity in the sector. While it achieved many of its physical targets, and the roads component had a positive impact on Maputo and Beira, project imple-

mentation suffered from procurement and disbursement problems, changes in task managers, and coordination difficulties with some executing agencies. The credit lines for small enterprises and the acquisition of building materials failed, and the project proved generally unsuccessful in institution building, cost recovery, and other policy objectives. As a result, many of its benefits are of doubtful sustainability. Both Borrower and Bank performance were mixed: an undisbursed IDA credit balance of some US\$7.4 million was canceled. The ICR’s overall “unsatisfactory” rating for the project outcome is justified, although the extremely dynamic and difficult circumstances under which PRU was prepared and implemented should be clearly recognized. The sector review gave insufficient attention to the lack of capacity in the central government to effectively implement rapid decentralization in Mozambique. The study also underestimated the importance of transparency and political consensus building among the major stakeholders, including the political parties and other representatives of civil society, with respect to the decentralization process. These continue to be major constraints that have contributed directly to the sluggish performance and limited results of PROL.

PROL has proceeded slowly and has generated few concrete results to date. The project appears to share many of the problems experienced by PRU, including over-ambitious objectives, poor interinstitutional coordination, and lack of government ownership of some subcomponents. The project underwent a mid-term review in September 1996, and its original closing date (March 1998) is likely to be extended for one year. Given the critical importance and complexity of local government reform, the Bank’s decision to extend PROL, despite its limited results thus far, is reasonable, but the project will continue to require close supervision.

### *Recommendations*

- Urban productivity is important for sustainable national economic growth, and persisting problems of poverty and environmental degradation associated with rapid urbanization and weak local institutions need to be systematically addressed by the government. The donor community should give greater priority to urban development in general, and sustainable local economic growth, poverty reduction, and environmental improvement in particular.

- The Bank should encourage and help the government to develop and implement a national urban development policy to identify priorities for the provision of basic urban services and assess current institutional arrangements and the effectiveness of Bank and other donor support to the sector. The Bank can contribute directly to this process through its proposed sector study. The study should also examine conditions in the urban land and housing markets. Lending should be limited and contingent on adequate borrower commitment to implement an agreed sector strategy.
- Rapid environmental assessments and local environmental action plans should be prepared and implemented for Mozambique's principal urban centers. The Bank should work closely with other donors to strengthen this national institutional capacity and, in close consultation with all key stockholders, for subnational governance and urban management more generally.
- Future Bank urban projects should be based on a systematic assessment of priorities at the individual city level, and be more decentralized, demand-driven, and action-oriented than current Bank-supported activities through PROL. Building on successful aspects of PRU and local NGO experience, future urban projects should focus more on concrete, cost-effective interventions in low-income urban and peri-urban areas, including the use of appropriate technologies and broad local community participation, and less on traditional technical assistance, which has generated few tangible results.
- The Bank may consider placing an urban development/"brown" environmental specialist in the resident mission to facilitate its dialogue with, and assistance to, the client on sectoral policy and operational issues. Adaptable lending instruments should be considered to ensure that resources provided are in line with domestic implementation capacity.

#### Environment: Turning Policy into Action

Natural resources and environmental quality are essential both for Mozambique's short-term economic growth and its longer-term sustainable development. The national economy will continue to be highly dependent on the country's rich, mostly untapped, natural resource base, and the long-term implications of natural resource depletion need to be clearly recognized. Mozambique can avoid the costly degradation that has plagued other

countries in the region—although incipient signs are emerging even now in the acceleration of unmanaged and uncontrolled natural resource use. The potential environmental effects of new public and private sector development initiatives must be properly assessed and mitigated, and the institutional capacity needed to manage the environment must be put in place, from the public sector to the local community level.

A GEF Transfrontier Conservation Areas (TFCA) Project was approved in December 1996, and several IDA projects, ongoing and under preparation, have environmental components, but there are no free-standing Bank environmental projects. The TFCA project, which is still in its early stages, seeks to help the government create enabling policies, activities, and frameworks for rehabilitating, conserving, and managing biodiversity and natural resource endowments in three transfrontier conservation areas (bordering on South Africa and Zimbabwe). The Bank provided strong technical support to the preparation of this project, which required nearly five years, and is closely monitoring its implementation. Projects under preparation with significant environmental dimensions include the Agricultural Sector Investment Program (PROAGRI), which has land management and forest and wildlife management components and will support environment-friendly agricultural research, a Coastal and Marine Biodiversity Management Project for possible GEF funding, and the National Water Sector I Project, which includes a water resource management component that focuses on some of the international rivers upon which Mozambique is highly dependent for its water supply. The Bank, together with SIDA, has also supported integrated coastal zone management in Mozambique through the organization of a national workshop. Over the past five years, the Bank has supported the national environmental action planning process in Mozambique and has had a strong field presence in natural resource management in the form of a local environmental specialist.

As part of its support of government efforts to develop an agricultural development strategy and promote urban rehabilitation in the late 1980s and early 1990s, the Bank produced a technical paper on the integration of environmental concerns in a strategy for sustainable agricultural development. This paper identified the prolonged civil war and displacement of large numbers of people from rural areas as the key environmental problem by increasing pressures on fuelwood,

mangrove, and fisheries resources. A sector study of urban local government and the environment identified water quality, waste disposal, erosion, deforestation, soil fertility loss, and degradation of coastal and water resources as the main problems needing to be addressed.

Around the time of the peace accord in late 1992, the Bank began to support government preparation of a National Environmental Management Program (NEMP). A country environmental strategy paper (CESP) issued in December 1993 affirmed that environmental problems appeared to be severe only in urban centers, and transport corridors. Three general priorities were identified: integrating environmental guidelines into sector development policy; improving the enforcement of natural resource use rights at the local level; and establishing a coordination mechanism at the national level while maintaining a structure of decentralized environmental management. The Bank hoped to follow up the NEMP with an IDA operation, but the government has decided to rely instead on the ample grant funding available to it. Bank procedures were seen as too time-consuming and bureaucratic. As a result, the Bank's strategy has been to work with other donors and local stakeholders to mainstream environmental concerns in sectoral operations, particularly for agriculture, water, and urban development. Here again, use of adaptable lending instruments should be considered to adapt resource transfers to implementation capacities.

The presence of an environmental specialist in the resident mission over the past four years has facilitated interaction with the government, other donors, the private sector, and NGOs. Bank technical support on environmental and natural resource matters has been welcomed by the government and local stakeholders, but its project processing time is perceived as too lengthy and requirements seen as too demanding when compared with those of other donors.

### *Recommendations*

- Environmentally (and socially) sustainable development—and not just “sustainable, private sector-led, poverty-reducing growth”—should be the overriding long-term objective of Bank assistance to Mozambique. Considering the critical importance of renewable natural resources for the national economy, particular attention needs to be given to sustainable, decentralized, community-based natural resource management and the long-term implications of natural capital depletion.
- In light of prospects for continued rapid economic growth in a context of incipient or weak public sector institutions, special emphasis should also be given to properly assessing, minimizing, mitigating, or compensating for adverse environmental (and regional and social) impacts of macroeconomic and sectoral policies and new investment projects. In short, environmental (and social) concerns need to be more fully “mainstreamed,” both in country development decisionmaking and in Bank assistance to Mozambique.
- The Bank needs to work closely with other donors to help the government convert the NEMP (which provides a broad strategic framework) into an effective national environmental action plan with clearly defined priorities, policy, institutional and investment measures, institutional responsibilities, and timetables for implementation. This should also provide the guiding and coordinating mechanism for Bank and other donor support for the environment.
- The Bank and other donors should help MICOA clearly define its responsibilities in relation to other government agencies active in environmental—especially natural resource—management. Similarly, the donor community should help MICOA further develop the legal and regulatory framework for environmental management and strengthen its technical and institutional capacity to undertake effective environmental planning, monitoring, and enforcement.
- The Bank and other donors should give priority to enhancing MICOA's capacity to orient and evaluate—and local private sector/NGO capacity to undertake—environmental assessments of new investments, especially for “megaprojects” such as the Pande Gas and Maputo and other major corridor developments, whose induced development and cumulative impacts also need to be carefully examined. The potential environmental impacts of adjustment operations should also be assessed. MICOA's capacity to monitor and control implementation of environmental management plans derived from environmental assessments needs to be strengthened, and the Bank should intensify its supervision and follow-up of environmental mitigation measures associated with its ongoing and future lending operations, particularly in the infrastructure, energy, and agricultural sectors.

- The development community should give greater attention to transboundary environmental issues, particularly water resource, dryland, forest and wildlife management, and biodiversity conservation. This includes being increasingly active in donor coordination in the Southern Africa Development Community (SADC) countries.
- Over the medium term, the Bank and its development assistance partners should expand their activities to include promotion of (i) improved on-farm land and water management and soil conservation through rural extension and local community involvement; (ii) social forestry; (iii) improved fisheries management; and (iv) environmentally sound tourism.



# Social Amelioration: Reducing Poverty Through Agricultural Growth

The Bank's poverty reduction strategy for Mozambique, as articulated in its Country Assistance Strategy and the Poverty Reduction Strategy for Mozambique, is based on promoting a poverty-reducing pattern of growth, developing human resources, increasing support for rural smallholders, and improving safety nets. This broad poverty alleviation strategy has been complemented by targeted actions in nine projects, including the following:

- Second Rehabilitation Credit of 1987, which included support to agricultural marketing, improved producer prices, and a safety net for staples and other essential goods for the most vulnerable.
- Agricultural Rehabilitation and Development (ARD) of 1990, which included interventions expected to benefit 50,000 small-scale farmers and 600 skilled and 2,000 unskilled laborers, and the Agricultural Services Rehabilitation and Development (ASRD) of 1992, which addressed poverty broadly by upgrading agricultural services, providing working capital for smallholder production, and improving rural water supply. Both projects introduced a concern for rural poverty in project preparation and appraisal. However, the first project was closed, and the second was restructured and had limited outreach. This focus followed from the pattern of cashew production in Mozambique: the project did not otherwise target the poor.
- Economic Recovery Credit (IDA, US\$180 million, Switzerland, US\$6 million) of 1992, which specifically addressed poverty alleviation, in efforts to increase the productivity of the poor, improve basic social services, and establish a social safety net. The government would establish a coordinating body for poverty policy formulation, replace food subsidies with targeted income transfers, and prepare a report on land distribution.
- Rural Rehabilitation Credit of 1993, which was designed to benefit 200,000 rural smallholder households displaced during the war and to improve rural water supply in the provinces of Sofala and Zambesia. The Seeds For Work program was the only component initially targeted

directly to the poor. Subsequent restructuring of the project substantially expanded its poverty-alleviation components to include community projects in rural areas for the rehabilitation of schools, construction of water supply and sanitation facilities, and other community-determined infrastructure needs.

- Second Economic Recovery Credit (SERC) of 1994, which continued to protect government spending in the social sectors, while focusing on sound macroeconomic management, reconfirmed agricultural growth as the driving force behind poverty reduction, and proposed continued emphasis on removing constraints to marketing, rehabilitating transport, and improving health and education in rural areas.

The Bank was prominent in the US\$10.5 million Social Dimensions of Adjustment (SDA) Project, which was financed by grants from Germany, the Netherlands, Switzerland, and the United Kingdom. The SDA for Mozambique was prepared by a Bank mission in

1989, with representatives from donor governments, but no NGO participation. The project was subsequently administered and supervised by the Bank. The SDA initiative, which was plagued by slow startup and lack of systematic planning, was to a large extent superseded by the 1993 Food Security Capacity Building Project, which supports a Poverty

Alleviation Unit in the Ministry of Finance. Although the US\$6.3 million project is not formally classified as a poverty oriented project, it provided significant support to poverty alleviation by strengthening national capacity for monitoring poverty and for designing policies and programs for national food security. Under this project, the Poverty Alleviation Unit has compiled district profiles on food security and nutrition, a review of formal safety nets, a participatory poverty assessment, and a rural poverty profile. The Unit is analyzing the National Household Survey that will shed further light on poverty and is preparing a poverty database assessment.

#### How Appropriate Was the Bank's Poverty Strategy?

The Bank consistently emphasized increased agricultural productivity, especially for smallholder agriculture, as the engine of growth and the means of addressing rural

poverty. Throughout the adjustment programs, the Bank endeavored to protect social expenditures, poverty-reduction gained greater definition in the Bank's mandate, and policies and programs were increasingly assessed for their probable effect on poverty. Assistance in all sectors, such as liberalization of tariffs, roads, and expansion and rehabilitation of the health and education system, was expected to benefit the rural population. The Bank's strategy has continued to emphasize the importance of building internal capacity for monitoring and analyzing poverty in Mozambique, since the current absence of monitoring makes it impossible to determine whether assistance has benefited the poor preferentially or in proportion to their numbers in the population.<sup>1</sup>

For urban areas, the tension between poverty alleviation through growth and through income protection for the poor has been more acute than in rural areas. The Bank has consistently protected social sector expenditure in adjustment programs and has directed its assistance to local capacity building in poverty analysis and policy. While this now appears to be advancing satisfactorily, progress has undoubtedly been slow.

#### Recommendations

- The Bank is now in a good position to sharpen the poverty-reduction focus of the existing lending program, particularly for rural smallholders. The rehabilitation of the road network and improved security make possible a closer focus on poverty, with special attention to the most vulnerable households.
- Government commitment and capacity to assess and monitor poverty remain crucial. The Bank needs to continue to nurture this capacity to ensure more and better analysis of data on the distribution of growth and on the effects of reform programs on the poor. The very limited data now available seriously limit assessing the effect of the strategies and fine-tuning their poverty impact.

#### Attention to Gender Issues Has Been Sporadic

The active participation of women in the liberation struggle, and the emancipation of women as an explicit task of the government after Independence, have placed gender issues clearly on the development agenda of Mozambique for more than 25 years. The Mozambican Women's Organization (OMM), linked to the ruling FRELIMO party, was given the specific mandate to integrate women into national development. Greater efforts

to educate girls, adult literacy campaigns, free health care and increasing the participation of women in political life were key programs of the socialist government.

The government's 1995 Agricultural Policy and Strategy for Implementation, recognizes women's central importance to agriculture and integrated rural development, and places a high priority on their participation in programs of professional training, rural extension, and production and marketing activities.

Despite substantial progress in addressing gender imbalances in development, however, the situation of women in Mozambique remains precarious. Illiteracy is 77 percent among women and 42 percent for men, while enrollment in primary school is 54 percent for girls and 75 percent for boys. Malnutrition is higher among girls than boys, and maternal mortality rates are high, at 123 per 1,000. Although women constitute 52 percent of the workforce, they are heavily segregated by sector: 90 percent work in agriculture. War and migration have resulted in a large proportion of households headed by women (22 to 29 percent). Their double responsibility for household maintenance and income generation makes them especially vulnerable to poverty. The government recently completed a gender action plan;<sup>2</sup> this covers poverty and employment, education and training, health, violence and women's rights, women in environmental conservation and agriculture, and institutional mechanisms for the advancement of women.

The Bank's draft Agricultural Sector Memorandum of 1993 addressed gender issues at length and recognized that women were responsible for all crop husbandry, harvesting, and home processing of food crops. Particular attention was drawn to the difficulties experienced by female-headed households. Despite this analysis, no policies or program interventions addressed women farmers or women's time constraints to increase agricultural production. The Bank's 1995 Country Assistance Strategy also explicitly addressed gender issues, citing the large share of female-headed households. The Assistance Strategy aimed to address gender differences through service delivery to women in health care, education, water, and agriculture. It did not discuss women's constraints in contributing to economic growth, their work in rebuilding the country, their strong participation in agriculture, their contribution to private sector development, or their special needs in the development of property laws.

In view of the key place of women in the Mozambican economy, Bank preparation and appraisal missions made

special efforts to include attention to gender issues in project preparation, but this attention was neither systematic nor consistent in the absence of a clearly articulated strategy on gender issues. Although project and country strategy documents repeatedly note a lack of information on gender issues in Mozambique, there was a good deal of information available to those who looked for it (much of it prepared for the Beijing Conference).

This sporadic attention to gender in project design was not compensated for in implementation and supervision. Mainstreaming was weak, and gender components did not feature prominently in supervision.

The lack of an explicit gender strategy resulted in intermittent attention to gender in both the design and implementation of the lending program. The lack of analyzing and prioritizing the main areas for action on gender may also account for the tendency to see women more as a vulnerable group in need of social services than as key economic agents and equal participants in development. Greater attention to gender analysis would have given the Bank a better understanding of some of the issues it addressed. Analysis of gender issues in specific sectors could have strengthened the portfolio. Given women's pivotal importance as agricultural producers, their access to land is a significant issue in land tenure reform; the legal position of women, in personal as well as business law, has important implications for business development as well as for civil rights: so far, the Bank's assistance has been limited to a small grant to an NGO.<sup>3</sup>

There was limited identification of key gender issues, no policy mandate to address these, and little demonstrated ability to design concrete interventions.

### *Recommendations*

The Bank could deal with gender issues in the portfolio in a number of ways:

- Gender needs to be fully integrated into the Country Assistance Strategy and the subsequent lending program. This will require a coherent gender strategy, covering all major sectors where the Bank is active in Mozambique. Beginning with PROAGRI and education, where work has been initiated, gender sectoral strategies would also need to be developed.
- The Bank should consult with the government, the donor community, and civil society on project design and implementation to gain a better understanding of gender and development issues in Mozambique. This would strengthen its credibility as a participant in the development dialogue.

## BOX 5.1: GENDER DIMENSIONS OF THE BANK'S LENDING PROGRAM

Of 30 credits to Mozambique during 1988–97, half mentioned gender issues, and half of these proposed interventions over a broad range of activities:

- **Agricultural Services Rehabilitation and Development** of 1990 and **Agricultural Rehabilitation and Development Projects** of 1992 were both designed to give women equal access to extension services and to include them in credit programs. The Agricultural Services project noted that the rural water supply components would benefit women but did not consider the relevance of gender issues to its land tenure component. Implementation did not proceed as outlined, however. Project management was unaware of any special attention to be paid to women in extension or training.
- The **Rural Rehabilitation Project** of 1993, specified that half the rural development agents selected be women. The project would also address rural water and fuel supply as well as tenure rights, and had a seed distribution component for women. In the 1997 restructuring of the project, the seed distribution component was canceled, but the community development component was increased, and the training of community specialists made explicit provision for including separate meetings with women in the community to take their views into account in planning and decisionmaking.
- **Health and Nutrition Project** (1989) and **Health Sector Recovery Project** (1995) did not analyze gender issues specifically, but the Health Sector Recovery project stated that women and children would be the primary beneficiaries. Despite active NGO-sponsored discussion of violence against women, the health sector projects did not draw attention to this issue.
- The **Legal and Public Sector Capacity Building Project** (1992) included a small component of technical assistance to the Women's Association for Law and Development (MULEIDE) for work on women's legal rights and to raise awareness of women's rights issues. However, the Bank showed little further interest in the component, and there was no supervision.
- The **Human Resources Development Project** (1992) analyzed the gender distribution of the student body at pre-university and university levels and provided for pre-university scholarships, primarily for girls, and the construction of dormitories that would allocate space to women students in proportion to their numbers.
- The **Education and Manpower Development Project** (1988) and the **Second Education Project** (1990) did not address gender issues explicitly, although Education II was amended to provide funds for pilot initiatives on girls' education, and an Adviser for Girls' Education was appointed to coordinate activities.
- The **Economic Recovery Credit II** (1992) devoted some space to the analysis of gender issues but did not propose any activities related to gender. The **Economic Recovery Credit III** mentioned gender only in noting that half of all small farmers were women.

- Resident mission staff should be trained and assigned to cover gender issues.
- The existing portfolio will need explicit attention to potential gender issues in supervision. Thematic supervision covering several projects or sectors may be helpful in containing the cost of this.
- Some retrofitting of the existing portfolio to include gender analysis and action may be appropriate, particularly in the course of project restructuring.

## The Bank in the Health Sector

*Background*

Mozambique's health is at a pretransitional epidemiological stage, with high infant, child, and maternal mortality, and high fertility; all these indicators are well above the average for Sub-Saharan Africa, and the evidence shows little change since 1986. The main health problems are infectious and parasitic diseases (particu-

larly diarrhea), acute respiratory infections, measles, tetanus, tuberculosis, malaria, pneumonia, and child malnutrition. After Independence in 1975, the health services were nationalized and there was a threefold increase in the physical infrastructure, as the government attempted to correct the imbalance of service availability from a mostly curative urban service to offering primary health care and favoring rural areas. But during the emergency in the 1980s, the health sector was seriously affected by the country's political and economic upheavals. Financial resources for health declined, insecurity in rural areas increased, and health facilities were targeted by guerrillas. By 1985 almost one-third of the health centers and posts had been damaged or destroyed. A serious issue underlying the problems of health services performance is the erosion of the salaries of the health staff by inflation and the proliferation of ad-hoc compensatory practices.

Following relief and emergency assistance by donors and NGOs, the health sector fell into heavy dependence on external aid, a situation that persists to this day. Almost all investments in the sector (about 90 percent) are covered by grants and credits. Despite this aid, the health services reach only 40 percent of the population, and there are persistent problems of poor quality, in part as a result of the extremely low salaries of health staff and shortages of medicines in the health facilities, aggravated by irregular imports and distribution by multiple donors. The share of recurrent costs for health from the national budget amounts to less than US\$1 per capita and cost recovery is very low (in total, less than 4 percent of the public health expenditures); as a consequence, donor funds (including IDA credit funds) are often needed to cover emergency shortages. In 1991–92 the Ministry of Health undertook a comprehensive policy review toward the development of a more cohesive approach to rehabilitate, maintain, and operate the health sector. The Health Sector Recovery Program was the organizing principle for all foreign assistance in health, including the second IDA-financed health project. Its objectives are the improvement of the health status of the population in general and, in particular, a decrease in infant, child, and maternal mortality. These objectives were to be achieved through an increase in health coverage (from 40 to 60 percent) by 2000, with better quality.

#### *Bank/IDA Studies and Assistance (1986–97)*

The Bank undertook a *Health Sector Review* in 1986–87 and a *Food Security Study* in 1989 as a basis

for a dialogue on health and nutrition. This study identified, as priorities for the sector, slowing population growth, improving quality, coverage and cost-effectiveness of health services, and addressing malnutrition. In view of the then-prevailing insecurity in the country, the study recommended a phased approach that would begin with rehabilitation of health facilities and training in the urban areas, extending to rural areas as the situation improved. Alleviating nutritional deficiencies and improving food security would require action in three main areas: food distribution and rationing, nutrition interventions in the health sector (oral rehydration, vaccinations, nutrition monitoring, and education), and nutrition-related actions in other sectors, including water and sanitation and family food production.

How valid were these recommendations? The poor conditions of health and nutrition in Mozambique (exacerbated by the armed conflict in large parts of the country) justified attention to food security and restoration of basic health services. Recommending slowing population growth was misplaced as a short-term priority, given the existing conditions of war and instability. However, since there was at the time a strong need for access to better-quality reproductive and child health services (including child spacing) to address high maternal mortality, ensure safe deliveries, and decrease infant and child mortality and morbidity, the focus on these aspects of primary health care was well advised.

The 1989 *Study on Food Security* addressed daunting problems of inadequate food supply, debilitating infectious disease and resulting serious malnutrition in a

country at war, with weak technical and administrative capacity and extremely limited budget resources. The study recommended reconstructing the health system and giving priority to programs that could lower nutrition vulnerability and rehabilitate water and sanitation facilities. It correctly recommended a long-term strategy to rehabilitate agricultural production, particularly family food production, create employment, and establish a social safety net. Given the gravity of the nutri-

Following relief and emergency assistance by donors and NGOs, the health sector fell into heavy dependence on external aid, a situation that persists to this day.

tion problems, IDA's response was pertinent. It included a food security project (Credit 2487) for US\$6.3 million that became effective in February 1994 (to date, this has

disbursed 40 percent). Food security measures were introduced in several other projects.

As a follow-up of these studies, IDA approved a **Health and Nutrition Project** in 1989, with an IDA credit (Credit 1989) for US\$27 million, after a short preparatory period. The Staff Appraisal Report (SAR) estimated that 50 percent of the population would have improved access to health services and about 9 percent would have increased access to food through the project. The objectives were to strengthen capacity in health and nutrition policy formulation and management and to improve efficiency and service quality within existing budget constraints to mitigate some of the social costs of adjustment. Stronger service capacity was to be achieved, in addition to financing the reconstruction of the physical health infrastructure through subcomponents that would have required considerable inputs of technical expertise and detailed operational plans and actions on health financing, service management, effective primary health care service models, hospital efficiency, facility maintenance, pharmaceutical supply system, food distribution and education, and staff training. At both appraisal and during supervision, the complexity of the tasks involved to carry out this ambitious agenda may have been underestimated.

As a result, during the first three years there was very little activity regarding the substantive components of the project, and only 10 to 15 percent (excluding the initial Special Account deposit) of the credit funds were actually disbursed for contracted work (compared to an estimate of 50 percent at appraisal). It is unclear if the presence and programs of the many other donors could have been tapped to assist in implementation. The project was restructured in 1995 by making additional disbursements contingent on improvements in performance and by changing the categories of the financeable items, from policy and institution-building activities to financing of recurrent costs, particularly pharmaceuticals. This redirection of IDA financing toward recurrent expenditures covered a major gap for operation of the health system. Additionally, financing was redirected to two worthwhile purposes: (a) prepare designs of health centers for the second project, and (b) support the development of a National Health Sector Strategy, which subsequently became the basis for the Health Sector Recovery Program (HSRP). Nevertheless, long-term objectives regarding management and maintenance system improvements, primary health care, increased hospital efficiency, studies toward long-term financial sustainability, and human

resource development remained mostly unfulfilled. With these changes, disbursements accelerated, but it took eight years to fully use the credit funds.

Taking into account the difficult experience of the first project, IDA based the preparation of the second health project (Credit 2788)—the **Health Sector Recovery Program**—on a much higher recognition of the activities of other donors and on the need to support the Ministry of Health in integrating the proliferation and provincial fragmentation of donor-assisted projects through a master plan—the HSRP. The adoption by the Ministry of Health of the HSRP and the widespread acceptance of the program by the other foreign donors may be deemed as a solid accomplishment toward a more structured process for the reconstruction and rehabilitation of the health system in Mozambique. The program had three main components: (a) **health service delivery**, including infrastructure for health facilities and laboratories, pharmaceutical and medical supplies, maintenance, food, and provincial operational costs; (b) **institutional support** consisting of improvement of the supply system, provincial health management, information system, and program management; and (c) **human resource development** (both in-service and academic training). This five-year program amounted to US\$355.7 million, out of which IDA would finance US\$98.7 million. Donors agreed to contribute US\$140.5 million, participating in almost all components, and the government committed to finance the remaining US\$116.5 million.

Preparation was not completely immune to coordination problems. Donors thought that they had been insufficiently consulted by IDA during the intensive rounds of preparations, and that they had been invited to join an already completed program. The provincial and district health authorities and technical staff (responsible for implementation of the public health services and programs on a partially decentralized basis) had little involvement. These problems are currently being addressed by IDA through changes in the type of lending operation and in implementation arrangements. Regarding the form of investment lending, although this began as a specific project with pre-identified financing categories and items, it has now evolved into an agreed health Sector Investment Plan (SIP) with annual assessments that will enable IDA and other donors to regulate funding according to performance. The government and donors will support a share of the health budget with agreed instruments for accountability and transparency. It is too early to know whether these changes will help

accelerate the sluggish flow of credit funds (since credit effectiveness in April 1996, the credit has disbursed only 5 percent).

The actions taken by IDA in the last year regarding changes in the project to increase complementarity with donors point in the right direction. Several implementation arrangements are being worked-out between IDA and the donors and there has been progress in adopting special provisions for providing technical assistance under a trust fund managed by UNDP and for budgetary support to the provinces. Other areas being studied for common donor action are pharmaceuticals, training, and infrastructure. It is of paramount importance to pursue these arrangements so that donors, as well as provincial and district health offices, identify fully as partners in the Health Sector Recovery Program. During the next year, it will be possible to assess the effectiveness of these new mechanisms for channeling external assistance to the health sector, and the extent to which IDA funds will be required to fill the gaps left by other donors.

#### *Assessment of Results*

To sum up, although IDA strategy in the health sector in Mozambique during the last twelve years has been, for the most part, technically correct, the capacity for implementing projects and disbursing funds for the purposes originally established at appraisal remains uneven. The projects have had limited effect in advancing the strategy and in meeting the stated objectives of institutional development. On the positive side, IDA presence in the sector strengthened the dialogue with the government regarding the desirability of devoting more resources from public expenditures to health, and was successful in promoting an improvement in the balance between investments and recurrent expenditures. And in the preparation of the Health Sector Recovery Program, the comparative advantages and activities of all other donors were taken into account and consolidated in an overall program. Yet much more is needed to make IDA financial assistance and technical presence effectively complementary to an abundant flow of grant funds and technical assistance to the health sector. Donors maintain that they could provide the necessary financial resources to meet the requirements of the Health Sector Recovery Program through grants, but at the same time, they see an important task for IDA in providing intellectual leadership and policy guidance at the macro level.

The following remain outstanding issues for IDA and other donors in the health sector in Mozambique: (a) working closely to encourage cohesive action among donors, and genuine ownership of the HSRP by all concerned parties; (b) revisiting and strengthening the primary health care model and making improvement of these services an absolute priority; (c) applying substantial efforts to increase capacity building among provincial and municipal health offices and, at the same time, ensuring an active participation of those levels in all phases of annual program development and in evaluation of implementation; (d) increasing internal efficiency, particularly regarding hospitals, that consume a large proportion of health resources (such improvements would liberate more resources to enhance quality and expand primary health care to rural areas) and (e) initiating a well-documented debate on health delivery and financing alternatives (addressing particularly the problems of low coverage and inadequate staff compensation) with the participation of national and provincial health professionals, economists, members of the civil society, and the private sector to ensure the beginning of a phased process toward successful health care reform. This process, seen with a regional perspective, would have a time horizon of 15 to 20 years (as stated in *Better Health in Africa*, World Bank, 1994).

#### *The Future of IDA Assistance*

In the near term (the next five years), through proper implementation of Credit 2788, IDA could be the effective lender and intellectual leader by filling needed gaps, while strengthening the partnership with the other donors. To do this, the IDA would need to support timely and well-designed economic and sector work in health, as well as joint studies and seminars with other donors. With a long-term horizon, prospects for future IDA lending to Mozambique for traditional projects that only seek the expansion of health services, in the absence of health policy reform, are weak, given the experience of difficulties in credit utilization and assuming a continued commitment to assist on the part of the donor community. However, there could be opportunities for IDA to lead a strong health policy dialogue and provide financing for health sector reform, on the basis of a SIP or an adaptable program credit, toward efficiency and sustainability. IDA responsibilities would need to be periodically reviewed and revised as appropriate, in the light of changing economic and health scenarios in Mozambique.

**BOX 5.2: CONFRONTING AIDS**

**T**he Bank has helped to define issues, build consensus and mobilize resources against AIDS in Mozambique, at limited cost.

The World Bank co-sponsors and chairs the UNAIDS initiative in Mozambique. A group of agencies—UNICEF, UNFPA, UNESCO, UNDP, WHO, and the World Bank—have joined to develop a country program against AIDS. Although the prevalence of HIV infection is at less than 10 percent, Mozambique is surrounded by countries with prevalence rates of 25 percent and above. Infection has spread mainly along the major transport corridors into Mozambique, and is likely to grow as transportation is rehabilitated. Although largely invisible at present, the spread of AIDS will be most easily prevented by prompt actions now.

In its first year of activity, the UNAIDS initiative has focused on getting commitment and support at high levels. There is a division of responsibility among agencies: the World Bank has introduced an innovative AIDS education component into its lending for the transport sector. Through a slight modification in the tender documents for the ROCS project, each contract with construction companies for road construction and rehabilitation will include a small subcontract to an NGO for AIDS education. The subcontracts are generally well below 1 percent of the total contract and range from US\$10,000 to US\$60,000. NGOs will provide AIDS education and condom distribution for the construction workers and for the population in the areas of construction.

**Education**

During the 12-year involvement of the Bank in the education sector in Mozambique, one project was completed, two are ongoing, and one is in preparation. Although there has been some recovery in enrollment rates following the end of conflict (from 56 percent in 1993 to 62 percent in 1996), the sector is still plagued by access, quality, and equity issues. To date, the Bank's assistance in the education sector has included:

- Education and Manpower Development Project (Education I), designed as part of Mozambique's Economic Rehabilitation Program (ERP) of 1986. Because of the violence in the countryside, the project was limited to the capital, Maputo. The project was intended to respond selectively to immediate needs in the education sector, while building knowledge about the requirements of the education system and of a comprehensive sector strategy. The project was approved in May 1988 and amended in 1991 and 1995 to respond to changed borrower circumstances and priorities.
- Second Education Project (Education II), formulated in 1990, ensured continuity of financing for several of the priority activities of the first project, including reconstruction of the primary school network, provision of learning materials, and institutional development. Education II emphasized educational quality by focusing on teacher training and on the development and provision of textbooks. It reintroduced an experimental bilingual education program.
- Capacity Building: Human Resources Development Project (HRDP) of 1992 provided support to secondary and university education.

*Implementation Experience*

The projects improved educational infrastructure—numbers of schools, classrooms, quality of teachers, education management—thereby allowing enrollment to expand. Support contributed to improved primary and secondary education, by constructing and restoring classrooms, providing learning material, and training teachers; improved the quality and efficiency of the university, by enhancing management and planning capacity; and improved management of the education sector, particularly in planning, financial monitoring, and control. However, evidence about the institutional objectives is scarce. Owing to institutional weakness, satisfactory implementation of all aspects of the education projects was not achieved. During the period covered by the Bank assistance, the government system changed, as well as its objectives, methods, and priorities. Despite the government efforts (Education I) to improve MINED management capacity, it is still weak, centralized, and bureaucratic. This results in slow and inefficient project implementation.

The World Bank, donors, and government are now discussing a Strategic Plan 1997–2201 for the sector,

drafted by the Ministry of Education. The World Bank is presumed to participate as last donor, to ensure continuity of objectives.

### Recommendations

The recommendations that emerge from the World Bank's 12 years of education assistance in Mozambique are:

- Although the Ministry of Education has certainly improved its capacity, it is still weak. As a result of low salaries, the ministry has lost many trained staff, including teachers, to the private sector. The solutions to this critical issue lie within the framework of civil service reform, and need to be addressed in the macroeconomic dialogue.
- Collaboration between the government of Mozambique and the Bank has been a learning process for both parties, as the country undergoes a political and socioeconomic transformation. The Bank has shown flexibility in the implementation of projects to accommodate the rapidly changing needs of the country.
- NGOs are closely involved in education in the countryside, especially in areas where the government is still unable to help. Care must be taken not to intensify inequities or regional or group differences in the country, especially between the north and the south.
- For the future, the ongoing Sector Investment Program (SIP) may provide an opportunity for the Bank to materialize its long-term commitment to education in Mozambique. The plan should be set up in phases, simple and small enough to allow effective implementation by the Ministry of Education. In preparation and implementation of the SIP, the Bank should adjust to the government's pace and to the programs of other key donors. Use of adaptable lending instruments should be explored.
- Building classrooms adapted to the needs of the country, with the participation of communities, and increasing the number of teachers will improve the enrollment rates. Better-trained teachers, more teaching and learning materials, increased learning time and improvement of pupils' health will have a positive effect on the quality of education. Special attention should be paid to education coverage in rural areas and to girls' education, especially in the northern part of the country.

- Until now, World Bank projects have focused on the formal education system; this does not reach the people displaced by the war, which left many orphans, widows, and street children. The only way to help young people in Mozambique outside the education system to join society is to reach them through an informal education system.
- Portuguese is the language of instruction, but it is not the mother tongue of most Mozambican students, for whom primary school is their first contact with the Portuguese language. It would be better to begin school in the mother tongue, switching gradually to Portuguese during the primary school years.

### BOX 5.3: EXPERIENCE WITH BILINGUAL EDUCATION

In the context of *Education II*, INDE (The National Institute for the Development of Education) re-introduced experimental bilingual education through the PEBIMO project. Results were mixed, mainly because of difficulties experienced in applying an appropriate model of bilingual education. Teachers, school directors, and parents are pleased because the first language has facilitated teaching and learning in all subject areas, and because students have learned to read and write in both languages. Judging by test results, most bilingual students do not yet function at the same level of Portuguese as their peers who have studied it

since class 1 (for approximately double the time). However, the most advanced bilingual students have already achieved levels comparable to those of their oral Portuguese skills, and they are indeed transferring the skills they have gained in their first language to the second. Even more encouraging, parents report that their children who attend bilingual classes are more motivated, take initiatives at home, and help other children with their homework. All this suggests that use of the mother tongue contributes to self-confidence and satisfaction in learning. An unexpected positive outcome has been an increase in the prestige of the mother tongues.



# Assistance for Agriculture and Rural Development: Rebuilding the Sector

**M**ozambique's new agricultural development strategy considers agriculture as the engine of growth and the primary means for reducing poverty. It focuses on increasing incentives to production in the smallholder sector through gradual liberalization of marketing and prices and improved access to productive assets and basic services. The objectives are to increase domestic food production and reduce dependence on food aid, improve food security and incomes in rural and urban areas, restore agricultural exports to their early 1980

levels, increase the supply of raw materials to local processing industries, and stem the environmental degradation caused by over concentrations of people displaced by conflict.

## Bank Strategy: The Right Direction

The Bank strategy has supported similar objectives. The 1995 Country Assistance Strategy (CAS) focused on reducing poverty through expansion and improvement of social services and infrastructure, especially in the rural areas, and improved management of natural resources and the environment. The 1997 CAS establishes that agricultural development and sound natural resources management are fundamental to growth and poverty reduction. It refers to the improvement of infrastructure in rural areas and social investments, but it does not clearly define the strategy to achieve these objectives.

Bank support in agriculture includes:

- *Agricultural Rehabilitation and Development Project (ARDP)* of 1990, whose objectives were to support government's efforts to assist smallholder production and export of cashews through selective rehabilitation of physical infrastructure and services, the provision of technical assistance, and the implementation of policy reforms in pricing and marketing. The project also supported the restructuring of state and commercial agricultural enterprises.
- *Agricultural Services Rehabilitation and Development Project (ASRDP)* of 1992, whose objective was to increase production and returns from smallholder foodcrop and cotton cultivation through the rehabilitation and development of agricultural services and the strengthening of insti-

tutional capacity in the Provinces of Nampula and Cabo Delgado.

- *Rural Rehabilitation Project* of 1993, whose objective was to undertake, on a pilot basis, activities to support decentralized rural economic recovery while creating the capacity necessary to address broader post-war rehabilitation needs.
- Other assistance, such as studies of the cashew nut, cotton, irrigation, and forestry subsectors and support for the Smallholder Agriculture (Sector Investment Program) Rural Action Program and land policy, and agriculture pricing and marketing studies. The Bank has also supported the government in restructuring the Ministry of Agriculture to strengthen its institutional capacity to implement agricultural policies.

#### Consistency with the Strategy

The strategy adopted by the Bank to assist the country in the post-war rehabilitation was appropriately pragmatic, considering the planning difficulties during the civil war and post-war periods, and the fact that the rural infrastructure of the country was almost totally destroyed. The difficulty of obtaining accurate information, and the uncertainties of the future, made the planning task difficult. Macroeconomic policies had positive effects that reflected directly in the agricultural sector, such as liberalizing marketing and price controls and, indirectly, through economic stabilization. The projects financed by the Bank aimed at cashew rehabilitation and rural and agricultural services rehabilitation. However, project design was excessively complex, because of overestimating government institutional capacity. Security problems in the early years also constrained project design. Thus, the project for cashew rehabilitation was aimed at two southern provinces (Inhambane and Gaza), although the concentration of the cashew crop is in the north, because at the time the war was still on and there was no security to protect work in the north.

#### Implementation

The effectiveness of the ambitious investment program was hampered first by the war and then by the weak institutional capacity of the public sector. The Ministry of Agriculture was unprepared to lead a market-driven agricultural sector. (The three agricultural projects have

been restructured.) Agricultural projects were not properly integrated into the budgeting process, or into the (confusing and incomplete) information management system. Disbursement lags have been a continuing problem. The ARDP became effective in April 1990, but after six years of implementation only 37 percent of funds had been disbursed. The ASRDP, which became effective in December 1992, had used only 30 percent of the credit by October 1997. The RRP, effective in 1993, had absorbed only 38 percent by October 1997.

The Ministry of Agriculture is too large for the responsibilities it has and for its meager financial and human resources. It needs to be restructured to make more economic use of its resources (financial, human, technical, and physical), provide better services and facilities (extension, land, credit, inputs, to producers), and upgrade the administrative and technical skills of the staff.

Systems of support and control related to the field offices need to be strengthened.

In recent years the Bank has devoted insufficient resources to supervising its agriculture portfolio (10 and 15 staffweeks per project in FY96 and FY97, compared to an average of 20 staffweeks for the Africa Region in those two years).

#### Recommendations

OED recommends that those responsible:

- Apply much stronger supervision effort to compensate for the limited institutional capacity in the sector.
- Implement faithfully the measures agreed upon in the *Portfolio Implementation Plan* related to (i) better integration of the investment projects into the planning and budgeting processes of the government; (ii) project programming; (iii) preparation of contracts; (iv) budgetary execution; (v) expenditure reviews; and (vi) portfolio monitoring.
- Assist in reforming the Ministry of Agriculture and Fisheries and in preparing the necessary legal and administrative instruments for implementing the *Política Agraria*.
- Avoid overprogramming in agriculture by coordinating closely with other donors and by reducing the scope of PROAGRI, modifying the time frame for its execution, or using adaptable lending instruments.



# Portfolio Management: Quality at Entry

**B**y the time Mozambique became a member country in the Bretton Woods institutions, the Bank's experience had long established that the quality of operations depended, in good part, on an adequate knowledge of the macroeconomic and sector environment within which these operations would function. This experience was applied well to Mozambique in some areas, less so in others—generally with the consequences that might have been predicted.

## *Economic and Sector Work*

Substantial efforts went, right from the beginning, into the macroeconomic work which was to underlie the three economic rehabilitation operations in the 1980s and their successors in the 1990s. The evidence suggests that much of this work yielded significant benefits, although with some important weaknesses.

Turning to the sector level, there have been good examples of how sector work usefully underpinned subsequent operations. In 1985–86, comprehensive and high-quality sector work was undertaken in **energy**. This effort established early on a strong basis for a dialogue with the government on a sector strategy and, consistent with that strategy, a number of operations. However, the sector work was unable to recognize fully all on-the-ground realities which could be realized only over time through the Bank's operational involvement. In **transport**, on the

other hand, the approach initially was incremental, even piecemeal, largely in the context of the operational support to the sector begun in 1985 under the First Rehabilitation Credit and through extensive (formal) transport sector work setting the stage for an “enclave-type” (Beira Corridor) project. Before starting out on a major nationwide transport project, the Bank undertook a transport sector study in 1988–89 which, because of the preceding operational involvement, gave the transport sector strategy a higher reality check than was given to the energy sector.

In other sectors, the contribution of sector work before project assistance has been more mixed. The first operations in the **urban, education, health, and financial** sectors did not have the benefit of formal sector reviews. Indeed, in the health and financial sectors, such work followed initial operations, while formal sector work has not

yet been carried out in urban development and education. The first financial sector study of 1992 failed to diagnose weak corporate governance in state-owned financial institutions. Only from 1994 onward did extensive sector work provide the support for reform and a sense of direction in the financial and related enterprise sectors. For the initial operations in the four sectors named in this paragraph, success has been elusive. In **agriculture**, on the other hand, a substantial sector work effort in 1987–88 prepared the ground for the initial three Bank-assisted agriculture operations. But a post-conflict agriculture sector report, initiated in 1992, only became available as an internal draft in mid-1997, after several redraftings. The results, on the whole, have been disappointing—a reminder that even extensive sector work done before project development, while necessary, is not in itself a sufficient condition for ensuring project success.

Other formal sector work was undertaken to underpin TA operations (**Capacity Building Study**—1993) or advise the government on sector policies and strategy, without being followed by an operation (**Telecommunications Sector Memorandum**—1991). Another sector report entitled: *Public Sector Pay and Employment Review* (1991) appears to have had little effect on a cross-cutting problem affecting virtually all Bank-assisted activities in Mozambique—even now, six years later. Numerous other brief reports were prepared to address specific operational needs or to assist the government, but these were not formal reports that could be made readily available to wider audiences.

The linkages among macroeconomic analysis, public finances, and sector investment programs need to be strengthened. Investment projects have been initiated without the assurance that the government's financial programming could provide counterpart funds and recurrent budgets needed for both their construction and operation. This has resulted in wasteful delays in project completions, in the neglect of maintenance of completed structures, and in lack of operating funds, particularly in some social sectors.

Although resources devoted to ESW have declined significantly since the early 1990s,<sup>1</sup> the Bank's knowledge has increased substantially in most sectors where it

has been involved in operations and where many studies have been carried out by consultants under Bank and other financing. This expanded knowledge should provide excellent opportunities for reassessing and updating (infrequently and as a function of major changes) strategies through appropriate sector work.

#### *State of Preparation/Readiness of Project by Time of Approval*

During the initial period when the government and, at times, donors pressed for Bank operational assistance, most lending took the form of assistance for quick rehabilitation and emergency reconstruction. Indeed, virtually all the initial nonprogram operations (1987–89): the Energy TA and Rehabilitation, the Education and Manpower Development, Urban Rehabilitation, the Health and Nutrition, the Urban Household Energy, and the Beira Corridor Projects—responded to emergency situations. Thus project preparation was generally condensed—although not in all cases (for example, the Beira Corridor Project)—and, as we have already seen, more often than not, without the benefits of preceding formal sector work.

During the initial period (as evidenced, in particular, for the few projects for which there is now an ICR), Mozambique had no experience in working with the Bank, and had been used to the opaque systems and highly centralized procedures of a socialist regime. The country had come out of Independence with extremely limited institutional and human resource capacities. Even with the best project preparation—and the frequent, full use of the PPF—many expectations regarding project implementation schedules were to be dashed. Because of these start-out conditions in a new member country, this chapter attaches greater importance to the design features of Bank-assisted projects and the efforts made during supervision to overcome implementation problems than to the state of preparation, in a narrow project sense, at the time of Bank Board approvals.

Even so, some cases can be pinpointed where a project was premature, measured by government readiness (the Maputo Corridor Revitalization TA Project was at least a year early against the political agenda of the government/CFM) or by the Bank's even shorter experience (the Urban Household Energy Project went ahead, despite a two-year delay in the Energy TA and Rehabilitation Project which had been designed precisely to ensure initial minimum improvements in preparation of future projects in the sector).

### *Complexity of Projects*

The Bank has sought to ensure that an appropriate framework existed, or was being set up, for implementing Bank-assisted projects and their eventual operations. In doing so, it focused on the pertinent legal and policy framework, the organizational setup, and management/human resources. Given the generally weak existing institutional and policy framework within which these projects were to be implemented, there was a pervasive danger of “overload” through overly complex project design. To illustrate just one area of systemic weaknesses, virtually all the entities into which Bank funds were to be disbursed had inadequate accounts and no audits; other management information systems were deficient or nonexistent. At the same time, the concept of financial viability, even of the largest public enterprises, was new.

Expectations of quick solutions for important institutional and policy problems were not realistic. The approach used in the energy and transport sectors for a sequence of projects with initial focus on improving glaring weaknesses at the institutional and human resources levels was well-conceived and (eventually) paid off. This is true even though success was partial. In other areas where there had been less of an effort toward a sector strategy or where essential preconditions did not prevail (as in financial intermediation), the quality of project design was insufficient to deliver even minimal success.

ICRs have found the institutional design of a number of Bank-assisted projects to be deficient, in that Bank assistance led to the creation of new line entities (“PIUs,” generally within a ministry), thereby weakening existing units which were performing essential functions. Controversy on this matter has been greatly accentuated as a result of the shortages of highly qualified national manpower—which could not be corrected much in the short run—and by the transfer of the best talents from the “normal” government departments into “special units.” This was largely attributable to the inadequate salary levels across the “normal” public sector services, while exceptions became standard for PIUs (whether funded under Bank-financed or other projects).

The experience with new PIUs has been poor in some sectors (urban, and especially agriculture). Conversely, using existing line units for executing projects has been successful in roads (DNEP), in coastal shipping (GAPROMAR), and in gas (ENH). In the railways/ports projects there was no choice but to use CFM, a mono-

lithic and highly traditional railways enterprise. In two energy projects, existing agencies (mainly EDM and PETROMOC) have carried implementation responsibilities; a project unit in the Energy Ministry (Energy moved across ministries during implementation) acted as a helpful coordinator (PCU), although not in a line function. However, to illustrate that problems can also arise with a PCU, and not just with a PIU, please note that a component in the Urban Household Energy Project, the wiring of 40,000 houses (the PROLEC program), did not succeed under a coordinating entity without experience and “without teeth.”

A different model for successful project implementation has been the transformation of public agencies into private agencies. This was a requirement in the case of financial intermediaries which turned a failed initiative into a successful Bank-assisted project and—most important—which has much improved the chance for eventual project sustainability.

The use of TA as a major element to obtain timely project implementation has confirmed the Bank’s long experience that this is a double-edged instrument with major risks for project sustainability. This has been especially true in cases where foreign experts were used for line responsibilities and where local counterparts were either overstretched or insufficiently qualified to take over fully the tasks carried out by these experts (illustrated in the ICR for the Energy TA and Rehabilitation Project and in supervision reports on the Beira Corridor Project). With the volume of TA provided under bilateral assistance, often directly linked to Bank-financed operations, there is the additional complication that the Bank may not be able to influence the quality of such TA.

Equally important have been project design issues related to policy conditions introduced in some projects which the Bank considered essential at the time of project appraisal and Credit Agreement, but which later were neglected in the sense that the Bank did not use the remedies available under its CAs.

### *Relations with Development Assistance Partners*

With aid from a large number of donors adding up to an extraordinarily high level of resources spread over virtually every major economic and social activity in Mozambique, each Bank-financed operation was probably influenced by, and in turn affected by, some such assistance. Given the expectations from donors for the Bank to coordinate at the macroeconomic and sector levels, “quality at entry” for Bank-financed operations has

required careful recognition of activities supported by such donors. Greater efforts to resolve conflicts in views about sector strategy (and shared responsibility for outcomes through businesslike partnerships) would improve the quality of external assistance.

Top quality at entry for a Bank-financed project requires such a project to fit into a well-designed sector investment program and to be fully coordinated with other donor assistance (whether this coordination is undertaken by the Bank or some other entity). Probably the ROCS program has been closest to the optimum. Not only did it require an extraordinary effort on the part of the Bank in preparing the ground in a sector where the Bank's expertise was not questioned—particularly with the highly professional task manager leadership provided—it called for a concomitant level of supervision. In energy, the initial sector leadership left no doubt about the ability of the Bank to work out with the government a well-designed sector investment program. However, this advantage was eroded by a combination of various donors doing things their own way (mainly through large, long-term bilaterally grant-financed consultant inputs and through grant financing for some uneconomic investments), a lack of Bank leadership, especially on the agreed sector policy issues, and a less than enthusiastic reliance on the Bank by the government and some of its agencies, mainly EDM.

Some donors with large programs felt threatened by the Bank taking an interest in “their” sectors, especially when the Bank moved ahead with substantial lending. The Bank's move toward sector investment lending opens up important opportunities for strengthening support vis-à-vis development partners and placing greater responsibility on Mozambican agencies to deliver results. Sectors with large investment requirements and where the Bank's own professional staff base is strongest are most appropriate for Bank leadership. Elsewhere, management coalitions should be designed with appropriate leadership responsibilities for other donors and with specific responsibilities allocated to voluntary agencies and local communities. This implies greater decentralization of country assistance responsibilities to the field.

### Quality of Bank Supervision

#### *Adequacy of Bank Supervision*

This section addresses quantity of supervision, quality in technical capabilities, continuity in task management,

and effectiveness vis-à-vis the borrower/executing agency. Project supervision has been the most dynamic element among all the categories of use in Bank resources, growing from one staffyear (SY) to over 10 SY between FY88 and FY95 and declining since then to 9 SY (FY97) as the number of projects under supervision increased from 3 in FY88 to a peak of 25 in FY94 and then declined to 23 in FY97. The average supervision effort per project (whether measured in SW or constant dollars) was virtually the same in FY97 as in FY90—at 20 SW. Annual variations in these averages between these two end-years, however, have been significant (between 15 and 22 staffweeks). On a sectoral basis, variations have been even wider, with public sector reform (early 1990s), energy (mid 1990s) and now (FY97) human resources projects getting the largest supervision effort. Overall it is worth noting that average project supervision effort for Mozambique has been lower than for the Africa Region as a whole (except in FY95), but consistently lower in recent years than for neighboring Malawi, Zambia, and Zimbabwe, in spite of their much longer familiarity with Bank operations and, at least for the two latter countries, more advanced development indicators.

Quality of inputs and frequency of changes in TM have largely determined how effective the Bank has been in the supervision of its project portfolio. Changes in TMs are costly, although from time-to-time inevitable—as are changes on the borrower's side. However, frequent TM changes in a short period will tend to reduce the Bank's effectiveness. ICRs show this to have been the case in the Urban Household Energy Project and in the Urban Development Project. A TM change may be desirable, as when supervision cries out for new approaches—or to capture the benefit of new ideas/approaches associated with such a change (this was possibly the case for the CFM projects with a new railway engineer taking TM responsibilities in 1993 and being forceful on privatization/concessioning). A more frequent cause has been absence of the full range of professional capacities required for adequate supervision. The absence of a power engineer in the supervision of the first two energy projects with major investments/TA for EDM during the last ten years was probably reflected in the Bank's limited effectiveness vis-à-vis this agency. The absence of a railways financial analyst during much of the supervision of the CFM projects may explain the slowness in getting the basic accounts with that important borrower to an acceptable level.

TABLE 7.1: STAFFYEARS BY MAIN SERVICE

	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Total staffyears	4.6	5.5	9.9	11.5	15.6	15.4	16.5	20.8	18.2	19.4	20.8	19.6	20.6
Client services	4.4	5.2	9.7	11.2	15.0	14.9	15.5	20.3	17.8	18.0	19.5	18.5	18.3
Lending	0.7	1.9	5.7	6.4	6.5	6.3	4.5	10.7	7.3	5.8	5.2	6.9	5.7
Project supervision	0.0	0.8	0.4	1.0	2.4	4.3	4.6	4.3	7.0	7.9	10.4	8.6	9.0
Country ESW	3.7	2.3	2.9	2.9	4.5	2.5	4.7	3.7	2.8	3.5	2.9	2.0	1.9
Aid coordination/ cofinancing	0.0	0.1	0.7	0.4	0.3	1.2	1.2	0.9	0.5	0.6	1.0	0.7	0.4
Technical assistance	0.0	0.1	0.0	0.5	1.3	0.7	0.5	0.7	0.2	0.1	0.0	0.3	1.4
Support to client service	0.0	0.3	0.2	0.3	0.6	0.4	1.0	0.5	0.4	1.4	1.1	0.9	1.8

Source: Planning and Budgeting Department, World Bank.

TABLE 7.2: SUPERVISION EFFORT (STAFFWEEKS PER PROJECT)

	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97
IBRD/IDA	15	15	15	15	14	16	15	17	19	20	21	22	23
Africa region	14	14	15	15	14	17	16	18	21	22	21	24	23
Mozambique	0	43	11	18	15	20	17	15	16	16	22	18	20
Malawi	9	12	14	11	11	16	15	19	23	28	30	32	28
Uganda	16	15	15	16	13	22	19	18	18	21	26	31	27
Zambia	14	18	13	9	6	12	6	22	20	18	23	24	21
Zimbabwe	13	14	13	13	11	13	14	15	19	15	30	22	23
Bolivia	7	9	28	22	20	17	17	18	18	19	18	21	18
Malaysia	11	10	7	6	7	10	8	8	10	14	14	17	11
Nepal	11	12	14	15	13	18	18	16	22	22	19	20	34
Tunisia	14	11	11	8	7	11	9	8	11	14	16	17	15

Source: Planning and Budgeting Department, World Bank.

TABLE 7.3: SUPERVISION INTENSITY BY SECTOR (STAFFWEEKS PER PROJECT)

	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	AVERAGE
<b>Mozambique</b>									
Agriculture	0	13	6	10	19	19	10	15	13
Human development	14	16	17	8	13	24	16	31	16
Public sector reform	14	32	30	24	16	14	13	20	20
Energy & mining	10	7	12	12	14	30	37	22	15
Finance	0	0	0	0	0	18	12	15	15
Infrastructure & urban development	14	16	10	22	28	14	16	13	17
Multisector	14	13	4	13	10	2	2	2	9
<b>Africa</b>									
Agriculture	13	14	16	18	19	17	20	20	16
Human development	15	17	19	21	23	19	23	21	18
Public sector reform	11	12	17	19	18	16	19	25	16
Energy & mining	14	16	11	18	16	18	27	22	17
Finance	12	11	12	14	14	16	21	18	14
Infrastructure & urban development	14	10	11	13	15	15	20	20	14
Multisector	5	7	9	13	7	8	11	16	10

Source: Planning and Budgeting Department, World Bank.

### *Attention to Policy, Institutional and Physical Aspects of Project Implementation*

Physical objectives have generally been achieved with more success than agreed policy objectives; problems on the whole have been even more stubborn regarding the achievement of agreed institutional objectives. Typically, Bank operations started with a dialogue on macro and some sector policy matters through a series of balance of payments support (Rehabilitation) operations which, in a broad sense, achieved their objectives. Policy objectives under project lending were related mainly to either the financial performance or privatization of entities providing economic services, in energy, transport, water, and (very important) through financial intermediation. The financial performance of state enterprises in these areas has been generally well below the agreed objectives. In financial intermediaries, eventual privatization ensured that financial performance was no longer subject to the destructive political interference that characterized the nonperformance of the intermediaries while held in public hands. The Bank's successful effort to help privatization of the banking system, achieved under agreed policy conditionality for nonproject lending and well-focused TA, has paid off handsomely—which illustrates that the initial approach (to work through public sector banks and put them on a financially sound basis) was futile.

As evidenced in the few ICRs available (Energy TA and Rehabilitation and Urban Projects), the Bank's performance during supervision in seeking compliance with agreed financial performance objectives has been inadequate. In energy, some confusion might have been created by including the covenants in the policy letters under the second and third Economic Rehabilitation Credits identifying which TMs and Bank units should carry the necessary dialogue. The existing covenants were neither amended nor enforced. Clearly there was no tradition in Mozambique for an adequate cost recovery for these utility services. The fact that electricity and, to a lesser extent, water served mainly a generally better-off population (today less than 10 percent of Mozambique's population has access to electricity) was not used—at least there was no reference in the two ICRs—in the discussions on the social impact of Bank operations illustrates the inadequacy of the dialogue with the government on this subject. Financial performance objectives seem to have been better addressed during supervision under the railways/ports projects with CFM, where charges were levied mainly for transit services to neighboring countries.

The limited effectiveness of including a policy dialogue on sector-specific policy issues under nonproject lending has been evident in energy and in the transport sector, where the critical progress on major issues (such as freeing of freight rates in trucking and coastal shipping) was being achieved eventually under the ROCS program in conjunction with supporting changes on the institutional side. This was achieved through efforts both during the project preparation and the supervision phases of the ROCS program. Possibly the references to freight rates and privatization under the initial Rehabilitation Credits helped to prepare the ground for subsequent actions under the ROCS program.

On the institutional side, effectiveness of project supervision has been a function of project design referred to earlier, but also of supervision staff experience and enthusiasm, including continuous alertness to new opportunities for improvements whether outlined in the original project or not. In virtually every project, there have been examples of such initiatives by TMs and their mission team members, most often through their dialogue with borrowers during supervision missions or the use of consultants to address specific issues. It is also here that appreciation of Bank expertise has been expressed (as under the Gas Engineering Project) in helping ENH to open doors to international expertise, and even in identifying potential partners. But in some areas, Bank supervision did not succeed in fostering achievement of agreed institutional improvements.

### *Adapting Projects to Changing Circumstances and Using Review Processes for Improving the Portfolio*

The Bank's most successful supervision has always been based on maintaining a close dialogue with the borrower while adapting a project to changing circumstances. The successful supervision of individual projects also means that pending problems (including the adjustment of a project to new circumstances) should not wait for portfolio review processes. The value of the latter lies in their addressing and solving across-the-board rather than project-specific issues or, if the latter need to be addressed, the focus ought to be on those that have a countrywide generic dimension. Strongly related to a sound supervision effort by the Bank is the use of realistic ratings for quickly flagging major issues: there should be encouragement for changing a rating to "U" (unsatisfactory) when a major problem affects a project—and back to "S" (satisfactory) when a major problem has been resolved. An example: a certain timidity could be observed in this

respect when ROCS-2 faced a major implementation problem with MPF's reluctance to make available the resources needed for continuing the program.

During the initial years, supervision was overwhelmed by a lack of familiarity with the Bank and its operational procedures. This was in addition to the underlying weaknesses in public administration. While on the former much progress has been made, the latter has remained—and will remain—a factor, although with great variations and, in some areas, with encouraging progress. A recognition toward the mid-1990s that portfolio implementation needed much greater attention has clearly been helpful. While new lending was limited, much effort has since gone into “straightening out” the portfolio as a whole. It has been especially helpful that this effort was translated into a joint government-Bank portfolio review process in 1996–97. This has given both the Bank and the government the opportunity to take a systemic approach to portfolio management. A few years ago such a joint approach was unlikely to have been feasible. Extensive assistance by the Bank—and others—to MFP during the previous years helped to build capacity within the ministry to undertake such an effort.

The MFP, in its 1997 *Revisao da Carteira de Projectos do Banco Mundial*, reviewed extensively the Bank-assisted projects under implementation and concluded (pp. 32 and 33 of “Relatorio Final”) that:

- five projects were being closed: Education I, Health and Nutrition, Urban Rehabilitation, Beira Corridor, Agriculture Rehabilitation and Development;
- three projects were so close to completion that no change in the project could be justified: Urban Household Energy, Food Security, and Capacity Building: Economic and Financial Management;
- three projects were close to completion with considerable unused credit balances and specific implementation issues, for which partial cancellation should take place: ROCS-1 (unused line of credit for private sector; US\$6.2 million), Industrial Enterprise Rehabilitation (reduction in credit line: US\$12 million) and Rehabilitation and Development of Agriculture Services (US\$7.9 million);
- five projects were to be rescheduled without reduction of credit: Rural Rehabilitation, Education II, ROCS , and Capacity Building (Administration and Legal Components);
- for two projects, the closing date should be extended: Capacity Building (Human Resources and Local Government Reform); and

- two other projects remained without further action: Rehabilitation of Health Sector and Capacity Building: Financial Sector.

At a general level, the portfolio review emphasized the need for close cooperation throughout the project cycle by all parties and for strengthened information flows.

#### *Procurement and Disbursement*

The CAR mission received comments on the complexity of procedures that make the use of Bank funding both staff and time consuming for borrowers. The main complaints came from entities having to deal with many small expenditures and with the least experience in Bank procurement. Some disbursements under credit lines to the private sector also came under criticism as being slow and cumbersome. At the other extreme, entities with large contracts who can compare procurement and disbursement procedures of various financiers/donors gave favorable marks to the Bank. DNEP (responsible for the roads component of ROCS-1 and 2) even suggested that the Bank seek to induce cofinanciers to provide “genuine” cofinancing with unified procurement according to Bank guidelines, concluding that this would speed the program and lower the cost.

A recognition toward the mid-1990s that portfolio implementation needed much greater attention has clearly been helpful.

The use of the resident mission for vetting procurement documents and, more important, for reviewing disbursement requests appears to have been helpful in making these steps more efficient.

The regional office carried out a country procurement assessment for Mozambique in 1993, mainly to determine whether existing Mozambican laws and regulations were consistent with the credit agreements. The assessment found very few such inconsistencies, and these related mainly to ambiguities in the local procedures. The assessment report was meant to help the TMs ensure that in their processing for bid documents they paid due attention to the pertinent local rules—this was particularly important since no formal regulation subjected procurement under Bank financing to those agreements and not to local rules.

Perhaps the most interesting point of the 1993 Assessment Report was that the Bank faced serious prob-

lems in its fiduciary role because inadequate accounts and nonexistent expenditure controls throughout public sector finances left much room for abuse. Accounting and auditing require sustained improvements. Audits are still delayed against agreed schedules and carry more than the usual share of qualified reports.

### *Role of the Resident Mission*

The mission work has been most useful, both at the level of individual projects in the small number of sectors where the resident mission had particular capacity and at the general level of facilitator, including procurement and disbursement. The advantages of putting—in a cost effective manner—a professional capacity into the resident mission staff will vary a good deal, depending on the Bank's sector/project involvement, the strength of the borrowing entity(ies), the scope and nature of Bank-financed projects (including the role of TA, size of contracts), and the need for local aid coordination. Cost effectiveness is more than just a question of a dollar amount and of a particular level and quality of staff required in a particular sector/area. Using a top-level professional (such as a railway engineer) full-time for such work deprives the Bank and other (African) countries of his or her services, and may well be a poor investment (although a subregional placement may be found to be justified for some high-level professionals).

In sum, the total opportunity cost of the Bank's involvement in any one sector will need to underlie a decision for transferring a TM into the field. The larger the volume of work, the less sector specialized, the more related to other donors, the more there will be a case for favoring a transfer to the resident mission. On balance, the case for shifting more responsibility to the field appears compelling—given the increased demands for aid coordination and the rising need to put Mozambique authorities in the “driver's seat” while monitoring a strong supportive presence. This task for the head of mission within the new Bank policy on the location of work, will be most important in this context.

### *Recommendations*

The key recommendations are:

- High-quality sector work is a necessary condition for sound project design and outcome and it

should increasingly be connected to the resource management processes of the government.

- A soundly built-up sequence within a long-term operational relationship is especially important for the eventual successful outcome of Bank-assisted operations in the Mozambican context with its critical need for long-term institutional capacity building. Such a sequence best ensures that individual operations are not overloaded with conditions.
- Bank leadership, once achieved in a sector, requires a continued strong commitment to maintain sector knowledge, to achieve the agreed policy and institutional objectives, and to interact with government and donors to improve the high quality of a sector investment program.
- The inappropriateness of PIUs rather than using (and improving) existing institutional setups for project execution has been confirmed in Mozambique. This approach is likely to lead to nonsustainability of projects. Unfortunately this approach has been (and still is) encouraged by civil service weaknesses and inadequate public sector salaries.
- Quality of supervision, including continuity of TMs, requires as much, if not more, attention than quantity of supervision for the Bank's effectiveness during project implementation. The core professional/technical leadership requires better recognition of expertise than has at times been the case. Indeed, where there have been clear TM arrangements with a Senior/Principal Technical Officer, supervision has tended to be best.
- More decisiveness in using the Bank's rating system for flagging major changes in project implementation should be encouraged.
- The good progress made in the use of portfolio reviews with, and by, the government (MFP) merits special mention.
- The resident mission has been an under-used asset. While large numbers of highly specialized staff cannot be located in the field, increased focus on capacity building and aid coordination calls for a review of the responsibilities of the resident mission in relation to headquarters.



# Policy Issues: Reform Initiatives

The overall performance of the government in initiating (while conflict was still under way) and carrying out Mozambique's stabilization program and transition to a market-based economy, and since the settlement, adhering (along with the now parliamentary opposition) to the peace process, has been excellent. While GDP recovery has been partly attributable to production from the resettled population (a revival common in post-conflict periods) and from the large aid inflow, it has also resulted from private commerce and

investment encouraged by the direction of the government's reform policies.

The Bank has assisted this outcome through ESW work that has helped the government develop the reform agenda, as a lead agency among the donors, and as a source of balance of payments support and sectoral investment financing. The Bank's presence has changed over this period, becoming less salient as the government's policy dependency has declined, and as other donors have assumed lead coordinating responsibilities in some sectors.

While what-if scenarios are always conjectural, it is likely that the economic recovery would have been stronger if the pace of reform had been less gradual in certain key respects. Inflation could have been brought under control earlier if financial sector reform (and critically, privatization of state commercial banking) had

been pursued more vigorously. Earlier bank reform (initially recommended by the Bank) would also have improved the efficiency of resource allocation, including particularly the IDA resources channeled to SOEs through the state banking system. Unification of official and parallel market exchange rates could have been achieved earlier if the transition to market-based exchange allocation had been less gradual. Severe problems of capacity in public administration, still unresolved, could have been tackled earlier and more effectively if the solutions (which now appear to be in hand for possible implementation) to the salary reform problem had been developed earlier and pursued more vigorously. These are all issues in which the Bank has been a major dialogue partner with the government. However, it is important to recognize that the pace was set by the government, reflecting the government's judg-

ment respecting political feasibility, and its caution as it moved from dirigisme to the novel and uncertain economic management of a market economy. That gradualism contributed to a strong sense of Mozambican “ownership” of the reform process, despite the government’s need to rely on external advice and TA. That clear ownership has enabled the government to be generally persistent in the transition for over a decade.

Several structural problems have emerged in the recovery process and in the reform program. These are seen by Mozambican and foreign observers to have potentially destabilizing consequences and should be taken into account in policies and programs over the next few years. First is the prospect of a geographic dualism, with industrial development, central government power and institutions, tertiary education, and tourism concentrated in the south and capital area. Poor transportation remains a severe impediment to the country’s economic integration and to the development of the populous rural areas of the center and north. Urban-rural and ethnicity-based divisions are also potential sources of instability. The civil service career ladder is said to be linked more to job performance at the center (Maputo) than in the provinces, creating a disincentive for the best staff to work at local levels.

A second distribution problem that has received media attention concerns Mozambican entrepreneurship and ownership in the emerging private sector. Individual Mozambican portfolio investors in privatized SOEs have been few in number, and apparently politically well-placed. No plan has yet been tabled stating how the government will distribute the equity in these enterprises being held for distribution to their employees. The concern in some Mozambican circles that foreign investment inflow has thus far been primarily Portuguese and South African will probably abate over time as investors from other countries diversify the source pattern. The number of privatized SOEs acquired by Mozambicans (that is, active entrepreneurship, not portfolio) is actually larger than one might expect, although there remains a question of the extent to which these entrepreneurs are ethnically indigenous.

Bank staff are well informed on these problems and should be able to contribute to dialogue on the distributive consequences of transition and development policies, and to factor in all the relevant dimensions. The Bank’s portfolio and the location of Bank-supported activities can have important distributional effects and need to be designed with greater attention to this perspective.

Some government interlocutors see a need for greater Bank sensitivity to the political feasibility and sustainability of specific policy reforms and their timing. The major example has been differences between the Bank and the government over the timing and extent of liberalization of cashew pricing and export policy. The Bank’s position on the efficiency and distributive benefits justifying complete liberalization (reduction of the nut export tax to zero) has been correct. The sequencing of privatization of the processing enterprises before reduction of the protective tax (or perhaps inadequate initial communication and consultation with the enterprise buyers) has resulted in intense processor and media resistance to completion of the liberalization schedule and unfavorable local publicity for the Bank. The current second-best outcome (the export tax being reduced from 40 percent to 14 percent) represents a significant policy improvement. Nevertheless, the implications of protective policies for poverty reduction should not be set aside as a policy issue; the Bank’s program of TA for raising the competitiveness of the processing plants is appropriate and should smooth relationships all around.

The President of Mozambique has recently made a strong statement on the problem of corruption, which now appears to be widespread and growing. The President’s expressed determination to cope with this problem provides an opportunity for the Bank to assist at the level of strategic analysis and response, as envisaged in the recently issued policy paper.

Capacity building in government will remain a priority requirement for some time to come in Mozambique. In some areas, capacity is still weakening as the best staff are drawn out of the civil service by higher wage offers from private firms and donors. More progress could have been made if civil service reform had moved faster. Some donor (including Bank) practices respecting local hire and project execution “enclave” units have been counterproductive, weakening the same ministries responsible for the investments and services the aid activities are designed to strengthen. Although the Bank was responsible for the most comprehensive examination of the capacity problem in Mozambique, the Bank’s project activities in this respect have been piecemeal, ineffective, and unsustainable. The Bank’s capacity-building projects in public administration and education, and legal strengthening, have had mixed results to date.

Solving the problem of weak domestic revenue mobilization is critical for enabling the government to

address the proper maintenance of (primarily aid-financed) public sector investments already in place, keeping new projects on stream, and supporting civil service reform and salary reform (critical for capacity

building and for stemming corruption). Revenue mobilization and salary reform appear as key issues that should be addressed as conditions under forthcoming adjustment credits.



# Conclusions

The Bank's assistance program to Mozambique is at a crossroads. The very success of the external assistance program in helping Mozambique authorities restore peace and stability, initiate policy reforms, and embark on the difficult transition toward a market-based economy, calls for reconsideration of the objectives, modalities and instruments of the Bank's CAS. The time has come to enhance development effectiveness by concentrating efforts on high-priority policy and institutional development objectives.

The new CAS should discourage the proliferation of investment projects in favor of policy-driven, results-based priority sectoral programs. The Bank should assist government authorities to deepen the reform process and help put capacity building at the center of external assistance. To this end, greater responsibility for country assistance management should be moved to the resident mission and a deliberate effort made to implement the country assistance program through more participatory means. Management coalitions involving government agencies, local communities, the civil society, and lead donors should be constructed to take charge of priority sector investment programs focused on jointly agreed objectives.

This will mean reorienting priorities toward the achievement of poverty reduction, sizing programs with due regard to domestic capacities, improving the coordi-

nation of donor programs, and moving the Bank toward a more selective focus. This should combine leadership in the economic policy dialogue with greater reliance on collaborative arrangements involving other agents in the development community, in line with the comparative advantage of individual donors, and providing more support to Mozambique authorities as they take on more responsibility (and commensurate accountability) for the integrity of financial controls, the quality of public expenditures, and the coordination of aid.

As a leading donor, the Bank developed a wide array of sectoral operations over more than a decade. Over the same time, government knowledge and experience has deepened to the point where it is the leader in some sectors. The Bank has demonstrated some comparative advantages (and disadvantages) to the major donors. In some social sectors the bilaterals are providing, on a

grant basis, all the external funding that the concerned ministries can absorb effectively, and in some areas the government prefers not to incur debt, even on IDA terms.

Mozambique presents a formidable development challenge. It is a “low outlier” in human development, gender status, the financial sector, access to financial capital, and aid dependency. After a decade of large concessional aid flows, it can claim substantial progress in stabilization and in the transition toward a market economy. But reform has been gradual and the development effectiveness of Bank lending has been mixed. Policy performance and portfolio ratings are not much above the average for the Africa Region or for low-income countries generally.

Effective absorption of the lessons of experience would go a long way to enhancing the effectiveness of Bank assistance. Looking to the future, the Bank should take the opportunity of the new country assistance strategy process to reposition its programs so as to achieve greater strategic selectivity and more effective management of its lending and nonlending services.

#### *Recommendations*

To this end, the following recommendations are offered:

- *Use of country dialogue and available aid coordination mechanisms to nurture policy reform and capacity building.* Toward the achievement of poverty reduction, major challenges lie ahead in restoring health to the balance of payments, strengthening the financial sector, improving the enabling environment for private enterprise, and enhancing public sector efficacy. The Bank should continue to exercise strong leadership in these systemic reform areas, and do so with a clear-cut result orientation.
- *Raise the focus of Bank assistance to a higher plane than the traditional investment project by encouraging businesslike partnerships among donors.* This process is already under way but it must be accelerated. Given limited domestic capacities, the World Bank and its development assistance partners are financing too many projects, each governed by different modalities. The time

has come to construct management coalitions to improve coherence and the impact of external assistance by having the Bank, other multi-lateral/bilateral donors, and the civil society join forces and seek results at the national level for high-priority sector programs, managed for results.

- *Put Mozambican authorities in the “driver’s seat” in capacity-building activities and external assistance coordination, while giving suitable support through advisory and fiduciary services.* Large numbers of expatriate consultants, project implementation units, and salary supplements are undercutting civil service reform and institutional development. Public expenditures management needs to be upgraded and the aggregate transaction cost of external assistance reduced through more effective coordination of assistance by Mozambican authorities. The Bank should give priority to enhancing the effectiveness of the overall aid system by assisting the government to improve the coherence of aid programs in the pursuit of priority development objectives.
- *Defer to other donors where they have a comparative advantage in taking the lead. The Bank is currently stretched too thin.* It needs to concentrate efforts on fewer activities and play a supporting role where other development agencies have a comparative advantage in taking the lead. With respect to the environment, the rural sector, and the social sectors, the Bank has an important intellectual contribution to make, but other donors have a major presence, and the Bank’s lending role may be reduced.
- *Adapt the structure and the modalities of Bank assistance to the revised objectives of the country assistance strategy.* To help Mozambique deal with unusually complex development challenges (crushing poverty; burdensome debt; weak institutions; lack of human resources; social dysfunctions) the Bank should be responsive and nimble. Greater decentralization of authority to the field and imaginative use of adaptable lending instruments would facilitate aid coordination and make Bank assistance more effective.

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## ENDNOTES

### Chapter 1

1. In the views of the Region, “adjustment lending was critical in setting the framework for recovery, growth, and poverty reduction. Structural adjustment involved price, trade, and agricultural marketing liberalization, as well as privatization—all of which opened the way for rapid recovery once peace was established. It also made a strong contribution to protecting the poor through public expenditure management, specifically in ensuring higher allocations for the social sectors and rural infrastructure rehabilitation.”

2. The Region has pointed out that “it’s important to explicitly recognize . . . the 1985–92 period, as one where reforms were adopted despite difficult conditions. The government reform program . . . toward a market-oriented system, was launched at the height of the war years. External donor support was substantial from the onset, and emergency assistance was an important focus (for many donors) until peace was signed in 1992. The war had limiting effects both on the scope of reforms (i.e., privatization) and on the operation of sector projects (i.e., in urban areas), but . . . the reason for the observed success in the post-conflict years is because so much of the ground work was laid down beforehand (i.e., legal and institutional framework for privatization).”

3. In its 1993 study on Adjustment in Sub-Saharan Africa, OED endorsed the Bank judgment that the government was correct to follow a phased approach to the reform process.

4. In describing Bank assistance in this period, the Region stated that “The 1992–94 period was no doubt disruptive as the government was understandably more focused on implementing the peace process, including the first democratic elections ever. This is partly why many areas such as civil service reform, fiscal management issues were not advanced much. It actually took a while for the new government to settle in their various posts and set out their agenda. On the Bank side, our main focus at the macro level was to move forward with financial sector reform and the privatization of large enterprises, both sources of quasi-fiscal pressures. At the sector level, preparation began for the development of sector programs in health and roads, both of which were conceived as suitable for the post-war years of national reconstruction. (By definition this was not really possible in a country torn by war.)”

### Chapter 2

1. The Region pointed out that these projects were based on a comprehensive industrial sector survey, albeit without good data sources.

2. The Region stated that the financial sector work done in the early 1990s did point out the grave governance problems in the state-owned banks.

### Chapter 5

1. In commenting on an earlier draft of this CAR, the Region stated: “The Bank’s strategy for poverty reduction since the early 90s has been to promote broadbased growth with particular emphasis on agricultural development and rural infrastructure. Given the dislocation of one-third of the population by war, the availability of land to absorb returnees, and the pervasiveness and depth of rural poverty, this strategy . . . implied facilitation of return to the countryside, liberalization of marketing and other support services which the government could not possibly provide, concentrating government attention on the key responsibilities of opening up roads and providing a favorable macro framework, and phasing out food aid quickly. The strategy has been amply justified by results in terms of output growth, food security, and social reintegration and stability . . . But the strategy was not obvious to everyone at the time, and seems not to have been fully accepted in [the CAR]. Criticism of the Bank’s program for failing to target the poorest, or judging success on the basis of particular projects misses the point—Mozambique’s development strategy was profoundly geared to poverty reduction, and the Bank’s overall program (including the large component of structural adjustment lending) was similarly focused on poverty reduction. For the most part, there was no tension between an emphasis on rural growth and poverty alleviation.”

2. Ministério para a Coordenação de Acção Social, *Plano de Acção de Governo pós-Beijing, 1997–2000* August, 1997.

3. In its response, the Region has pointed out that the Bank’s resident mission carries out extensive consultations with local NGOs, and that gender concerns are represented in these consultations. The CAS consultation was based on the existing NGO Bank Core Group, which is composed of 15 NGOs of the three major NGO networks in Mozambique: Fundação para Desenvolvimento da Comunidade (FDC), LINK-NGO Forum and Kulima. MBEU, the gender NGO represented in this group, is responsible for addressing gender issues, not only for CAS but in overall Bank operations.

### Chapter 7

1. Staffyears devoted to ESW for Mozambique:

*FY90–91*: 3.6      *FY92–94*: 3.3      *FY95–97*: 2.3

# ANNEXES

## STATEMENT OF BANK'S LOAN PORTFOLIO TO MOZAMBIQUE AS OF 11/97 (IN MILLIONS OF US\$)

PROJ. SUM-MARY SHEET PROJ. NO.	ID	L/C NO.	PROJECT NAME	APPROVAL	EFFEC-TIVENESS	CLOSING	APPROVED	DIS- BURSED	CAN- CELED	UNDIS- BURSED	PROJECT STATUS	ICR?
1	1760	C16100	Rehabilitation program	6/18/85	10/18/85	3/31/89	45.0	55.57	0.34	0	Completed	
2	1764	C18060	Energy TA and rehabilitation	5/26/87	11/30/87	12/31/94	20.0	20.07	1.57	0	Completed	Yes
3	1761	C18410	Rehabilitation II	8/4/87	10/22/87	6/30/91	70.0	72.74	0.11	0	Completed	
4	1763	C19070	Education I	5/17/88	10/12/88	12/31/95	15.9	16.33	0.07	0	Completed	Yes
5	1789	C19490	Urban rehabilitation	8/2/88	2/14/89	10/31/96	60.0	53.70	7.30	0	Completed	Yes
6	1787	C19890	Health and nutrition	3/14/89	10/30/89	6/30/97	27.0	29.80	0	0.44	Inactive	
7	1773	C20210	Rehabilitation III	5/18/89	8/4/89	4/30/94	90.0	91.22	1.02	0	Completed	
8	1793	C20330	Urban household energy credit	6/8/89	4/27/90	12/31/97	22.0	15.90	0	7.90	Active	
9	1770	C20650	Beira corridor	9/14/89	7/10/90	6/30/97	40.0	30.18	0	13.65	Completed	
10	1762	C20660	Economic and financial management	10/17/89	6/29/90	12/31/97	21.0	21.65	0	1.94	Active	
11	1784	C20810	Industrial enterprise	12/21/89	8/6/90	12/31/98	50.1	29.81	0	26.35	Active	
12	1794	C20820	Small and medium enterprise	12/21/89	6/7/90	12/31/97	32.0	32.60	0	3.10	Active	
13	1765	C21750	Agriculture rehab. and dev.	9/6/90	4/30/91	6/30/99	15.4	6.28	9.67	0	Completed	
14	1776	C22000	Education II	12/20/90	7/26/91	4/30/98	53.7	45.66	0	9.66	Active	
15	1781	C23370	Agriculture service rehabilitation	2/11/92	12/15/92	12/31/00	35.0	11.40	12.30	12.30	Active	
16	1790	C23740	First road and coastal sh.	6/2/92	9/17/92	6/30/98	74.3	50.50	0	26.10	Active	
17	1775	C23840	Economic recovery credit	6/11/92	8/3/92	6/30/96	180.0	188.30	0.03	0	Completed	Yes
18	1797	C24360	Capacity building (HRDP)	11/19/92	12/11/93	6/30/99	48.6	16.20	0	31.40	Active	
19	1810	C24370	Legal and public sector capacity	11/19/92	2/28/94	6/30/99	15.5	7.40	2.93	5.00	Active	
20	1802	C24540	Maputo corridor	1/19/93	9/27/93	12/31/98	9.3	5.30	0	4.10	Active	
21	1796	C24790	Rural rehabilitation	3/30/93	12/8/93	12/31/98	20.0	8.30	0	12.00	Active	
22	1801	C24870	Food security	4/27/93	2/25/94	2/28/98	6.3	2.60	0	3.90	Active	
23	1791	C25300	Local government	6/29/93	7/20/94	3/31/98	23.2	7.40	0	15.60	Active	
24	1804	C25990	Second road and coastal	4/7/94	7/11/94	6/30/01	188.0	76.70	0	114.70	Active	
25	1811	C26070	Finance sector capacity	4/14/94	8/17/94	6/30/00	9.0	3.40	0	5.90	Active	
26	1777	C26280	Second economic recovery credit	6/16/94	7/19/94	8/30/97	200.0	208.30	0	0	Completed	
27	1780	C26290	Gas engineering	6/16/94	12/30/94	6/30/00	30.0	17.10	0	13.10	Active	
28	1792	C27880	Health sector recovery	11/30/95	4/30/96	6/30/01	98.7	4.90	0	86.70	Active	
29	35922	CN0100	Economic recovery credit III	2/4/97	5/21/97	12/31/98	100.0	47.80	0	47.60	Active	

Explanation of rating abbreviations for Project Summary Sheets

HS or 1 = Highly Satisfactory

S or 2 = Satisfactory

U or 3 = Unsatisfactory

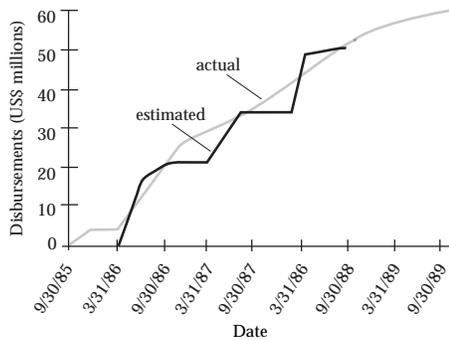
HU or 4 = Highly Unsatisfactory

NR = Not Rated

N/A = Not Available

**PROJECT SUMMARY SHEET 1 AND PRELIMINARY EVALUATION  
REHABILITATION PROGRAM (PROJECT ID 1760, CREDIT C1610), AS OF 11/97**

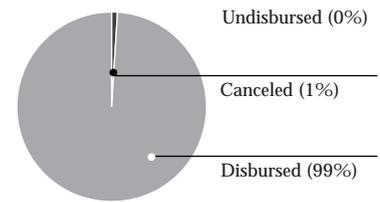
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	6/18/85
Effectiveness . . . . .	10/18/85
Closing . . . . .	3/31/89
Approved . . . . .	\$45m
Disbursed . . . . .	\$55.6m
Canceled . . . . .	\$.3m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The program helped meet the country’s priority of economic rehabilitation needs within the context of the government’s Economic Action Program (PAE) for 1984–86. The PAE was designed to initiate the process of correcting structural imbalances and rehabilitating the economy. It focused on increasing agricultural production and trade, and called for actions to improve the supply of inputs and basic consumer goods to smallholder farmers, to provide price incentives, and to improve the financial situation of enterprises. The PAE also provided for the introduction of a tighter credit policy, changes in interest rates, and a review of exchange rate policy.

**Description**

The credit helped finance part of the government’s 1985–86 program of imports of equipment, spare parts, and raw materials, as well as related technical assistance, in the key industry, transport, and agriculture sectors.

**Evaluation**

As the Bank’s first operation in Mozambique, the First Rehabilitation Credit had limited objectives. It supported the small initial steps in transition to a market economy and provided import financing to enable the industry, transport, and agriculture sectors to begin a recovery in production and economic activity. The credit had no formal conditionality, but the success of the initial liberalization agenda (for example, the vigorous supply response when fruit and vegetable prices were decontrolled in May 1985), which was experimental in the eyes of the government, encouraged the GOM to proceed. The credit also served as the operational basis for establishing the relationship between the Bank and the GOM. As the first of a series of recovery-cum-adjustment loans, this credit succeeded in launching this relationship, the Bank advisory role, and the role of policy-based credits that has supported the Mozambican recovery and transition process in the succeeding 12 years. The credit also provided technical assistance in procurement and in the GOM’s first learning experience in implementing Bank regulations. The credit also supported studies of the financial and transport sectors that were essential for subsequent sectoral investment programs.

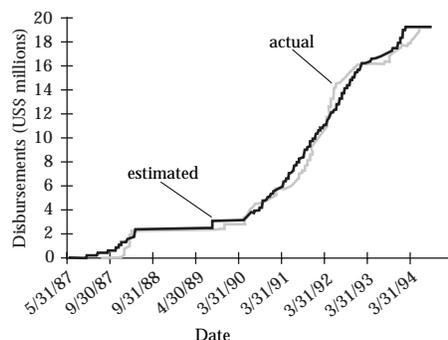
**Supervision—Form 590 Ratings**

	N/A	N/A	N/A	8/8/89
Development objectives	1	1	1	1
Implementation progress	1	1	1	1

## PROJECT SUMMARY SHEET 2 AND PRELIMINARY EVALUATION

## ENERGY TA AND REHABILITATION PROJECT (PROJECT ID 1764, CREDIT C1806), AS OF 11/97

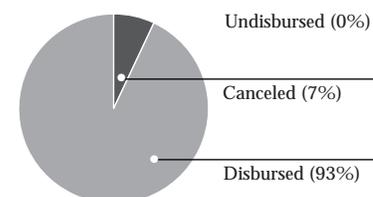
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	5/26/87
Effectiveness . . . . .	11/30/87
Closing . . . . .	12/31/94
Approved . . . . .	\$20m
Disbursed . . . . .	\$20.1m
Canceled . . . . .	\$1.6m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

With this Energy Technical Assistance and Rehabilitation Project, Mozambique hoped to bring about a sustained improvement in the supply and distribution of electricity and petroleum products in the main urban areas, as well as to support economic recovery beyond the short term.

## Description

The project consisted of (i) rehabilitation of the Electricity Company of Mozambique's (EDM) and National Petroleum Supply Company's (PETROMOC) facilities to meet current demands reliably; (ii) provision of operational support for three years; and (iii) technical assistance to EMDM, PETROMOC, the Ministry of Industry and Energy (MIE) and the National Hydrocarbons Company (ENH). The economic benefits from the project were increased agroindustrial and industrial production through quick-acting relief on constraints on improving the reliability of electricity and petroleum product supply to processing and manufacturing plants.

## Evaluation

This first project in the energy sector was conceived as an emergency-type operation, but included preparation of development plans for the principal energy subsectors. Covering the main agencies of the sector and also providing assistance to the GOM, the operation was highly complex, as the large technical assistance provided under the project required a good deal of coordination. The physical aspects of the project were implemented in full, although with an initial two-year delay. Operational support through the TA component of the project was effective in getting the project implemented. However, the

original expectation that this support would enable the staff of the beneficiary agencies to acquire training in utility operations was not fully met, since counterpart staff assigned to work with the specialists were either inadequately trained or fully qualified but overstretched. The components for institutional development and planning and policy formulation were partially implemented. Thus, overall, the nonphysical project outcome was moderate compared to the agreed objectives. No ERR was recalculated although the ICR observed that it probably was lower than the *ex ante* estimate of 27 percent.

Sustainability of the project has varied among the different components. Achievements in the petroleum subsector are sustainable, mainly because of the change in price policy. Supported by a follow-up Gas Engineering Credit, progress in the hydrocarbon subsector was good. In the power subsector, financial viability remained problematic at the time the credit was closed. This has still not been achieved, although under the follow-up Urban Household Energy Project, groundwork was laid for a new electricity law offering prospects for eventual improvements once GOM is prepared to fully address the outstanding financial issues on tariffs and the payments by government agencies.

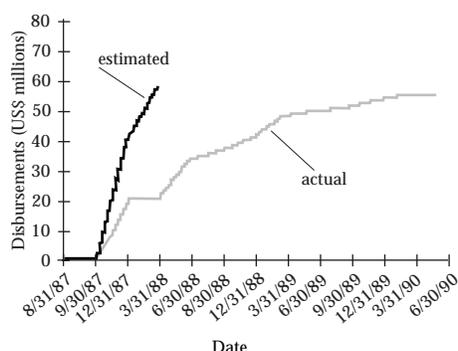
The Bank's performance in the preparation phase was satisfactory, but mixed during supervision. Not enough differentiation was made between procedural and substantive financial conditionalities (timely submission of audit reports and achievement of the agreed financial performance). Given the complexity of the operation, and especially given the influence of the power component in the project and the institutional and technical issues in that subsector, greater attention should have been given to the supervision mission staffing by including the appropriate subsector specialty.

## Supervision—Form 590 Ratings

	N/A	8/9/89	8/8/90	8/12/91	7/21/92	6/30/93	6/30/94	6/28/95
Development objectives	1	1	3	3	3	2	S	S
Implementation progress	1	2	2	2	2	2	S	S

**PROJECT SUMMARY SHEET 3 AND PRELIMINARY EVALUATION  
REHABILITATION II (PROJECT ID 1761, CREDIT C1841), AS OF 11/97**

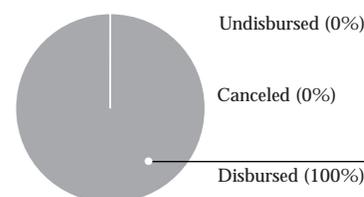
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	8/4/87
Effectiveness . . . . .	10/22/87
Closing . . . . .	6/30/91
Approved . . . . .	\$70m
Disbursed . . . . .	\$72.7m
Canceled . . . . .	\$0.1m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The major objectives of the Second Rehabilitation Credit were to (a) support specific policy and institutional reforms in 1987 and preparation of subsequent adjustment measures for 1988; (b) provide foreign exchange to finance essential imports needed for the rehabilitation of the economy; and (c) assist the government to develop an agenda for longer-term policy changes.

**Description**

The Second Rehabilitation Credit supported the government’s Economic Rehabilitation Program (ERP), which was designed to reverse the declining trend of the Mozambican economy. The program involved the implementation of specific policy and institutional reforms in 1987 and studies to prepare the needed measures for 1988. The policy areas addressed included (a) the external sector, including the trade regime and foreign exchange allocation; (b) pricing and distribution policies; (c) fiscal policy, including public expenditures; (d) agricultural marketing and producer prices; (e) industrial pricing and efficiency; and (f) transport sector efficiency.

**Evaluation**

The GOM met all the conditions specified under this policy-based credit, enabling the second tranche (of two) to be released as scheduled. The conditions included specific liberalization measures such as the freeing of price controls on some additional product groups, reduction in product groups reserved for importation by state monopolies, and develop-

ment of a program for SOE reform. Keeping to the strategy of continuing but gradual movement toward a market economy and the associated institutional reforms, the conditionality under this credit (and the associated Fund) agreement carried the reform forward but left a long road ahead to be traveled over some considerable period. Nevertheless, the steady pace strengthened GOM confidence in the transition process, reinforcing Mozambican policy “ownership” and ensuring that the reform policy would be sustained.

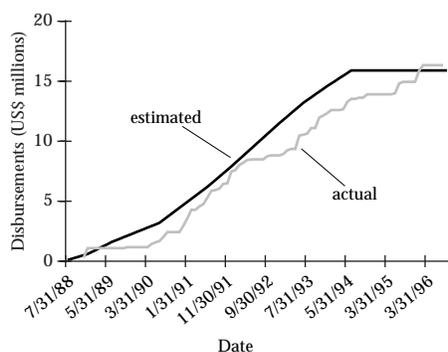
Moving away from the limited import-positive list of the first credit, the second financed a broad range limited by a negative list, with procurement gradually shifted to the private sector. The closing date of the credit had to be extended three times because of the inadequacies of the banking system provision of credit to private importers. The credit also assumed that the GOM would adhere to the reform agenda under the Bank/IMF PFP. While the GOM did so, price stabilization was not achieved as expected because the credit expansion of the state banking sector was not covered effectively by the framework of the SAF agreement with the Fund. Apart from inflation, the overall objectives of the PFP (budget deficit reduction, price liberalization, reduction in the gap between the official and parallel exchange rates) were met. The economic decline of 1984–86 was reversed as GDP rose 4.0 percent in 1987 and 5.5 percent in 1988. Supervision was carried out through frequent staff visits until a resident mission was opened in 1989. Procurement and auditing problems persisted, reflecting both private and public sector capacity weaknesses.

**Supervision—Form 590 Ratings**

	N/A	6/28/89	8/29/90	8/22/91
Development objectives	2	2	2	2
Implementation progress	2	2	2	2

## PROJECT SUMMARY SHEET 4 AND PRELIMINARY EVALUATION EDUCATION 1 (PROJECT ID 1763, CREDIT C1907), AS OF 11/97

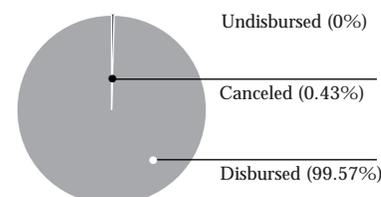
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	5/17/88
Effectiveness . . . . .	10/12/88
Closing . . . . .	12/31/95
Approved . . . . .	\$15.9m
Disbursed . . . . .	\$16.3m
Canceled . . . . .	\$0.1m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The project was intended as a first IDA operation that selectively responded to immediate needs while assisting in developing a better knowledge of system requirements and a comprehensive sector strategy. The project's objectives were threefold. First, it raised the quality and efficiency of primary education to increase literacy and numeracy among primary school-age children. Second, it strengthened the training system to fill critical manpower gaps. Third, it strengthened the capacity for education sector policy analysis with a focus on financial management and planning.

### Description

First, the project raised the quality and efficiency of primary education in the City of Maputo by renovating and enlarging facilities, training school managers and principals, and providing children with essential school supplies. Second, it strengthened the quality and relevance of training for accountants, office managers, bookkeepers, customs officials, engineers, and economists through provision of educational materials and equipment, curricula development, and support of fellowships. Third, the project improved education sector planning and financial management through training budget officers, carrying out studies on financing and management of education, and developing a strategy for strengthening the education system in line with the objectives of the ERP.

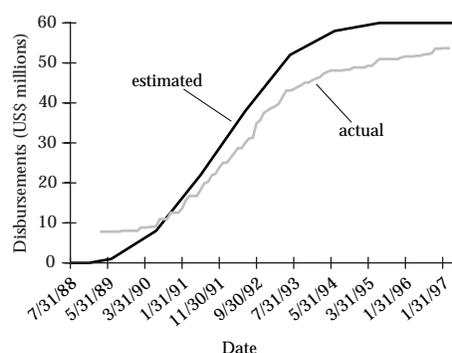
### Evaluation

Approved in May 1988, the project became effective in October of the same year, and it closed in December 1995 as planned. The total credit was disbursed, with the last disbursement in January 1996. The construction and rehabilitation of primary schools was successfully completed. The training of school managers and principals was successfully implemented, although the practical outcome of the training is questionable. Funds were allocated to expand the provision of learning materials to schools in Maputo and in other provinces. (In that respect, controversy about the quality of a portion of the book provided by an Indian company is not yet resolved.) Support for the Faculties of Economics and Engineering in the form of equipment, fellowships, and technical assistance was carried out. The Faculty of Engineering was successful in selling its services to the private sector.

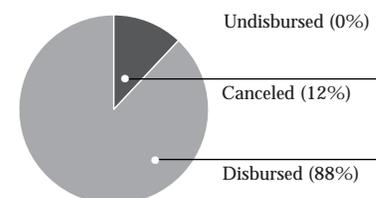
The Ministry of Education's capacity improved and a project implementation team was successfully established in the ministry. Curriculum development for accounting suffered delays, and is now being implemented in the Education II project. All the studies planned were undertaken, and became useful sources of information for the Education II project. Overall, the Education I project achieved good results against original objectives and sector goals.

### Supervision—Form 590 Ratings

	8/19/89	8/24/90	8/23/91	8/11/92	10/1/93	6/30/94	6/28/95	6/28/96
Development objectives	2	2	2	2	1	HS	HS	S
Implementation progress	2	2	2	2	1	HS	HS	HS

**PROJECT SUMMARY SHEET 5 AND PRELIMINARY EVALUATION**  
**URBAN REHABILITATION (PROJECT ID 1789, CREDIT C1949), AS OF 11/97**
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**

**BASIC DATA**

Approval . . . . .	8/2/88
Effectiveness . . . . .	2/14/89
Closing . . . . .	10/31/96
Approved . . . . .	\$60m
Disbursed . . . . .	\$53.7m
Canceled . . . . .	\$7.3m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**

**Objectives**

The project's objectives were to stem the deterioration in basic urban infrastructure and services in Maputo and Beira, and to mitigate the social effects of structural adjustment through the implementation of a program of urban rehabilitation and employment generation. This program aimed to: (i) rehabilitate key elements of urban infrastructure and housing; (ii) provide employment through labor-intensive construction methods and stimulation of small and microenterprises, particularly in the building materials industry; and (iii) strengthen the local institutions responsible for provision and maintenance of urban infrastructure and services and assist their efforts to become more financially independent through resource mobilization at the local level. The project also aimed to demonstrate the replicability of new approaches to infrastructure rehabilitation and housing rehabilitation.

**Description**

The project consisted of the following interrelated components in Maputo and Beira: (i) rehabilitation and limited extension of the road, storm drainage, water distribution and sewerage networks, and of coastal protection works (45 percent of project costs); (ii) rehabilitation of low-income housing together with completion of unfinished (since Independence) buildings and upgrading and extension of sites and services (33 percent of project costs); (iii) provision of equipment and spare parts

for municipal services (6 percent of project costs); (iv) provision of credit for small and micro-enterprises and for materials loans for home construction (7 percent of project costs); and (v) technical assistance and training for the implementing agencies, the municipal authorities (through the Center for Urban Management), and the institutions responsible for promotion of small-scale enterprises together with project management (9 percent of project costs).

**Evaluation**

Because of its negligible impact on sector policies, financial objectives, and institutional development, and its uncertain sustainability due to poor cost recovery, the ICR rated the project as unsatisfactory overall.

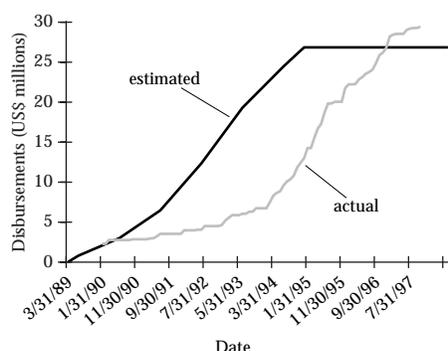
However, it is important to consider the context in which it was prepared and implemented. PRU was the Bank's first urban operation in Mozambique and prepared very rapidly. The project was identified in October 1987, appraised in April 1988, and presented to the Board in August 1988—on a near-emergency basis without any prior sector work—but it occurred during a tumultuous period in the country's recent history. As the ICR correctly pointed out, "these factors—possibly the poorest country in the world, civil war, impoverished human resources, and poor information base—combined to make PRU a very risky project, which the complexity of the design heightened."

**Supervision—Form 590 Ratings**

	6/15/89	8/27/90	8/15/91	8/17/92	6/30/93	6/30/94	6/28/95	6/24/96	6/16/97
Development objectives	1	3	2	1	1	S	S	U	S
Implementation progress	1	2	2	2	2	S	S	S	S

## PROJECT SUMMARY SHEET 6 AND PRELIMINARY EVALUATION HEALTH & NUTRITION (PROJECT ID 1787, CREDIT C1989), AS OF 11/97

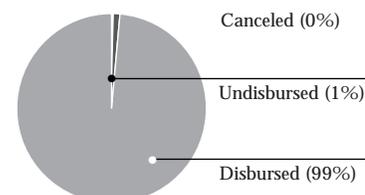
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	3/14/89
Effectiveness . . . . .	10/30/89
Closing . . . . .	6/30/97
Approved . . . . .	\$27m
Disbursed . . . . .	\$29.8m
Canceled . . . . .	0
Undisbursed . . . . .	\$.44m
Project status . . . . .	INACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

To help improve health and nutrition status, the project had four main objectives: (a) strengthening capacity in policy formulation and management on health and food security issues, with special attention to resource mobilization, institutional development, information systems, planning, and analysis; (b) improving efficiency, to enhance the impact of services within the tightly constrained budget; (c) improving service quality, to enhance the provision of basic needs for the population; and (d) helping to mitigate some of the social costs of adjustment, to help sustain the ERP.

### Description

The project (i) facilitated development of improved policies in the health sector in cost-recovery, manpower planning, and facility management through studies and assistance in implementation of these studies' recommendations; (ii) strengthened the MOH through reorganizing the central ministry, developing a better financial management information system, and establishing a central unit (under the Department of Planning) to manage and supervise the implementation of investment programs; and (iii) contributed to improving food security policies and information by aiding in policy analyses regarding food pricing and distribution and improvements to the food security information system. It also (i) supported the selected health facilities; (ii) improved hospital efficiency through establishing better management procedures; (iii) strengthened health facility maintenance capability at the provincial and central levels through technical assistance for MOH maintenance centers and the provision of initial stocks of basic materials and vehicles; (iv) improved the pharmaceutical supply system through construction/renovation of drugs storage facilities in Maputo and

Beira with a view to strengthening inventory control and reducing spoilage and upgrading overall management; (v) improved health manpower training, through enhancement of teaching quality, curriculum development, and capacity for in-service training and through upgrading of training centers, teaching materials and technical assistance; and (vi) increased the efficiency of the urban food distribution system through streamlining food supply management and information in the ration system, easing the transport shortage for moving food supplies from central depots to consumers in Maputo and Beira, supporting supplemental feeding programs targeted to primary school children in Maputo and Beira, and improving the nutritional status of factory workers.

### Evaluation

This loan was 99 percent disbursed and the closing date was extended until December 31, 1997. This was a complex project seeking expansion of health services and institutional development, which would have required considerable inputs of detailed programming, technical expertise and activities for consensus building among donors and with implementors (the provinces), but these needs were apparently underestimated or difficult to carry out. As a result, during the first three years, there was little action and only 10 to 15 percent of the loan was disbursed, compared to the 50 percent estimated at appraisal. Construction started only in 1994. There were several extensions of the closing date and redirection of items to finance. The DCA was amended in May 1993 to cover much-needed recurrent costs, particularly medicines and medical materials. This project also financed preparation of the Health Sector Recovery Program. Achievements fell short of the original objectives, but redirection of financing served useful purposes.

### Supervision—Form 590 Ratings

	8/21/89	8/24/90	2/25/91	8/13/92	6/30/93	6/30/94	6/28/95	6/28/96	7/8/97
Development objectives	NR	2	2	2	2	HS	HS	S	S
Implementation progress	NR	2	1	2	2	S	S	S	S

**PROJECT SUMMARY SHEET 7 AND PRELIMINARY EVALUATION  
REHABILITATION III (PROJECT ID 1773, CREDIT C2021), AS OF 11/97**

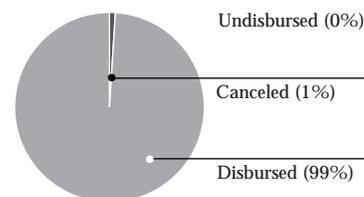
DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL

Data not available.

BASIC DATA

Approval . . . . .	5/18/89
Effectiveness . . . . .	8/4/89
Closing . . . . .	4/30/94
Approved . . . . .	\$90m
Disbursed . . . . .	\$91.2m
Canceled . . . . .	\$1m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

DISBURSEMENTS AND CANCELLATIONS



**Objectives**

The objectives of the ERP were (a) to reverse the decline in production and restore a minimum level of consumption and income for all the population, particularly in the rural areas; (b) to substantially reduce the domestic financial imbalances and strengthen the external accounts and reserves; (c) to enhance efficiency and establish the conditions for a return to higher levels of economic growth once the security situation and other exogenous constraints have eased; (d) to reintegrate official and parallel markets; and (e) to restore orderly financial relationships with trading partners and creditors.

**Description**

The credit supported the Economic Rehabilitation Program (ERP), initiated in 1987. The ERP was a broad-based program of economic policy reform designed to restore Mozambique to sustainable growth. The Third Rehabilitation Credit (TRC) supported the deepening of the ERP by focusing on the key elements of policy adjustment needed to deepen and sustain the economic recovery. In addition to the continued support for appropriate fiscal and exchange rate adjustments, the TRC supported policy action in three key areas. These policy elements included (i) initiation of trade policy reform through

phased reduction in the administrative allocation of foreign exchange, through the establishment of a mechanism for non-administrative allocation for foreign exchange, and reform of the trade tariff structure; (ii) improvements in the use of public expenditure; and (iii) completion of the first phase of pricing and distribution reform.

**Evaluation**

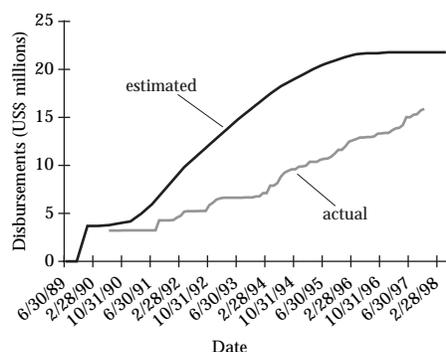
Steady GOM prosecution of the stabilization and reform agendas continued under the third adjustment credit. Reforms initiated in the second credit were carried forward in further partial steps, e.g., further reductions in products subject to price control. Specific conditions were met, largely on time, with second tranche release delayed six months over one debatable failure to meet compliance. A system of partial nonadministrative allocation of foreign exchange was introduced on an experimental basis. Public expenditure management was improved. Privatization of SOEs accelerated (supported by other Bank credits). The efficiency of public sector resource allocation improved under the third ERC, providing the basis for subsequent large-focus policy studies. Procurement continued to be a problem, with GOM implementation burdened by having to operate under a multiplicity of donor procurement regimes.

**Supervision—Form 590 Ratings**

	8/24/89	8/27/90	8/22/91	9/25/92	6/30/93	6/30/94
Development objectives	1	3	2	2	1	HS
Implementation progress	1	3	2	2	2	S

## PROJECT SUMMARY SHEET 8 AND PRELIMINARY EVALUATION URBAN HOUSEHOLD ENERGY CREDIT (PROJECT ID 1793, CREDIT C2033), AS OF 11/97

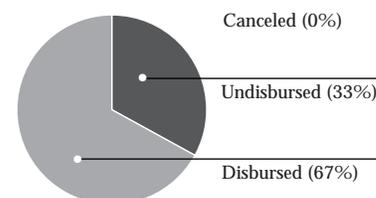
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	6/8/89
Effectiveness . . . . .	4/27/90
Closing . . . . .	12/31/97
Approved . . . . .	\$22m
Disbursed . . . . .	\$15.9m
Canceled . . . . .	0
Undisbursed . . . . .	\$7.9m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The project was designed to bring about quickly an enhancement of supply and a significant reduction in energy costs to about one-quarter of the households in the main urban centers, particularly Maputo, Beira, Nampula, Nacala, and Quelimane. A further objective was to continue the institutional and financial strengthening of the principal energy supply companies initiated under the Energy TA and Rehabilitation Credit. The project also aimed to slow down significantly deforestation around the urban centers and to improve air quality.

### Description

The project made available to urban households a variety of commercial fuels to substitute high-cost and scarce wood fuels and charcoal. It facilitated a rapid increase in electrification of urban areas eventually to about 351 households. The project also included provision of coal stoves to 101 households and improved efficiency in the use of traditional fuels. A biomass energy unit was established to focus efforts in traditional energy. Over the next few years, some households were electrified and coal stoves were introduced. The household energy shortfall was met with other commercial sources, especially kerosene and LPG. Long-term credit was available from a local bank (BPD). Apart from support implicit in local interest rates for householders, no subsidies were envisaged in implementing the strategy. The project consisted of: (i) power system reinforcement in Mozambique's cities together with connection of 40,000 houses, provision of coal stoves to about 50,000 households, reinforcement of kerosene and LPG distribution facilities, improvements in wood fuel supply and operations, provision of stoves, lamps, pots and pans, drums, and

cans; and (ii) technical assistance and consultancy support to reinforce the operations of EDM, PETROMOC, and Mocacor, to support the project coordination and implementation, and for the wood fuels and coal programs.

### Evaluation

This complex project, following closely on, and during supervision fully coordinated with, the predecessor operation (Energy TA) during most of its implementation, achieved its physical objectives except for most of the household wiring program and the acquisition of coal stoves. Special mention should be made of the successful woodfuel component. On the institutional side there has been important progress. First, at the level of the restructured PETROMOC, and most recently through new legislation for the electricity sector, which should open the way for an eventual private sector involvement. (Some small pilot systems are being tested for this.)

Sustainability for the electricity sector, and for EDM in particular, has been elusive in the absence of adequate support from the GOM for the needed tariff adjustments, improvements in the tariff structure, and a system of settling debts of government and its agencies. There have been some uneconomic investments in the sector because of insufficient coordination among donors.

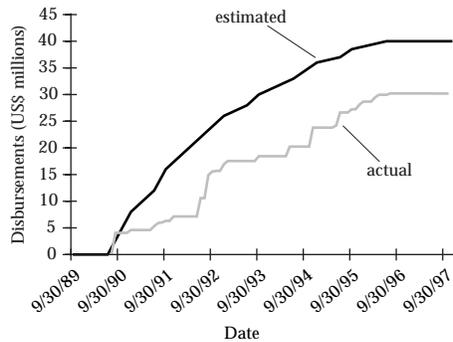
As for the Bank's supervision performance, the comments made under the Energy TA and Rehabilitation Project apply. In addition, however, the more recent progress in the sector on the institutional side has benefited from the patient support of the Bank. The project is about to be completed. The closing date has been extended by one year and is now set for December 31, 1997; an ICR will be prepared during the first semester of 1998.

### Supervision—Form 590 Ratings

	8/9/89	8/8/90	8/22/91	7/21/92	6/30/93	6/30/94	6/28/95	6/24/96
Development objectives	1	2	2	2	2	S	S	S
Implementation progress	1	2	3	3	2	S	S	S

**PROJECT SUMMARY SHEET 9 AND PRELIMINARY EVALUATION  
BEIRA CORRIDOR (PROJECT ID 1770, CREDIT C2065), AS OF 11/97**

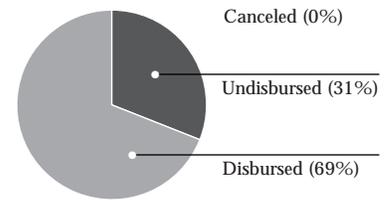
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	9/14/89
Effectiveness . . . . .	7/10/90
Closing . . . . .	6/30/97
Approved . . . . .	\$40m
Disbursed . . . . .	\$30.2m
Canceled . . . . .	0
Undisbursed . . . . .	\$13.7m
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The primary objective of the project was to contribute to the upgrading of the Beira Transport Corridor and institutional development of CFM(C) to restore its financial viability and its cost-efficient transit functions, which are vital to Zimbabwe and Malawi for least-cost access to the sea and constitute an important source of foreign exchange and employment for Mozambique.

**Description**

The overall Beira Transport Corridor Program comprised the rehabilitation of all the elements that make up the transport corridor linking Zimbabwe with the Indian Ocean at the port of Beira, including deepening of the access channel, and rehabilitation of the port and of the railway and road to the border town of Machipanda, with capacity building technical assistance and training for the institutions responsible for corridor operations. The proposed IDA-assisted project included (i) technical assistance to run port and railway operations in the Beira Corridor during the 1989-95 period; (ii) manpower development and training for all levels of staff in the port and railways; (iii) rehabilitation and acquisition of motive power for main line and shunting operations; and (iv) technical assistance for the implementation of a railway/port cost accounting system and a management information system.

**Evaluation**

The physical objectives of the Beira Corridor Program,

financed mainly from other sources, were achieved, to a large extent. The capacity of CFM(C) to handle the transit traffic through this corridor was reported to have been brought back to at least the pre-Independence level, although present traffic is below SAR forecast. However, dredging the entrance channel to the port of Beira, which was to be financed by European donors, was much delayed, thus reducing the efficiency of this port into which large non-Bank-financed investments have been sunk, as part of the Beira Corridor Program.

Bank-assisted institutional improvements have been related to the restructuring of CFM(C), not least because of the Bank's insistence on creating "result centers." Thus, for the first time, CFM(C) management got a sense of where it covered cost and where it did not. Progress on the accounting system has been substantial although much delayed; information on assets and depreciation has become available recently. Overall, CFM(C)'s overall financial performance was reported satisfactory, as measured by the originally agreed objective (although with considerable cross-subsidies from the port to the railways operations).

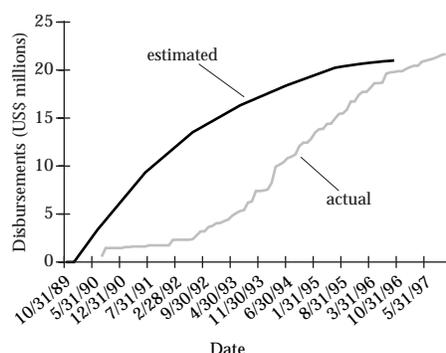
Since 1994, missions have reported a large surplus of the labor force but found that this issue may be addressed only in the context of CFM as a whole. Indeed, the follow-up railway project for the Maputo Corridor Revitalization made a start in dealing with this politically sensitive subject for the considerably larger southern system of CFM. The closing date for this project was June 30, 1997; an ICR is under preparation.

**Supervision—Form 590 Ratings**

	8/20/90	7/24/91	8/3/92	6/30/93	6/30/94	6/28/95	6/24/96	6/18/97
Development objectives	1	2	1	2	S	S	S	2
Implementation progress	1	2	2	2	S	S	S	S

## PROJECT SUMMARY SHEET 10 AND PRELIMINARY EVALUATION ECONOMIC AND FINANCIAL MANAGEMENT (PROJECT ID 1762, CREDIT C2066), AS OF 11/97

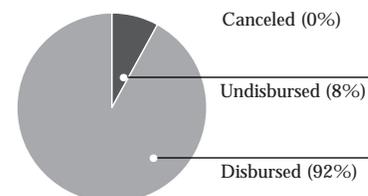
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	10/17/89
Effectiveness . . . . .	6/29/90
Closing . . . . .	12/31/97
Approved . . . . .	\$21m
Disbursed . . . . .	\$21.7m
Canceled . . . . .	0
Undisbursed . . . . .	\$1.9m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

This first effort to provide institutional support by IDA set modest goals, limiting this initiative to those activities that were vital to two priority institutions: the Ministry of Finance (MOF) and the Bank of Mozambique (BOM). Project objectives were to provide support to these two priority institutions, to (i) carry out technical analyses in economic policy formulation, capital budgeting (to include selection, analysis, programming, and monitoring of projects), and banking operations; (ii) define specific needs and prepare programs of institutional support as the basis for immediate action as well as subsequent follow-up; (iii) increase the stock of qualified professionals needed in two essential areas (accounting and economic analysis); and (iv) increase the productivity and effectiveness of the two priority institutions by furnishing them with the basic systems and equipment needed for their day-to-day operations, particularly in financial systems and production of basic economic information.

### Description

The project consisted of two main components. The first was for MOF to provide assistance to (i) the Economic Analysis and Price Department in the National Treasury Directorate to improve the collection and analysis of economic information for economic policy formulation; (ii) the National Budget Directorate to improve capital budgeting, and (iii) the carrying out of an accounting training program. The second was for BOM to provide assistance to (i) strengthen the Economic

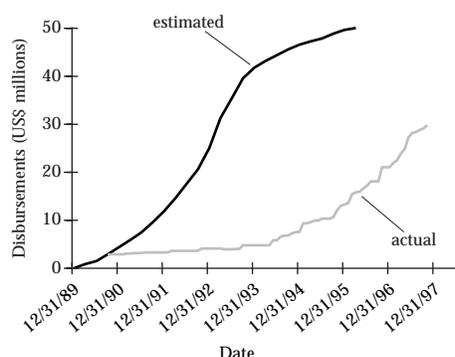
Research Department to improve data collection, economic analysis, and policy formulation, including the establishment of a Documentation Center; (ii) improve banking operations by computerizing banking systems and introducing modern equipment; and (iii) strengthen the legal advisory services provided within BOM, especially regarding external financing and negotiations with creditors. Financing would be provided for advisors, consultants, training, computers, and other equipment.

### Evaluation

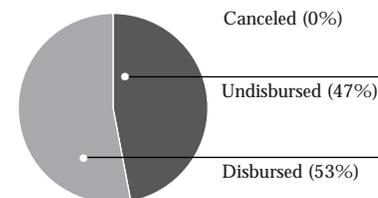
The project laid the groundwork for the subsequent reforms in the financial sector. It succeeded in separating the commercial lending functions of the BOM from its central banking functions, which marked the beginning of a profound transformation in the structure of Mozambique's financial sector. Some project components were counterproductive to financial sector reform. The project failed to improve the interim governance of state banks and to impose clearly monitorable restrictions on the banks' lending activities. From 1992 to July 1995, the project devoted substantial financial resources to the restructuring and technical strengthening of state-owned BCM—the largest commercial bank of Mozambique. Such assistance was hardly justifiable given BCM's virtually absent corporate governance and widespread practices of politically motivated lending. As a result, shortly after its recapitalization, and despite the Bank's technical assistance and policy advice, BCM engaged in uncontrolled expansion of credit and had to be recapitalized again before its privatization in July 1996.

### Supervision—Form 590 Ratings

	8/27/90	8/22/91	9/25/92	6/30/93	6/30/94	6/29/95	6/24/96	5/29/97
Development objectives	2	2	3	2	S	S	S	S
Implementation progress	2	3	2	2	S	S	S	S

**PROJECT SUMMARY SHEET 11 AND PRELIMINARY EVALUATION  
 INDUSTRIAL ENTERPRISE RESTRUCTURING PROJECT (PROJECT ID 1784, CREDIT C2081), AS OF 11/97**
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**

**BASIC DATA**

Approval . . . . .	12/21/89
Effectiveness . . . . .	8/6/90
Closing . . . . .	12/31/98
Approved . . . . .	\$50.1m
Disbursed . . . . .	\$29.8m
Canceled . . . . .	0
Undisbursed . . . . .	\$26.4m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**

**Objectives**

The project's overall objective was to restore production and efficiency in a selected group of major industrial and agro-industrial enterprises. The project aimed to (a) introduce a framework and criteria for selecting enterprises for rehabilitation based on each enterprise's potential economic, financial and technical viability and on its management capacity to operate efficiently and profitably; (b) finance the rehabilitation, financial restructuring, and operational support of selected enterprises. The restructuring process would, where appropriate, include rationalization of capacity, privatization, and technical partnership arrangements, or if necessary, closure of nonviable operations; (c) protect the environment and worker safety by requiring that each BE introduce measures to minimize the discharge of pollutants and provide a safe working environment for their workers; (d) strengthen government's capacity to implement the rehabilitation program; and (e) support policy reforms and subsector reviews designed to strengthen enterprise operations in a market-oriented environment.

**Description**

The project had two components. *The Enterprise Rehabilitation Component* (ERC) was channeled through the Bank of Mozambique for the rehabilitation, financial restructuring, and operational support of about 15 existing priority enterprises that are potentially viable. *The Technical Assistance Component* was comprised of (a) financing experts and consultancy services to strengthen government's capacity to implement the overall rehabilitation program; (b) financing the consultancy costs of feasibility studies, developing rehabilita-

tion plans and operational technical assistance to potential BEs; and (c) conducting subsector and policy studies.

**Evaluation**

Initially the project attempted to support the rehabilitation of state-owned companies. However, its original design was restructured into an enterprise privatization project. The project investment component financed loans to large, privatized companies. Lending to firms was accomplished through local commercial banks, with BCM, the largest formerly state-owned commercial bank, accounting for the biggest share of lending. Although the continuing grace period—up to 5–7 years—makes it difficult to gauge the credit quality of the banks subloans, the improved macroeconomic environment and larger subborrowers substantially reduce the probability of defaults. The recent privatization of BCM should also spur its incentives to service and collect on the loans made by its state-owned predecessor. The disbursement under the project was slow, which could largely be attributed to a complicated procurement and disbursement process. In October 1997, the Region finally simplified disbursements through the project by moving the current special account from Citibank to local commercial banks and introducing two more special accounts for each major component of the credit, and the executing agency that administers it. Despite its relatively unsuccessful lending component, the project has become an important source of financial support for enterprise reform and privatization, including legal assistance to the private sector and conferences on private sector development, financial sector restructuring, and national capacity building.

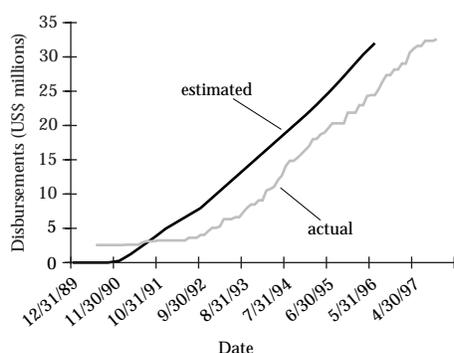
**Supervision—Form 590 Ratings**

	8/21/90	8/12/91	6/30/92	7/30/93	6/30/94	6/29/95	6/24/96	6/10/97
Development objectives	2	2	2	3	U	S	S	S
Implementation progress	2	2	2	3	U	S	S	S

## PROJECT SUMMARY SHEET 12 AND PRELIMINARY EVALUATION

## SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT (PROJECT ID 1794, CREDIT C2082), AS OF 11/97

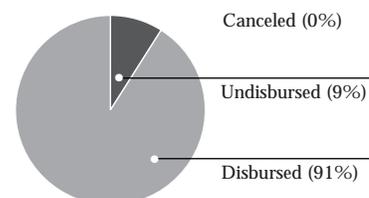
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	12/21/89
Effectiveness . . . . .	6/7/90
Closing . . . . .	12/31/97
Approved . . . . .	\$32m
Disbursed . . . . .	\$32.6m
Canceled . . . . .	0
Undisbursed . . . . .	\$3.1m
Project status . . . . .	ACTIVE

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

The objectives of the project were (a) to promote the rehabilitation and development of the SME sector by financing small and medium enterprises capable of efficient operation within the reformed business environment; (b) to promote institution rebuilding by restoring the capacity of the public and private sector banks to deliver and manage term credit to SMEs; and (c) to assist in the formulation of government policy for SME development.

## Description

The project had an SME financing and an institutional strengthening component. Under the financing component, a line of credit was made available through a subsidiary administration agreement between the government and BM (Central), for onlending to BM (Commercial), the state-controlled Banco Popular de Desarrollo, and the private Banco Standard Totta. The foreign exchange risk was to be borne by BM (Central) on behalf of the government, with credit risk absorbed through appropriate spreads by the commercial banks. The line of credit was to be supervised by an apex unit in BM (Central), overseen by a government interdepartmental committee. Subject to meeting eligibility and efficiency (including environmental) criteria, subproject loans were available for fixed investment and incremental permanent working capital. To ensure satisfactory project implementation, an annual review of project issues, including onlending interest rate and terms, was to take place. Under the institutional-strengthening component, a training program funded by UNDP was already under way and was to be completed before implementation of

the project. This trained about 50 banking and promotional staff in loan appraisal and loan processing, with IDA funding for follow-up training. Technical assistance was also to be provided through BM for the start-up and operation of the apex unit and the credit mechanism, for strengthening of accounting capabilities in the participating banks, and for studies to assist the restructuring of the banking and industrial sectors.

## Evaluation

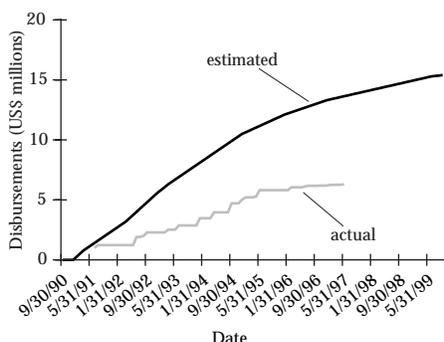
Overall, the outcome of the project has been highly disappointing because of the extremely high rates of default for loans originated by the two formerly state-owned banks. The precarious financial situation, weak corporate governance, and nonexistent credit underwriting skills of the state-owned banks did not deter the Bank from going ahead with the project under which BCM and BPD ultimately became the two largest lenders. The Bank is alleged to have put substantial pressure on the management of the banks to ensure the expedient disbursements of project funds; this undermined even further the credit quality of subloans. As a result, in 1996, the rate of default on the loans made by BCM and BPD was in excess of 50 percent for loans with the ended grace period. The final rate of default on loans originated by these two banks is expected to approach 90 percent upon the expiration of the grace period for the remaining loans. The loan design suffered from insufficient previous economic work in the financial and enterprise sectors. The implementation of the project was adversely affected by a high staff turnover of task managers; this also had a negative impact on the quality of the project.

## Supervision—Form 590 Ratings

	8/8/90	8/22/91	6/30/92	6/30/93	6/30/94	6/29/95	6/24/96	6/10/97
Development objectives	2	2	2	2	S	S	U	U
Implementation progress	2	2	2	2	S	S	S	S

**PROJECT SUMMARY SHEET 13 AND PRELIMINARY EVALUATION  
AGRICULTURAL REHABILITATION & DEVELOPMENT (PROJECT ID 1765, CREDIT C2175), AS OF 11/97**

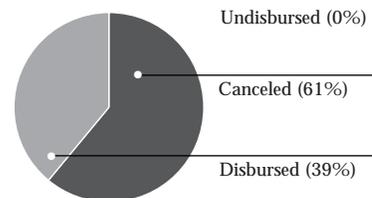
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	9/6/90
Effectiveness . . . . .	4/30/91
Closing . . . . .	6/30/99
Approved . . . . .	\$15.4m
Disbursed . . . . .	\$6.3m
Canceled . . . . .	\$9.7m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The project supported GOM's efforts to (a) reverse the decline in production and marketing of cashew nuts and in the medium-term, restore exports to their levels of the 1970s; (b) make small- and medium-scale state and commercial agricultural enterprises more efficient and profitable; and (c) strengthen local capacity to formulate and implement long-term growth strategies for the irrigation and cashew subsectors once the security situation and other constraints had eased.

**Description**

The project components included (a) rehabilitation and development of the cashew subsector; (b) assistance to state and commercial agricultural enterprises; and (c) specific subsectoral studies and surveys. Under the first component, financing was provided for (a) equipment, incremental costs, and technical assistance to agricultural extension, research, and cashew nut nurseries; (b) investment credit (equipment and materials) to commercial farmers and traders and for the rehabilitation of three cashew processing factories; and (c) technical assistance, equipment, and incremental costs to the State Secretariat for Cashew and the State Cashew Nut Enterprise. Because women play a dominant role in agriculture in general and cashew marketing in particular, an evaluative survey would be carried out to assess factors determining the agricultural productivity of women and measures to be taken to enhance benefits accruing to them. Under the second component, financing for technical assistance, incremental costs, and equipment was provided to develop a capacity within MOA to address the rehabilitation needs of state and private agricultural enterprises and to provide them with managerial and planning assistance and training. Under the third component, complementary studies and

surveys such as a National Irrigation Development Master Plan, a National Cashew Tree Population Survey, and a National Cashew Development Master Plan (including new areas) were financed.

**Evaluation**

The project was designed before the end of the civil war. The implementation of the ARDP met with the following main difficulties: (i) numerous and rapid changes in the government of the country, including the Minister of Agriculture, once peace was achieved in 1992; (ii) changes in the government's priorities relative to some of the components of the project; (iii) lack of a coherent government policy to guide the extension activities, a fundamental component of the operation; (iv) extremely low administrative capacity, both at the central and provincial offices of the MAF; (v) scarcity and unpredictability of counterpart funds; (vi) irregularities in the project's accounts. However, the following positive results were obtained: (i) creation in two provinces (Gaza and Inhambane) of a functioning core of field extension workers and supervisors; (ii) improvement of the links between extension and research; (iii) development of demonstration plots, with the collaboration of the farmers; (iv) consolidation and continuation of preexisting research and extension activities.

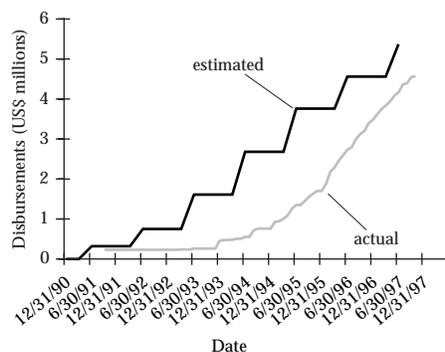
In 1996 the Bank's three agricultural operations in Mozambique were restructured. As for this project, the following agreements were reached: (i) the components relative to research and extension were taken over under C2337 (Agriculture Services Rehab); (ii) the components pertaining to rural water supply were absorbed by C2479; (iii) the remaining components were discontinued and the balance of funds canceled (US\$10.5 million).

**Supervision—Form 590 Ratings**

	8/23/91	8/15/92	6/30/93	6/30/94	6/28/95	6/28/96	6/25/97
Development objectives	2	2	2	S	S	S	U
Implementation progress	2	3	2	S	S	U	U

## PROJECT SUMMARY SHEET 14 AND PRELIMINARY EVALUATION EDUCATION II (PROJECT ID 1776, CREDIT C2200), AS OF 11/97

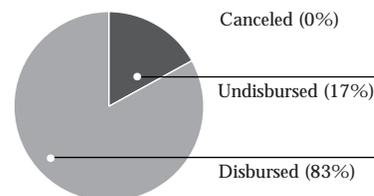
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	12/20/90
Effectiveness . . . . .	7/26/91
Closing . . . . .	4/30/98
Approved . . . . .	\$53.7m
Disbursed . . . . .	\$45.7m
Canceled . . . . .	0
Undisbursed . . . . .	\$9.7m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The main objective was to facilitate implementation of the ten-year sector development plan, focusing especially on: (i) improving quality and efficiency in primary education through strengthening critical and strategic inputs to effective learning; (ii) upgrading the effectiveness of the university for national capacity building in essential skill specialties, by improving teaching of the basic sciences, engineering, and economics and by promoting better long-range strategic planning at the university; and (iii) strengthening the management of the education sector.

### Description

The project supported improvements in (i) primary education through financing pre-service and in-service teacher training; pedagogical support, and distance education; rehabilitation and limited expansion of schools in Maputo Province and City, Dondo, Beira and Nacala; and pilot-testing of five quality improvement initiatives (local language instruction, flooding classrooms with reading materials, student achievement testing, extramural programs, and student health interventions); (ii) university education through strengthening the faculties of economics, engineering, and the basic sciences and through further refining the university's ten-year development program; and (iii) management in the education sector through

improvements in planning and financial management, training of ministry personnel, and establishment of maintenance systems.

### Evaluation

After a timid beginning, the Bank's intervention in education in Mozambique became more consistent with the Education II project. The project integrated in its objectives those activities of Education I which were not implemented during the lifetime of that project. Implementation progress was balanced between quality-enhancing activities and infrastructure development; however, the latter accounted for the bulk of disbursements. To correct this relative imbalance, UNDP, the donor partner in the project, became more involved in quality-enhancing activities beyond its supervision of the teacher training component.

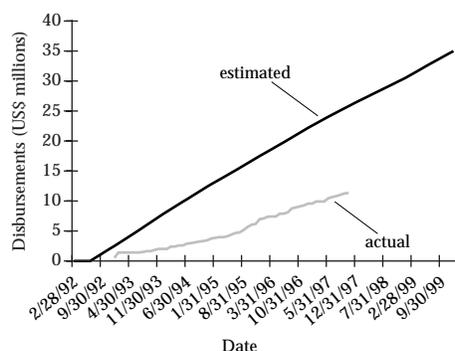
In the context of quality-enhancing activities, experimental bilingual education was introduced to see whether this could improve learning results in primary education. Although teachers and parents were pleased with this experience, results were mixed, following difficulties in finding an appropriate bilingual education model. The overall project performance has been satisfactory. Issues and delays were the result of insufficient communication, misunderstanding, and inefficient bureaucratic practices in the government apparatus.

### Supervision—Form 590 Ratings

	8/23/91	8/12/92	10/1/93	6/30/94	6/28/95	6/28/96	6/17/97
Development objectives	2	2	3	U	S	S	S
Implementation progress	2	2	3	U	S	S	S

**PROJECT SUMMARY SHEET 15 AND PRELIMINARY EVALUATION  
AGRICULTURAL SERVICES REHABILITATION (PROJECT ID 1781, CREDIT C2337), AS OF 11/97**

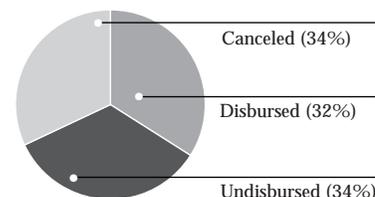
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	2/11/92
Effectiveness . . . . .	12/15/92
Closing . . . . .	12/31/00
Approved . . . . .	\$35m
Disbursed . . . . .	\$11.4m
Canceled . . . . .	\$12.3m
Undisbursed . . . . .	\$12.3m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The project supported GOM's efforts to (a) rehabilitate and develop agricultural services; (b) reverse the decline in production of foodcrops and cotton, thus reducing poverty and improving food security; and (c) strengthen institutional capacity to formulate and implement agricultural development activities.

**Description**

The project directly assisted some 130,000 small-scale family farmers producing foodcrops and cotton in the Nampula and Cabo Delgado Provinces. Project interventions included the provision of upgraded (a) agricultural services such as extension and applied research, including the involvement of one JVC in 1–2 districts in the provision of integrated agricultural services (39 percent of total project cost); (b) working capital for smallholder agricultural production, mostly through credit groups, and for marketing (27 percent); (c) rural water supply facilities which also included the carrying out of an inventory survey, and O&M study and a 5-year development plan (10 percent); (d) land use and management services, including collection of basic data of land tenure and use and conservation needs (6 percent); and (e) institutional development, including training of MOA personnel (18 percent). The project was to be coordinated by a project coordinator, and activities under each intervention would be coordinated by a component coordinator. The project financed the provision of technical assistance, training, incremental salaries, incremental recurrent operational costs including credit and the purchase of vehicles, equipment, and materials.

**Evaluation**

Originally, the project was envisioned to cover 12 districts; however, the planned coverage has been expanded to 17 districts. The overall status of project implementation is rated satisfactory. By the end of 1996, the only extension services in the named provinces were those provided by the project. Specific evaluation exercises have revealed that (i) the "extension messages" have been adopted by a considerable number of farmers; (ii) there have been positive changes in the methods of cultivation (foodcrops and cotton); (iii) the farmers have increased the cultivated areas, and in so doing have been applying practices transmitted by the extensionists. New linkages have been established between agricultural research and extensionists and between the latter and the farmers. The other components have proceeded reasonably well.

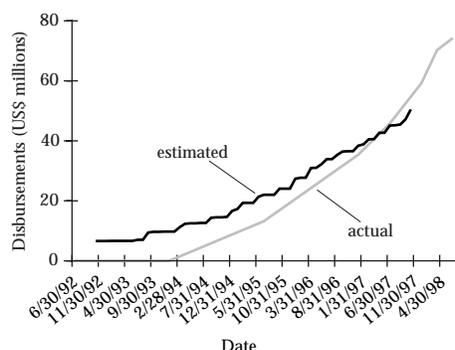
The implementation of the project has been hindered by: (a) the administrative weaknesses both at the central and provincial levels; (b) the delayed participation of pertinent central directorates and institutes (INIA, DNER, and DINAGECA) in the execution of the activities; (c) the difficulties in the hiring of local personnel; (d) the insufficient provision of counterpart funds; and (e) the delays in the settlement of accounts. The project has been restructured to become nationwide in coverage and to be integrated into the agriculture integrated sector program (PROAGRI or ASIP) currently under consideration. In 1996–97 there has been a reasonable improvement in disbursements.

**Supervision—Form 590 Ratings**

	8/15/92	6/30/93	6/30/94	6/28/95	6/28/96	6/25/97
Development objectives	2	2	S	S	S	S
Implementation progress	2	2	S	S	S	S

## PROJECT SUMMARY SHEET 16 AND PRELIMINARY EVALUATION FIRST ROAD AND COASTAL SHIPPING (PROJECT ID 1790, CREDIT C2374), AS OF 11/97

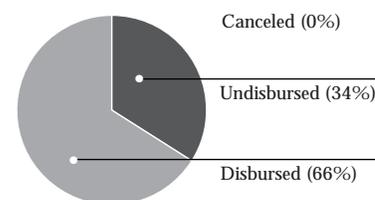
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	6/2/92
Effectiveness . . . . .	9/17/92
Closing . . . . .	6/30/98
Approved . . . . .	\$74.3m
Disbursed . . . . .	\$50.5m
Canceled . . . . .	0
Undisbursed . . . . .	\$26.1m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The primary project objectives were (i) to support the agricultural development contemplated in GOM's PDP and in IDA's Rural Rehabilitation Project (FY93), by making coastal shipping cost-efficient and moving toward privatization and by initiating the phased rehabilitation of Mozambique's coastal ports; and (ii) to build the institutional capacity necessary for effective planning and monitoring of the coastal shipping subsector.

### Description

The project included (i) technical assistance (TA) and training by general consultants (GC) to MTC for overall project management, including policy and regulatory reform, facilitation of greater private sector involvement (awarding port management contracts, preparing state enterprises for divestiture), improvements in procurement and materials management, and development and preparation of subsequent phases of a long-term transport sector improvement program, including (a) efficiency improvement in the road transport (trucking) subsector, and (b) TA and studies for rehabilitation final engineering and for institutional strengthening and capacity building in road infrastructure; (ii) TA to DNM and to GAPROMAR (the designated GOM unit to be responsible for project coordination and implementation, local small ports management and operations entities, and local training institutions, including the Training Division of CFM); (iii) a feasibility, preliminary engineering, and environmental study for the rehabilitation of small ports (already completed); (iv) phased small ports infrastructure rehabilitation, including repair or replacement of cargo handling, navigational aids, and communications equipment; and (vi) supervision of works.

### Supervision—Form 590 Ratings

	6/5/92	6/30/93	6/30/94	6/28/95	6/24/96	6/16/97
Development objectives	1	1	S	S	S	S
Implementation progress	1	2	S	S	S	S

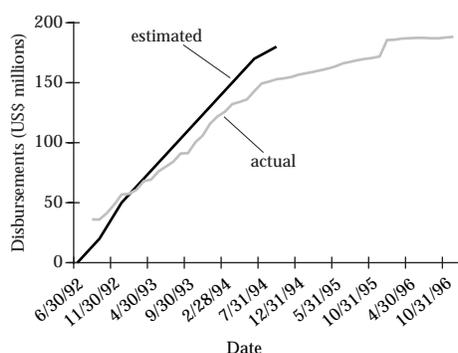
### Evaluation

This was presented to the Board as the first in a series of projects designed to rehabilitate and systematically strengthen Mozambique's transport system. Previously GOM had given primary attention to the country's three east-west railway corridors. With this project, the first step was taken to tackle the north-south connections (both for roads and coastal shipping) in the context of a sector program designed to initially strengthen institutional and human resource capacities, in coordination with improvements in sector policies, while starting out modestly on investments. The credit was extended before the end-1992 peace agreements, and therefore focused on sector policies, institutional development, and human capacity building with investment limited to secure (coastal) areas. A follow-up credit covering major investments was extended in 1994. Since then the two projects have been supervised as an integrated program enabling the Bank to more effectively help Mozambique to benefit from large donor support.

Major progress has been made in liberalizing—including privatizing—of both the trucking and, more slowly, the coastal shipping industry. This has already led to considerable efficiency gains for the sector and the economy as a whole, not least by favoring the integration of formerly isolated rural areas. Progress has also been significant in institutional strengthening and much increased human resource capacities through education and training in the highway subsector and other transportation agencies. Overall, there has been successful progress with this project, which has greatly benefited from the large investment program being carried out in the sector.

**PROJECT SUMMARY SHEET 17 AND PRELIMINARY EVALUATION  
ECONOMIC RECOVERY CREDIT (PROJECT ID 1775, CREDIT C2384), AS OF 11/97**

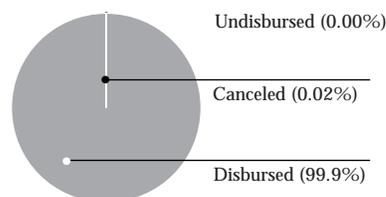
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	6/11/92
Effectiveness . . . . .	8/3/92
Closing . . . . .	6/30/96
Approved . . . . .	\$180m
Disbursed . . . . .	\$188.3m
Canceled . . . . .	\$0.03m
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The objectives of the Bank's assistance strategy for Mozambique were to establish an economic environment conducive to economic growth while reducing poverty, and to support the rehabilitation of key economic and social infrastructure. The overall approach was to strengthen key institutions, policies, and functions in a way that was conducive to increased productivity of public resources, enhanced private sector growth, and reduced poverty.

**Description**

In earlier adjustment operations, IDA had been supporting Mozambique's Economic and Social Rehabilitation Program (ESRP). The credit provided support for the ESRP. The objectives of the credit were to enhance private sector-based growth, redeploy budgetary expenditures toward key social sectors and smallholder agriculture, and provide support for drought-relief. The credit had four main components: first, it improved foreign exchange allocation and export incentives by developing a consolidated market for foreign exchange, liberalizing prices of manufactured products and reforming agricultural marketing; second, it strengthened the role of the Central Bank, improved access to credit by the private sector, and developed commercial banking services; third, the credit accelerated the restructuring and privatization of the state enterprise sector and established a transparent system for privatization; fourth, the credit reoriented budgetary expenditures to protect a set of high-priority activities in primary health, primary and secondary education and smallholders in agriculture, and provided support for the implementation of limited targeted direct income transfers to poor households.

The proceeds of the credit were used by Mozambique to support the enlargement of the secondary market and finance technical assistance to strengthen the government's capacity to extend the privatization process to large enterprises and to reform the banking sector. It was expected that up to US\$10 million would be used for restoring the productive potential of agriculture destroyed by the drought.

**Evaluation**

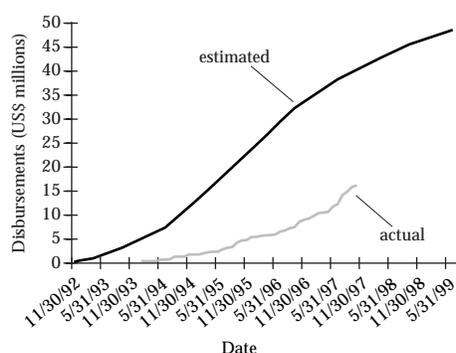
Substantial progress was made toward achieving the major objectives of the credit. The administratively managed system of foreign exchange allocation was replaced with market-based allocation, including a substantial real devaluation. The Central Bank of Mozambique and the Commercial Bank of Mozambique were established as separate entities and a diversified set of private financial institutions was created. Thirty-two major public enterprises were privatized, comprising two-thirds of the production capacity of the public sector. Redeployment of budgetary expenditures resulted in significant increases in the volume of health and primary educational resources. A safety net assisting 80,000 urban poor was established, while the number of families nationwide in need of food assistance declined from over one million in 1994 to 90,000 in 1996. However, progress toward stabilization was modest. While economic growth accelerated during the implementation period to 6 percent annually, progress toward restoring fiscal equilibrium has been elusive, hampered by declining revenues, difficulties in coordinating external aid, a large and unsustainable burden of external debt, and limited institutional capacity.

**Supervision—Form 590 Ratings**

	9/25/92	6/30/93	6/30/94	6/29/95	6/24/96
Development objectives	1	1	S	S	S
Implementation progress	2	2	S	S	S

**PROJECT SUMMARY SHEET 18 AND PRELIMINARY EVALUATION**  
**CAPACITY BUILDING: HUMAN RESOURCE DEVELOPMENT (PROJECT ID 1797, CREDIT C2436), AS OF 11/97**

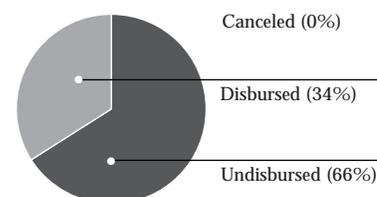
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	11/19/92
Effectiveness . . . . .	12/1/93
Closing . . . . .	6/30/99
Approved . . . . .	\$48.6m
Disbursed . . . . .	\$16.2m
Canceled . . . . .	0
Undisbursed . . . . .	\$31.4m
Project status . . . . .	ACTIVE

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

The project's main objective was to build and maintain capacity in key public institutions and skill areas by expanding the supply of well-trained senior planners, policy analysts, managers, and technicians and by enhancing pay and other incentives and conditions of employment for senior civil servants. Specific objectives included (a) increasing the quantity and improving the quality of university graduates and strengthening UEM's role as a participant in development policy dialogue; and (b) improving learning achievement in upper secondary education so as to eliminate the need for remedial training at the university or in the workplace.

## Description

The project contributed to building capacity in Mozambique through the following two components: (a) University Stabilization—systems development and training in university administration, financial management, and maintenance; provision of textbooks, computers, and library materials; construction and upgrading of staff housing, libraries, student dormitories, and other campus facilities; and staff development scholarships (63 percent of project costs); (b) Quality Improvements in Upper Secondary Education—development of a new teacher training program; support to curriculum and examination reform; provision of textbooks and learning materials; training for school managers and administrative staff; rehabili-

tation of pre-university schools and special measures to increase female enrollment (37 percent of project costs).

## Evaluation

The project is characterized by a slow disbursement—at mid-review last September, the disbursement was at 32%. The lag is largely due to civil work in the university component of the project. This, in turn, is due to the level of counterpart funds provided by the Government of Mozambique (GOM). To resolve the issue, action is being taken to reduce counterpart funding from 20 percent to 15 percent without violating the Bank's rules (using IDA funds to pay local taxes).

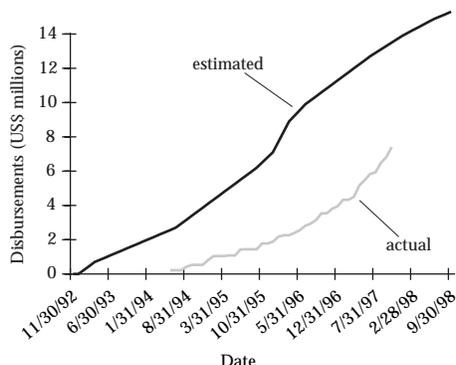
*University component of the project:* Civil work is not moving fast: only staff apartment construction or rehabilitation has been completed. The quality improvement has made significant progress. In that regard, training has been the most successful activity in disbursement (52 percent). Cumulatively up to June 1997, seventy-two teaching staff have received fellowships toward studies abroad, while 1,230 participated in short courses. Still within the quality improvement subcomponent, provision of books and information technology as well as twinning arrangements with foreign universities are both progressing, but delays and some issues (establishment of a book fund) have to be addressed. *Secondary education (EPU) component:* Implementation is progressing satisfactorily, with the exception of a limited number of specific constructions.

## Supervision—Form 590 Ratings

	7/1/93	6/30/94	6/28/95	6/28/96	6/26/97
Development objectives	2	S	S	U	U
Implementation progress	2	S	U	U	U

**PROJECT SUMMARY SHEET 19 AND PRELIMINARY EVALUATION  
LEGAL & PUBLIC SECTOR CAPACITY (PROJECT ID 1810, CREDIT C2437), AS OF 11/97**

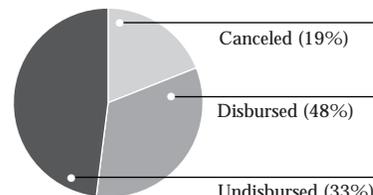
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	11/19/92
Effectiveness . . . . .	2/28/94
Closing . . . . .	6/30/99
Approved . . . . .	\$15.5m
Disbursed . . . . .	\$7.4m
Canceled . . . . .	\$2.93m
Undisbursed . . . . .	\$5m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The project's main objective was to build and maintain capacity in key public institutions and skill areas by expanding the supply of well-trained senior planners, policy analysts, managers, and technicians and by enhancing pay and other incentives and conditions of employment for senior civil servants. Specific objectives included (a) strengthening legal institutions and professional capabilities and (b) developing public administration and management skills and enhancing civil service personnel systems. Capacity building in Mozambique would expand significantly the supply of higher-level human resources, which is a necessary condition for the achievement of all IDA program objectives. The project also contained special measures to further the process of public sector reform and to increase women's educational opportunities and participation in the legal profession.

**Description**

The project contributed to building capacity in Mozambique through the following two components: (a) Strengthening Legal Institutions—implementation of a long-term strategy to strengthen legal institutions and expand legal education; pre-service and in-service training for lawyers, magistrates, and other legal workers; and creation of computerized legal data bases and library collections (53 percent of project costs); and (b) Improving Public Administration and Development Management—establishment of a Ministry of State Administration (MAE) planning unit to formulate civil service reform policies and oversee their implementation; technical assistance and training to support ongoing improvements in public sector personnel management (job grading, recruitment and promotion, career structures, training for professional growth); monitor-

ing and coordination of an incentives scheme for senior civil servants, to be financed by donors; and creation of a fund for in-service training in public administration and management.

**Evaluation**

Both project components have experienced serious implementation problems and slow disbursement. However, since the Midterm Review in November 1996, implementation appears to be improving, particularly under the legal component. Problems have included (i) lack of continuity—the project has had 4 task managers, with the MAE complaining that each has wanted to revise the project; (ii) initial project design required micromanagement by the Bank, now revised; (iii) the project called for the GOM to prepare a strategic legal reform road map (still not done), many donors providing legal/judicial TA, but inadequate coordination has meant that Mozambique still lacks a comprehensive legal reform program. The Mozambican task force that authored a recent study under the Bank-supported "Partnership for Capacity Building in Africa" concluded that the country's judicial system was seriously deficient and lacked credibility in the eyes of society. The sum of Bank and other aid in legal system capacity-building appears not to be commensurate with the magnitude and character of the system's difficulties.

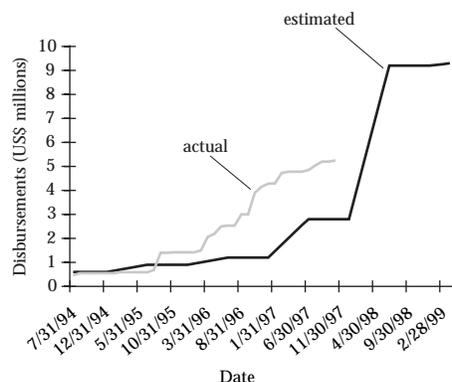
The effort to create an effective policy unit in MAE to address civil service reform has been unsuccessful thus far. The slow progress in development of a reform plan covering civil service salary structure and levels has been a major factor delaying a critical requirement for GOM capacity building across the board. While project implementation has showed improvement (in procurement, and appointment of MAE staff), achievement of project objectives remains uncertain.

**Supervision—Form 590 Ratings**

	7/1/93	6/30/94	6/28/95	6/28/96	6/5/97
Development objectives	2	S	U	U	S
Implementation progress	2	S	U	U	S

## PROJECT SUMMARY SHEET 20 AND PRELIMINARY EVALUATION MAPUTO CORRIDOR (PROJECT ID 1802, CREDIT C2454), AS OF 11/97

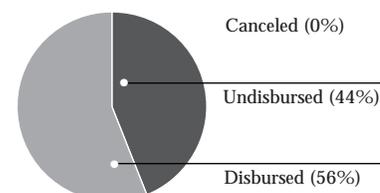
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	1/19/93
Effectiveness . . . . .	9/27/93
Closing . . . . .	12/31/98
Approved . . . . .	\$9.3m
Disbursed . . . . .	\$5.3m
Canceled . . . . .	0
Undisbursed . . . . .	\$4.1m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The overall project objective was to assist the government to restructure CFM(S) to improve its long-term efficiency. To achieve this objective, the project aimed to (i) facilitate government's divestiture of direct involvement in the management and operation of those transport facilities in the corridor where there was no demonstrable competitive or regulatory advantage to such participation, and to assist it to do so on the most commercially advantageous terms; and (ii) assist government in ensuring that the substantial proportion of the work force that was likely to be redundant as a consequence of this restructuring is adequately cushioned against the effects of loss of employment. A subsidiary and related objective of the project was to enhance confidence in the capacity of the system by financing equipment to relieve bottlenecks in container terminal operations and to strengthen communications with neighboring systems.

### Description

The project included the following components, which formed the basis for deciding on the scope of private sector participation in the provision of services on the CFM(S) system: (i) Investment and Financial Advisory Services; (ii) Legal Advisory Services; (iii) Environmental Analytical Services; (iv) Labor Redeployment Strategy; and (v) Equipment.

### Evaluation

This project was difficult to negotiate and its implementation progress was slow in the initial years. The project responded to the Bank's concern that a major improvement in the large CFM(S) investment required progress toward privatization/concessioning. The GOM, and even more CFM, were not initially convinced about this important step. Over time, and with much patience and effort on the part of the Bank, the main item financed under the credit (a large consultant contract for financial advisory services) was concluded in 1995, but even then cooperation with the chosen consultant proved to be less than satisfactory. Moreover, CFM went ahead with some limited concessioning without public bidding. However, by fall 1997, GOM/CFM agreed with the Bank on an ICB tender with a view to obtaining a concession agreement on the principal rail and port facilities of CFM(S). Bids are to be submitted by December 17, 1997.

A special effort has been made by the Bank's staff to help develop appropriate solutions to the large labor redundancy identified for CFM(S). Although the study on the subject was to be by USAID, Bank staff have taken a good deal of initiative in this important matter, especially with the improved prospects for concessioning. The Bank recognized that a solution on the labor issue needed to be in hand before a concessionaire could be expected to make major financial commitments in the new railway and port venture(s).

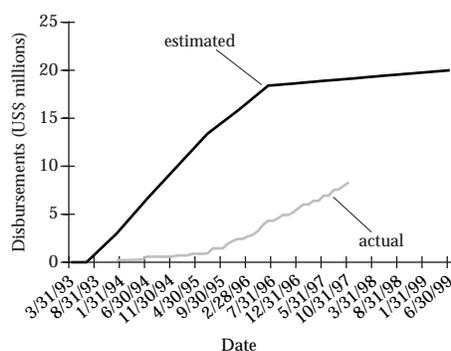
### Supervision—Form 590 Ratings

	6/30/93	6/30/94	6/29/95	6/24/96	6/12/97
Development objectives	1	S	S	S	S
Implementation progress	2	S	S	S	S

## PROJECT SUMMARY SHEET 21 AND PRELIMINARY EVALUATION

### RURAL REHABILITATION (PROJECT ID 1796, CREDIT C2479), AS OF 11/97

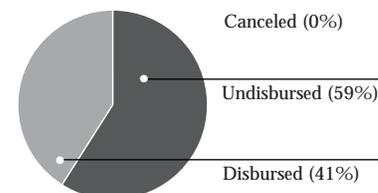
#### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



#### BASIC DATA

Approval . . . . .	3/30/93
Effectiveness . . . . .	12/8/93
Closing . . . . .	12/31/98
Approved . . . . .	\$20m
Disbursed . . . . .	\$8.3m
Canceled . . . . .	0
Undisbursed . . . . .	\$12m
Project status . . . . .	ACTIVE

#### DISBURSEMENTS AND CANCELLATIONS



#### Objectives

The project was designed to support the NRP. Its primary objective was to undertake, on a pilot basis, activities to support decentralized rural economic recovery, while creating the institutional capacity and procedures necessary to address broader post-war rehabilitation needs. Specific objectives were (a) to strengthen the capacity of the provincial institutions that will plan, implement, and manage national reconstruction activities; and to test and further improve the procedures for decentralized rural development; (b) to provide information about land use to assist with planning future infrastructure investments and facilitate the resettlement of returnees; and to support the development of land policies that will provide greater tenure security for smallholders; (c) to help households returning to their traditional lands recover their self-sufficiency, reducing the need for food imports and restoring the country's productive capacity; and (d) to improve the living conditions and health of rural households by providing access to potable water and to reduce the amount of time and energy spent by women and children in collecting and carrying water, thus increasing their opportunities for productive work, education, and social activities.

#### Description

Field activities took place in Sofala and Zambzia Provinces. The project included four components: (a) Support for Decentralization Component (34 percent of base costs); (b) Land Component (15 percent of base costs); (c) Distribution of AgPacks Component (25 percent of base costs); and (d) Rural Water Supply Component (26 percent of base costs).

#### Evaluation

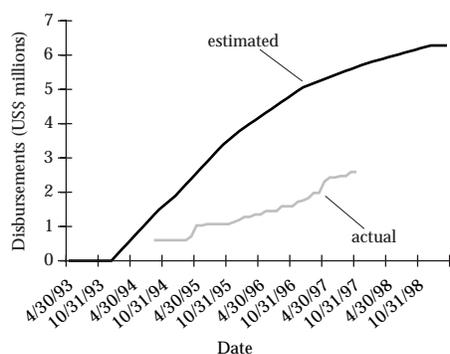
This was a complex project, considering the low administrative capacity of the implementing agency. There was an excess of optimism on the part of the Bank and the country. After three years of facing difficulties arising from project complexity and weak leadership of the implementing agency (INDER), by the end of 1996 the project was implementing most of its developing objectives. Considerable progress had been achieved under the component *Decentralization*. In Sofala, for instance, more than 30 microprojects, developed with community participation, have been completed (schools, health center, wells, and latrines have been built or repaired); more than one hundred are under execution. As for the subcomponent *Training*, through a participatory methodology, many microprojects to be funded by the project itself or by the provincial budgets were identified. District administrators and community leaders were trained to assist communities in the identification of local needs. With reference to the component *Rural Water*, inventories of sources of water and a study on management of rural water and sanitation were completed; and small water supply systems were rehabilitated. The land study and pilot demarcation of smallholder lands and the national land use mapping are under way. The former was transferred to ASRDP (C2337). The project's development objective was rated unsatisfactory (end of 1996), but with a new leadership at the implementing agency (INDER), project restructuring, and intensified supervision, most of the objectives are now being met, disbursements have picked up, and procurement and financial progress are adequate.

#### Supervision—Form 590 Ratings

	6/30/93	6/30/94	6/28/95	6/28/96	6/20/97
Development objectives	2	S	U	U	U
Implementation progress	2	S	U	U	S

## PROJECT SUMMARY SHEET 22 AND PRELIMINARY EVALUATION FOOD SECURITY (PROJECT ID 1801, CREDIT C2487), AS OF 11/97

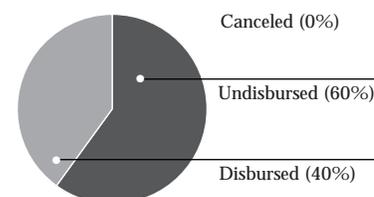
### DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



### BASIC DATA

Approval . . . . .	4/27/93
Effectiveness . . . . .	2/25/94
Closing . . . . .	2/28/98
Approved . . . . .	\$6.3m
Disbursed . . . . .	\$2.6m
Canceled . . . . .	0
Undisbursed . . . . .	\$3.9m
Project status . . . . .	ACTIVE

### DISBURSEMENTS AND CANCELLATIONS



### Objectives

The overall objective of this project was to strengthen national capacity to confront and deter the major causes of food insecurity among rural and urban households in Mozambique. Specific objectives were to (a) establish an institutional focal point for food security policy development and coordination of strategy implementation; (b) improve understanding of food security issues and responses among decisionmakers and staff of relevant sectoral ministries; and (c) incorporate research on, and teaching of, food security-related issues and smallholder agriculture in university and relevant pre-service vocational training programs.

### Description

The project had three main components. First, policy development through staffing and equipping a Food Security Policy Unit (FSPU). Second, awareness-creation and in-service training. Third, strengthening the food security dimension of selected pre-service training.

### Evaluation

This was a relatively small project (\$6.3m); however, it has already contributed significantly to the development of a national institutional capacity to confront and deter the major causes of food insecurity and face the problems of poverty in a deliberate and planned fashion.

As an institution-building project, its activities comprise the carrying out of research, creation of information systems, drafting of legislation and strategies, and training of personnel. During the last three and half years, through the project or thanks to its incentives: (1) sources of socioeconomic information have been or are being created (national household survey data base, district profiles on food security and nutrition status); (2) drafts of policies and strategies have been written and widely debated. Examples are the draft for a National Population Policy and that for a strategy for Food Security and Nutrition; (3) the Food Security Policy Unit of the government has been staffed and strengthened; (4) discussion meetings have taken place, through inter-departmental cooperation, in various parts of the country. This has increased the awareness of civil society to the issues the project deals with; (5) on-the-job training has taken and is taking place. Pre-service training on these matters is being tackled through seminars and lectures at the university.

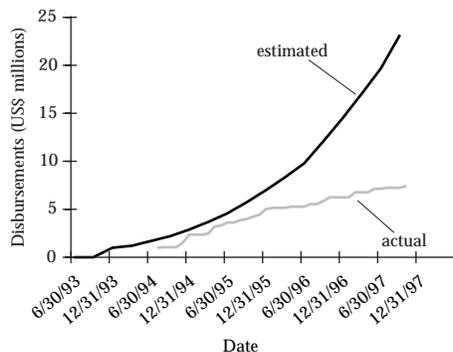
Although this is not a food-production or distribution project, it is preparing government institutions to better understand the issues involving food security and alleviation of poverty. The project's closing date is February 28, 1998, but it is expected that this will be extended.

### Supervision—Form 590 Ratings

	7/1/93	6/30/94	6/28/95	6/28/96	5/1/97
Development objectives	2	S	S	S	S
Implementation progress	2	S	S	S	S

**PROJECT SUMMARY SHEET 23 AND PRELIMINARY EVALUATION**  
**LOCAL GOVERNMENT REFORM: PROL (PROJECT ID 1791, CREDIT C2530), AS OF 11/97**

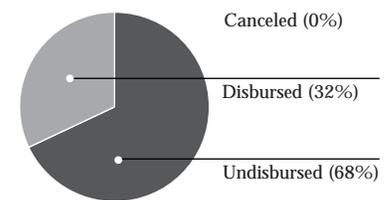
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	6/29/93
Effectiveness . . . . .	7/20/94
Closing . . . . .	3/31/98
Approved . . . . .	\$23.2m
Disbursed . . . . .	\$7.4m
Canceled . . . . .	0
Undisbursed . . . . .	\$15.6m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The main objectives of the proposed engineering credit were to (a) strengthen the urban management capability of local governments through the preparation and implementation of administrative, financial, and legal reforms and technical assistance and training programs; (b) lay the basis for sustainable and environmentally sound urban rehabilitation and development by undertaking five-year urban development and financial plans, feasibility and engineering studies, and pilot projects; and (c) serve as a focal point for the efforts of bilateral, multilateral, and NGO agencies acting in the urban/local government sector, thus minimizing overlap and maximizing development efforts.

**Description**

The project included the following components for the five major regional centers along the coast (Maputo, Beira, Quelimane, Nampula and Pemba): (a) technical assistance; (b) training of central and local government legal, managerial and administrative staff; (c) consultant services; and (d) pilot projects to test appropriate, low-cost technological approaches to urban and environmental management.

**Evaluation**

Since PROL is still under implementation and is likely to be extended at least until March 1999, it is premature to attempt an evaluation. Nevertheless, local government reform is an

important and complex area, and the Bank appears, initially, to have both underestimated the difficulties involved and overestimated MAE's implementation and coordination capacity. In addition, project decisionmaking is highly centralized and, allegedly because of the political sensitivities associated with the reform program, not very transparent. These elements have caused significant delays, slow disbursements, and relative lack of results to date. Current project staff point to overambitious objectives and associated "design flaws"—or poor "quality at entry"—as being among the principal factors contributing to PROL's implementation problems. It has been noted, for instance, that the focus on rapid decentralization was probably not appropriate for a country such as Mozambique, with such a poor national budgeting and expenditure control system and no history of democracy. These are valid observations.

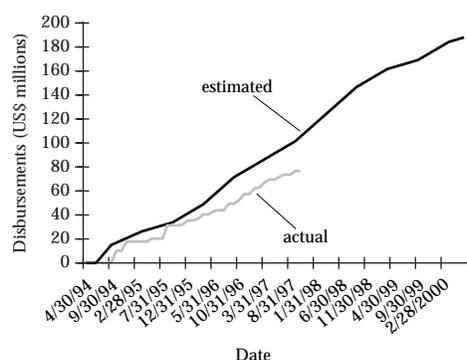
While recognizing that project performance has been far from satisfactory, the Bank is also aware that effective public sector reform, including substantial institutional and financial strengthening of subnational levels of government, is a precondition both for effective decentralization and improved urban management. This awareness underlies the Bank's decision to agree to a one-year extension rather than canceling the credit on the original closing date (unless implementation further deteriorates). Given the critical importance and complexity of local government reform, the Bank's position is reasonable. However, there is clearly a continuing need for close supervision of this project.

**Supervision—Form 590 Ratings**

	6/30/93	6/30/94	6/28/95	6/24/96	7/1/97
Development objectives	2	S	S	S	S
Implementation progress	2	S	S	S	S

**PROJECT SUMMARY SHEET 24 AND PRELIMINARY EVALUATION**  
**SECOND ROAD AND COASTAL SHIPPING (PROJECT ID 1804, CREDIT C2599), AS OF 11/97**

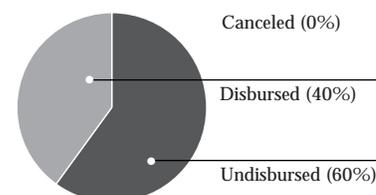
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	4/7/94
Effectiveness . . . . .	7/11/94
Closing . . . . .	6/30/01
Approved . . . . .	\$188m
Disbursed . . . . .	\$76.7m
Canceled . . . . .	0
Undisbursed . . . . .	\$114.7m
Project status . . . . .	ACTIVE

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

The primary objective of the project was to contribute to the restoration of economic growth through (i) improving road transport and protecting selected past road investments by rehabilitating priority roads and eliminating much of the huge backlog of periodic maintenance, and resuming regular maintenance; the goal is to restore serviceability and maintainability to the 1973 level by 2000, with 85 percent of the paved network and 60 percent of the unpaved network in good or fair condition, compared to 50 percent of the paved network and 15 percent of the unpaved network at present; and (ii) further strengthening the capacity of the road sector, by continuing the regulatory reform and institution building initiated under ROCS-1, to ensure effective planning and monitoring by the government, and by the development of private sector contractors and operators.

## Description

The project comprised the government's agreed roads investment program for the five years 1994–1998, coordinating all donor-financed initiatives in the sector through discrete parallel subprojects. Because of uncertainty surrounding projected agricultural development and road conditions, only the first two years of the program were defined and appraised in detail, with the overall scope of the five-year program and an illustrative program defined and appraised for 1996–98. A major review toward the end of the second year of the program reviewed physical and institutional progress and set out a more explicit program for the following three years. The project included (a) a civil works program; (b) engineering services such as detailed feasibility studies, design studies, and supervision of civil works in support of the project; and (c) continuation of the ROCS-1 Institution Building Program.

## Supervision—Form 590 Ratings

	6/30/94	6/28/95	6/24/96	6/16/97
Development objectives		S	S	S
Implementation progress	S	S	S	S

## Evaluation

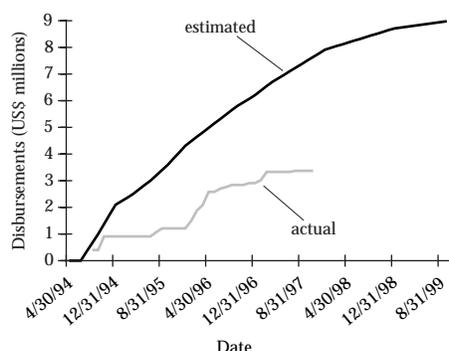
This credit, by far the largest single credit extended for investment purposes, is part of an \$815 million sector investment program benefiting from other financiers/donors to the tune of \$415 million. The Bank has been the leader in helping the GOM to develop and maintain a sound sector program. Progress under this program has been remarkably positive, not least because of continued and strong management in the two main executing entities taking advantage of the TA and training support from the First Road and Coastal Shipping Project.

The sheer size and complexity of the program has raised some important implementation issues. Two are worth flagging here. First, since 1996 when the investment program got into high gear, the Ministry of Finance considered the large claims of this program on budget resources to be excessive (although with the agreed levies channeled into the Road Fund the reliance on other fiscal resources has been small). Thus GOM has insisted on reducing the pace of implementation of this project against what had been agreed under the CA. Second, with the very large parallel financing of different sections of the road program by many other donors, different paces among these have become evident. In particular, the time-consuming procedures under the EU-financed sections have given rise to concerns from GOM, not least because these sections are located in the central provinces of the country and the delays that have taken place—two years or more—have, in the view of some Mozambican observers, tainted the success so far achieved under the whole program.

The careful Bank supervision and its close interactions with GOM and the many donors under this (and the first) project merit special mention.

**PROJECT SUMMARY SHEET 25 AND PRELIMINARY EVALUATION  
FINANCIAL SECTOR CAPACITY (PROJECT ID 1811, CREDIT C2607), AS OF 11/97**

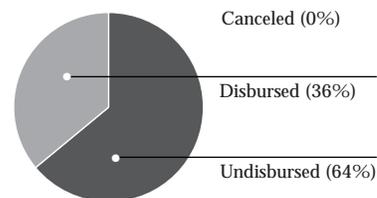
DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



BASIC DATA

Approval . . . . .	4/14/94
Effectiveness . . . . .	8/17/94
Closing . . . . .	6/30/00
Approved . . . . .	\$9m
Disbursed . . . . .	\$3.4 m
Canceled . . . . .	0
Undisbursed . . . . .	\$5.9m
Project status . . . . .	ACTIVE

DISBURSEMENTS AND CANCELLATIONS



**Objectives**

The Financial Sector Capacity Building project developed and strengthened the institutions charged with implementing the policy and institutional reforms agreed under the Second Economic Recovery Credit (SERC). The main objectives of the project were to (a) train central bank staff so that they can undertake better macromonetary management, and prudential supervision of the financial sector, and manage a more effective system of foreign exchange allocation; (b) train staff in the commercial banks so that they can more effectively provide trade finance to importers, appraise credit applications and, for higher-level staff in the banks, provide more effective overall management; (c) train a core of legal professionals in the central bank and the Ministry of Finance to review and re-draft financial and other related legislation for its applicability in a deregulated financial environment, and strengthen legal systems which may beneficially affect the overall operation of the financial system; (d) support institution-building within the financial sector, through the recruitment of technical assistance experts who can, in large part, train local staff and help develop local competencies; and (e) study aspects of the financial sector in greater depth, to provide a better understanding of possible policy alternatives.

**Description**

The project was divided into five major components:

- (a) Central Bank Training
- (b) Commercial Bank Training
- (c) Strengthening Legal Financial Capacities
- (d) Institutional Development
- (e) Studies/Project Support.

**Evaluation**

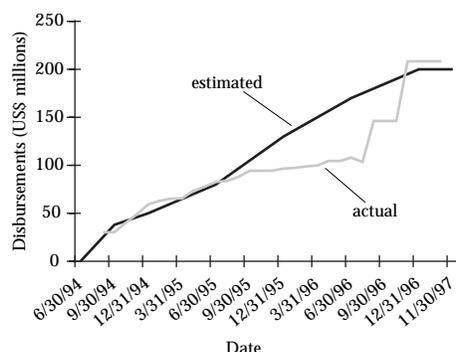
Although still under implementation, the project has been successful in achieving its objectives. Among its outstanding accomplishments are privatization of BCM and BPD, and the strengthening of the central bank's supervision capabilities through a twinning arrangement with the South African Reserve Bank supervisors. These achievements were important in stopping the uncontrolled expansion of credit, and facilitated the country's macroeconomic stabilization. Furthermore, the financial reform has had a positive effect on corporate governance in the banking sector. As a result of the Bank's technical assistance to the central bank, the bank supervisory standards in Mozambique are now at par with some of the neighboring countries at a much more advanced stage of development.

**Supervision—Form 590 Ratings**

	6/30/94	6/29/95	6/24/96	6/27/97
Development objectives	S	S	U	S
Implementation progress	S	S	S	S

**PROJECT SUMMARY SHEET 26 AND PRELIMINARY EVALUATION  
SECOND ECONOMIC RECOVERY CREDIT: SERC (PROJECT ID 1777, CREDIT C2628), AS OF 11/97**

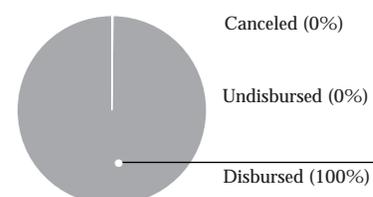
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	6/16/94
Effectiveness . . . . .	7/19/94
Closing . . . . .	8/30/97
Approved . . . . .	\$200m
Disbursed . . . . .	\$208.3m
Canceled . . . . .	0
Undisbursed . . . . .	0
Project status . . . . .	COMPLETED

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

The SERC was designed to be an important element of the government strategy to take advantage of the new era of peace in Mozambique and to create an environment for rapid recovery and sustained growth. The government, and its post-election successor, needed to strengthen its capacity for macro management of an economy with large internal and external imbalances. It needed, at the same time, to continue structural adjustment. The SERC supported actions in four main areas, while providing needed balance of payments financing: (a) Management of Public Expenditures and External Aid; (b) Monetary Policy and Strengthening the Central Bank; (c) The Financial Sector; (d) Enterprise Reform.

## Description

The credit continued to provide support for the government's Economic and Social Rehabilitation Program (ESRP). The objectives of the credit were to support macroeconomic stabilization through strengthening key elements of fiscal and monetary policy while supporting an interlinked program of enterprise and financial sector reform. The credit has four components. First, it supported the development of integrated sectoral programs in the three key areas of agriculture, health and education. Second, the program supported the central bank in its key central banking functions of monetary policy management, banking supervision, legal development, and

accounting while continuing the strengthening and streamlining of the foreign exchange management and allocation process. Third, the program supported the development of a competitive, efficiently functioning, and truly commercial banking system. New banking entry is being encouraged, and the existing state-owned banks are being "commercialized" and prepared for privatization. Fourth, the program accelerated the privatization program with particular attention to the larger state-owned enterprises within the economy. In addition to privatization, the program supported a review of business environment issues which adversely affect the development of enterprises, with a view to ameliorating constraints identified.

## Evaluation

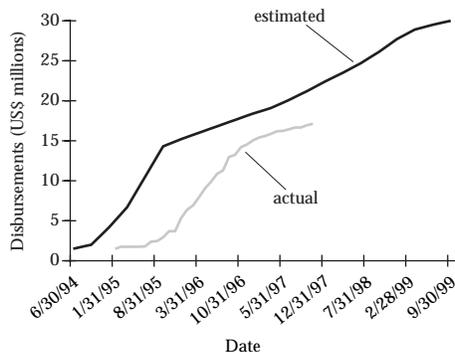
The project was closed on schedule on August 30, 1997. Although the Implementation Completion Report is yet incomplete, it appears that the loan has been successful in achieving the stated policy conditionalities for the enterprise and financial sectors. The project accelerated privatization of state-owned banks (BCM and BPD) and large state-owned enterprises, and it succeeded in introducing the new system of credit ceilings, and in completing the conversion of CFM—the national railways—into a public company. The loan helped to abolish the system of conditioned prices—effectively, a system of government price controls—on eight basic goods.

## Supervision—Form 590 Ratings

	6/30/94	6/29/95	6/24/96	6/27/97
Development objectives	S	S	S	HS
Implementation progress	S	S	S	HS

**PROJECT SUMMARY SHEET 27 AND PRELIMINARY EVALUATION  
GAS ENGINEERING (PROJECT ID 1780, CREDIT C2629), AS OF 11/97**

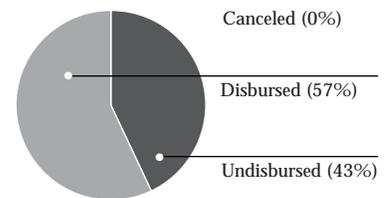
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	6/16/94
Effectiveness . . . . .	12/30/94
Closing . . . . .	6/30/00
Approved . . . . .	\$30m
Disbursed . . . . .	\$17.1m
Canceled . . . . .	0
Undisbursed . . . . .	\$13.1m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The primary objective was to undertake all work necessary to enable the government, ENH, and the private sector investors to decide to develop the Pandhe gas reserves for export and for use in Mozambique. Secondary objectives included a minor environmental clean up relating to previous operations, preparing for gas supplies to suitably located Mozambican towns, and the consequent opportunity for power supplies, training, and institutional strengthening to prepare for a substantial Mozambican role in future gas operations.

**Description**

The engineering project was to be undertaken in two phases. Phase I was to ensure sufficient gas reserves and clear away some project uncertainties. Some of the Phase I work—seismic shooting and interpretation—was already substantially complete, having been financed with a US\$1.5 million advance from the Project Preparation Facility (PPF). The objective was to take the project to a stage in which the private sector will invest in the pre-development costs. Phase II covered the remaining pre-development work and included those tasks in which a joint venture partner would wish to have an input to the work, and where ENH’s costs were to be shared with the private sector partner. There were several conditions to be

achieved before Phase II could proceed, including the signing of suitable joint venture agreements, the approval of the Council of Ministers of a satisfactory legal and regulatory framework, and the proving of sufficient reserves for the project to be able to succeed.

**Evaluation**

The first phase of this project was successfully completed when well drilling and seismic work confirmed the proved recoverable reserves to at least the projected levels. During this period, TA was used well for strengthening the GOM’s Hydrocarbon Directorate, for helping ENH to study the financing options for the eventual gas development, and for preparing the ground for ENH’s proposed role as a future joint venture partner.

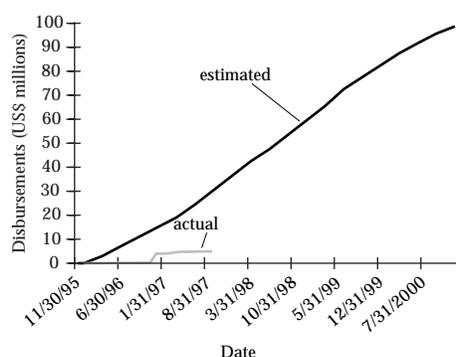
The critical phase of GOM developing an agreement with a foreign joint venture partner is still ongoing. This is a highly complex agreement and because of its size, it has found much attention both in Mozambique and abroad. Although it is too early to reach any conclusion on the final outcome of the project, it is already evident that the Bank has helped GOM and in particular ENH to establish a strong basis for negotiating the economic use of a major energy resource that had been waiting for exploitation for almost three decades.

**Supervision—Form 590 Ratings**

	6/30/94	6/28/95	7/3/97
Development objectives		S	S
Implementation progress	S	S	HS

**PROJECT SUMMARY SHEET 28 AND PRELIMINARY EVALUATION  
HEALTH SECTOR RECOVERY (PROJECT ID 1792, CREDIT C2788), AS OF 11/97**

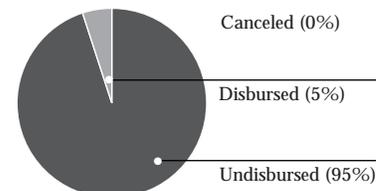
## DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL



## BASIC DATA

Approval . . . . .	11/30/95
Effectiveness . . . . .	4/30/96
Closing . . . . .	6/30/01
Approved . . . . .	\$98.7m
Disbursed . . . . .	\$4.9m
Canceled . . . . .	0
Undisbursed . . . . .	\$86.7m
Project status . . . . .	ACTIVE

## DISBURSEMENTS AND CANCELLATIONS



## Objectives

The objectives set for the health sector were: (a) to reduce mortality, morbidity, and suffering, especially among high-risk groups such as women, children, and all those displaced by the war and natural disasters; (b) to keep primary health care as the basis for the provision of good-quality and sustainable health care and make it accessible to the majority of the population; and (c) to develop the technical and managerial capacity of the Ministry of Health (MOH) for planning, implementing, and evaluating health care and support services.

## Description

Through the coordination of all major donors and the government, the program, which encompassed all activities of the MOH, financed a five-year time slice of the National Health Strategy. Teams from the MOH defined objectives and identified and prepared the various components, under the overall coordination of the MOH's Planning Directorate. The pro-

gram addressed the following areas: (a) resumption of an improvement in the quality of health services provided to yield a higher level of services as the sector recovers; (b) improvement of sector institutions, support services and subnational health management systems; and (c) development of human resources capacity.

## Evaluation

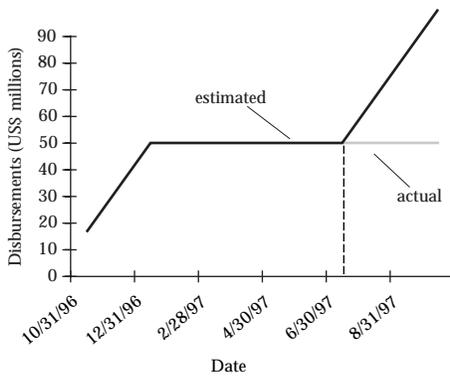
The loan is 5 percent disbursed, from its effectiveness in April 1996. Project activities in 1997 included signing contracts for training courses. A national guiding policy and planning instruments for identifying and deciding on priority location of facilities were developed, but the management structure needed for handling construction and rehabilitation of rural hospitals was not yet in place at the provincial level. Forms of complementing recurrent costs at the provincial level were being studied with other donors.

## Supervision—Form 590 Ratings

	6/28/96	6/19/97
Development objectives	S	S
Implementation progress	S	S

**PROJECT SUMMARY SHEET 29 AND PRELIMINARY EVALUATION  
ECONOMIC RECOVERY CREDIT III (PROJECT ID 35922, CREDIT CN010), AS OF 11/97**

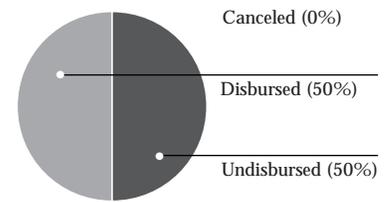
**DISBURSEMENT PERFORMANCE: ESTIMATED VERSUS ACTUAL**



**BASIC DATA**

Approval . . . . .	2/4/97
Effectiveness . . . . .	5/21/97
Closing . . . . .	12/31/98
Approved . . . . .	\$100m
Disbursed . . . . .	\$47.8m
Canceled . . . . .	0
Undisbursed . . . . .	\$47.6m
Project status . . . . .	ACTIVE

**DISBURSEMENTS AND CANCELLATIONS**



**Objectives**

The macroeconomic objectives for 1996–98 were to (i) achieve an average annual growth of nonenergy GDP of 5 percent; (ii) reduce inflation to below 10 percent by end-1998; and (iii) increase gross international reserves to the equivalent of four months of imports and nonfactor services.

**Description**

This adjustment credit continued to support Mozambique’s medium-term economic reform program aimed at achieving sustained growth with poverty reduction and diminishing dependency on external aid. The credit supported measures to

improve macroeconomic management through financial and fiscal reform and to remove impediments to a sustained supply response. Measures to improve macroeconomic management included the privatizing of state banks, improving budget management, and limiting indirect subsidies to enterprises. Supply-side measures included: rationalization of the tariff and indirect tax regime; cashew liberalization; and private concessioning of CFM’s port and railway operations.

**Evaluation**

The loan was approved on February 4, 1997; an Evaluation Summary is not yet available.

**Supervision—Form 590 Ratings**

6/13/97

Development objectives	S
Implementation progress	S

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## COMMENTS ON MANAGEMENT PORTFOLIO

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1. Mozambique is a country with a gross domestic product (GDP) below USD 785, and for that matter, within the context of World Bank Group relations, it can benefit from loans granted by the International Development Association (IDA).
2. All countries whose gross domestic product (GDP) is below the above-mentioned figure are entitled to financial assistance from IDA. The advantage of this type of financing is in the terms of reimbursement—40 years.
3. Mozambique, since 1987, has been contracting credits from IDA up to now. The amount of credit granted in total is SDR 1,207,30 million. The funds granted have been applied in two areas:
  - Development projects, which account for SDR 696.3 million
  - Credit for economic structural adjustments, which account for SDR 510.8 million.
4. The projects initially implemented were directed to Energy, Education, Health, and the Beira Corridor, at the same time the first credit was granted for Economic Structural Adjustment.
5. Due to the social state of the country and the economic conditions of the time, it can be said that the funds granted were directed to respond to emergency situations.
6. The first financing (as earlier mentioned) was granted at the end of the 1980s. This was the first contract the country undertook with Bretton Woods. The principles, policies, and procedures of Bretton Woods were not known at the time.
7. For that reason, the implementation of the first projects encountered some difficulties due to a lack of knowledge of policies and procedures, and lack of experience of the parties involved (Government, Implementation Agencies and the Central Bank of Mozambique) during the phase of execution met with some difficulties on the ground.
8. The establishment of the Resident Mission significantly contributed to the introduction of changes in matters such as the use of World Bank finances or funds. Consequently, matters that were previously dealt with in Washington are now dealt with locally.
9. Taking a look at the country's problems prior to our relationship with the IDA and the actual phase, it can be said that, despite not having achieved the desired goals in real development terms, the credit afforded by the institution was useful.
10. Today, there are visible investments undertaken in the areas of education; rehabilitation of infrastructure; in the area of health; assistance granted to the energy sector; encouraging results in the road sector; the dynamic undertakings in the rehabilitation of Beira Corridor; and, despite the slow pace, the perspective which is awaited in capacity building. In the area of balance of payments, a major emphasis is on the stabilization of exchange rates.
11. It is not intended to say that the policies and strategies surrounding the institution of Bretton Woods in the use of financial resources are not exempt from observation. It is current opinion that in the process of designing projects financed by these institutions, various interested parties or societal segments should be heard.

## COMMENTS ON MANAGEMENT PORTFOLIO (CONTINUED)

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12. In general terms, it is fair to recognize that IDA plays an important role in the development process of the country. However, there is a need for greater interaction between major actors (government and IDA). The government institutions that take part in this process must improve their methods of operation. From the IDA side, there is a need to act in relation to the country's needs, and not simply to dwell on their philosophies.

## CONCLUSIONS AND RECOMMENDATIONS

- The country's affiliation with Bretton Woods institution contributed significantly to changing the economy's downward trend.
- The use of IDA funds for preestablished objectives has begun to show initial results. However, it is imperative to note that in this process, the results are of a long-term nature.
- The process of implementation of projects funded by the World Bank, in order to yield significant success, we recommend the continuing joint work (MPF, Banco de Moçambique, World Bank, and implementation agencies) under the implementation of management portfolio.
- In general we agree with the points of view of the World Bank expressed in the document–Country Assistance Review.

Maputo, 4th August 1998

International Relations Department

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# MINISTÉRIO DO PLANO E FINANÇAS

## DIRECÇÃO NACIONAL DO TESOURO



Exmo Senhor  
Representante Residente do Banco Mundial  
Maputo

N/Ref<sup>a</sup>105/GAB-DNT/98

Maputo, 27 de Agosto de 1998

Assunto: "Country Assistance Review"

Na sequência da solicitação de V.Excias junto enviamos a carta sobre o assunto acima epigrafado, apesar de considerarmos que o documento sendo da autoria e propriedade do Banco Mundial, não necessite de *autorização* do Governo para a sua publicação.

O documento é bastante extensivo na análise detalhada da assistência do Banco Mundial a Moçambique, sistematiza e retém as principais constatações e lições acumuladas e projecta algumas recomendações nesta base.

Em nosso entender o documento deveria também concentrar-se não só no historial como também na colocação das questões chaves para as quais o Governo deve ter um posicionamento, decorrente da experiência do passado recente.

Duma forma geral a estratégia do Banco Mundial para o futuro - CAS (Estratégia da Assistência ao País) apresentada no documento é bastante compreensiva e está em linha com a priorização dos objectivos da reforma que o País está implementando, nomeadamente na implantação duma economia de mercado, ponderando também os problemas sociais e ambientais.

Parece perfeitamente pacífico o conjunto de sugestões feitas para a mudança no estilo de intervenção do Banco Mundial. Entendemos que o Governo no quadro destas sugestões deverá potenciar-se para:

- O estabelecimento de rotinas para revisão e acompanhamento periódico da carteira de crédito; e
- A definição de soluções de carácter institucional e sustentável para a gestão da carteira de crédito do Banco Mundial (nomeadamente ao nível sectorial)

Consideramos que ao se colocar o combate a corrupção na agenda da cooperação com o Banco Mundial significa que esta instituição deverá ter um papel mais activo neste processo, podendo ser indicado qual poderia ser o papel da instituição neste âmbito.

Finalmente, consideramos que a aceitação como condição do crédito, dos êxitos da reforma salarial e da melhoria da mobilização de receitas, é uma questão que deve ser ponderada, muito embora ambas as condições constituam sob o ponto de vista técnico condições coerentes do crédito, na medida em que só desta forma se poderão assegurar as comparticipações (financeiramente) e se poderão reter os quadros para a gestão e sustentabilidade futuro (capacidade de gestão).

Sem mais assunto, os nossos melhores cumprimentos.



Manuel Chang  
Director Nacional

**REBUILDING THE MOZAMBIQUE ECONOMY: ASSESSMENT OF A DEVELOPMENT PARTNERSHIP/MANAGEMENT RESPONSE**

<p style="text-align: center;"><i>Recommendations</i></p> <p><i>46. Mozambique Country Assistance Review</i> 12/02/97</p> <p><i>1. Introduction</i></p> <p>(i) Effective absorption of the lessons of experience would go a long way in enhancing the impact of Bank assistance. Looking to the future, the Bank should take the opportunity of the new country assistance strategy process to reposition its programs so as to achieve greater strategic selectivity and more effective management of its lending and non-lending services.</p>	<p style="text-align: center;"><i>Management Response</i></p> <p>(i) <i>The CAS builds directly on the lessons of past experience. The main lesson from the experience in Mozambique is the critical importance of strengthening partnerships.</i> This is one of the three strategic priorities of the CAS. Partnership with the Government is essential to build ownership of policy change and capacity for implementation; partnership with donors is critical for effective aid coordination at the sectoral level; and partnership with civil society provides the underpinnings for sustainable change. While the process of strengthening partnerships entails broad-based involvement, there is full agreement that the Bank must be selective with respect to its sector involvement and use of particular instruments.</p>
<p><i>2. Recommendations</i></p> <p>(i) Use the country dialogue and available aid coordination mechanisms to nurture policy reform and capacity building.</p>	<p>(i) <i>This is consistent with the Bank's CAS.</i> As both the CAR and CAS recognize, however, increasingly it is the Government itself, with strong Bank support, that is exercising the principal leadership role on economic policy matters and conducting the dialogue with other development partners. The Bank will continue to nurture policy reform and capacity building through joint economic work (e.g., the ongoing Growth Prospects Study and Fiscal Management Review); the Economic Management Reform operation; the Policy Framework Paper; support to the Government's development of a public sector reform strategy; and enhanced economic policy discussion within the aid partnership-both at the local level and through the Consultative Group mechanism, which in 1998 will take place in Mozambique.</p>

(ii) Raise the focus of Bank assistance to a higher plane than the traditional investment project by encouraging businesslike partnerships among donors. This process is already underway but it must be accelerated. Given limited domestic capacities, the World Bank and its development assistance partners are financing too many projects, each governed by different modalities. The time has come to construct management coalitions to improve the coherence and the impact of external assistance by having the Bank, other multilateral/bilateral donors and the civil society join forces and seek results at the national level for high priority sector programs, managed for results.

(ii) *Agreed and fully consistent with the CAS. Strengthening development partnerships is a principal strategic objective of the CAS.* The Bank has led the way in Mozambique in advocating the development of sector investment programs (SIPs) and in emphasizing the need for greater coordination at the sectoral level. Sector programs are ongoing in roads and health, and under preparation in education and agriculture. Mechanisms to strengthen common donor implementation procedures and to enhance private sector and NGO participation in the SIPs are under discussion. Concrete benchmarks to measure results are included in all operations.

The Resident Mission's "NGO Outreach" Program will continue, with efforts to draw the Government more actively into this activity.

The pace of developing "management coalitions," particularly those involving civil society, will depend, in large part, on the Government's capacity and the priority it attaches to nurturing these coalitions.

(iii) Put Mozambique authorities in the "driver's seat" in capacity building activities and external assistance coordination while giving it suitable support through advisory and fiduciary services. Large numbers of expatriate consultants, project implementation units and salary supplements are undercutting civil service reform and institutional development. Public expenditures management needs to be upgraded and the aggregate transaction costs of external assistance reduced through more effective coordination of assistance by Mozambique authorities. The Bank should give priority to enhancing the effectiveness of the overall aid system by assisting the Government in improving the coherence of aid programs in the pursuit of priority development objectives.

(iii) *Agreed and consistent with the CAS. This is a major focus of ongoing Bank work.* The joint Fiscal Management Review, and the development of a medium-term fiscal framework that it is supporting, specifically aim to help the Government develop the capacity and processes to better determine priorities and ensure consistency between those priorities and the way the budget is formulated and implemented, including the donor-financed portion of the budget. This is also the driving force behind the Bank's support for SIPs in key sectors, the Bank's avoidance of long-term expatriate technical assistance where possible, and the Bank's view that PIUs should not be supported under new operations and should be phased out where they still exist.

Also, following a Government request, the Bank is providing its assistance and advice on public sector and civil service reform. We are working closely with other partners on this.

(iv) Defer to other donors where they have a comparative advantage in taking the lead. The Bank is currently stretched too thin. It needs to concentrate efforts on fewer activities and play a supporting role where other development agencies have a comparative advantage in taking the lead. With respect to the environment, the rural sector and the social sectors, the Bank has an important intellectual contribution to make but other donors have a major presence and the Bank's lending role may be reduced.

(iv) *Further focusing Bank activities is an explicit objective in the CAS.* The CAS's strategic priority of strengthening development partnerships is an explicit recognition of the need for more effective coordination of donors' country assistance strategies, with a focus on their respective comparative advantages. A donor strategy retreat, to discuss country assistance strategies and donors' comparative advantage took place in Maputo in August 1998.

The CAR's recommendation that the Bank's lending role in the rural sector and social sectors can be reduced should be approached with some caution. The CAS's principal objective is poverty reduction. This calls for a special emphasis on rural areas, where the majority of the poor reside and the opportunities of poverty-reducing dynamic growth are greatest. Capacity building and human resource development is also a CAS priority. The design of the SIPs in roads, agriculture, health, and education attempt to maximize other donors' financial and intellectual participation. Their success hinges on strong Bank financial support to enhance the impact of its intellectual contribution (mentioned in the CAR), and to reinforce the CAS's central objective and strategic priorities, and ensure their adequate support by all partners.

(v) Adapt the structure and modalities of Bank assistance to the revised objectives of the country assistance strategy. To help Mozambique deal with unusually complex development challenges (crushing poverty; burdensome debt; weak institutions; lack of human resources; social dysfunctions; etc.) the Bank should be responsive and nimble. Greater decentralization of authority to the field and imaginative use of adaptable lending instruments would facilitate aid coordination and make Bank assistance more effective.

(v) *Management concurs with the recommendations and they are consistent with the CAS.* *Enhancing the role of the Resident Mission, using the new lending instruments, and emphasizing "just in time" advice and assistance are underway and featured in the CAS.* Staffing in the Resident Mission has been significantly strengthened, and further strengthening—mostly through local hiring—is envisioned over the next year and beyond. Portfolio management has become the responsibility of the Resident Representative, and the Resident Mission's activities have been increased in the areas of local aid coordination, "civil society" outreach, and policy dialogue with the Government. Excellent instant communications, including teleconferencing facilities, between Maputo and Headquarters now facilitate integration between Headquarters and the Resident Mission, and reduce the Bank's response time in general. Adaptable lending instruments are actively being explored in agriculture, roads, and rural development.

## REPORT FROM CODE/COMMITTEE ON DEVELOPMENT EFFECTIVENESS

On December 17, 1997, the Committee on Development Effectiveness (CODE) considered a report prepared by the Operations Evaluation Department (OED), entitled Mozambique: Country Assistance Review (CAR) (IDA/SecM97-537), together with a management response prepared by the Africa Region. CODE welcomed the main conclusion that the Bank's assistance to Mozambique in support of its economic transformation has been responsive to a unique set of circumstances. Highlights of the discussion which are pertinent to the Board's review of the Country Assistance Strategy (CAS) for Mozambique follow.

### **Timing of the CAR and the CAS**

The Committee acknowledged with appreciation that OED had accelerated the completion of the CAR so that it could be reviewed before the Board consideration of the CAS. Concern was expressed that because of the timing, the CAR had not been discussed with the Government or donors, and the Region had not been able to take full account of OED's recommendations during the preparation of the CAS. Management's response that there had been considerable interaction with OED was noted. It was suggested that the Board discussion of the CAS should have been postponed. In view of the Government's desire not to postpone the Board review of the CAS, the Committee agreed to proceed on the current CAS schedule and suggested that an implementation workshop should be organized after the CAS was reviewed by the Board. The workshop would be an opportunity for the recommendations of the CAR to be fully discussed and incorporated into the CAS.

### **Donor Coordination and the Resident Mission**

The Committee noted OED's finding that the proliferation of donors in Mozambique carries costs in terms of excessive administrative burdens on the Government, wasteful duplication of efforts, initiation of projects in excess of the country's absorptive capacity or with questionable economic priority. CODE stressed that the Bank should take its comparative advantages into account in its assistance strategy for Mozambique and defer to other donors where they have a comparative advantage. Failure to do so could lead to an over-ambitious lending program resulting in poor portfolio performance. The Committee believes, and management agrees, that the Mozambique authorities should be encouraged to take the lead in coordinating external assistance. The Bank should give priority to enhancing the effectiveness of the overall aid system by assisting the Government in improving the coherence of aid programs in the pursuit of priority development programs. In this regard, the Committee emphasized the

importance of strengthening the resident mission in Mozambique to provide a strong supportive presence. The Committee welcomed management's response that a strategic priority of the CAS will be to help the country strengthen its development partnerships.

### **Capacity-building**

Capacity-building was identified by OED as one of the five priority areas for Government and Bank attention. The Committee welcomed management's response to the CAR that promoting capacity-building and human resources development is one of the Bank's three strategic priorities in the CAS. The Committee stressed that as with aid coordination, the Government should be in the "driver's seat" in capacity building activities. The view was expressed that the CAR could have been more explicit in its recommendations about measures to be taken to address weaknesses in institutional capacity.

### **Generic Issues Related to CARs**

Some speakers indicated that the CAR did not provide sufficient historical background information on the fundamental development challenges which Mozambique faces. It was suggested that since the CAR is a relatively new product, there needs to be further discussion on the extent to which critical development issues and the context from which they emerge should be included. The nature of the consultation between OED and management during the preparation of CARs also warrants further consideration in the view of some speakers.

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