



1. Project Data :			
OEDID:	C2033		
Project ID:	P001793		
Project Name:	Urban Household Energy		
Country:	Mozambique		
Sector:	Other Power & Energy Conversion		
L/C Number:	Credit 2033-MOZ		
Partners involved :	Nordic Development Fund, Arab Bank for Economic Dev . In Africa		
Prepared by :	Richard L. Berney, OEDST		
Reviewed by :	Alain A. Barbu		
Group Manager :	Gregory K. Ingram		
Date Posted :	08/24/1999		

2. Project Objectives, Financing, Costs and Components :
 The main development objectives were to bring low-cost commercial fuels to a large number of urban households , and thereby slow down deforestation around these areas, to improve air quality, and to reduce the cost of all fuels . A second major objective was to strengthen the government agencies and energy supply company . Final project cost was \$41.9 million, of which IDA provided \$20.4 million, BADEA (Arabic Dev. Bank for Africa) provided \$8 million, the NDF (Nordic Dev. Fund) provided \$5.4 million, the GOM provided \$5.3 million, and Mozambican companies provided \$2.9 million.
 The project components included: Strengthening distribution facilities for electricity, kerosene and LPG, and coal; electrification of urban homes; institutional strengthen sector institutions; commercializing fuelwood enterprises ;

3. Achievement of Relevant Objectives :
Physical objectives were partially achieved. Only 500 households received commercial loans for house-wiring and connection to the grid. The original (unrealistic) SAR connection target of 40,000 had been reduced during the mid-term review. 4,300 households (3,000 new customers and 1,300 transfer customers) were actually connected to the grid extended under PROLEC.
Institutional objectives were substantially achieved. The Mozambican energy sector is among the most reformed and open sectors in Africa.

4. Significant Achievements :
 The rehabilitation and reinforcement of the electricity distribution grid, some of which was funded by the project, has enabled EDM to connect another 60,000 customers, which made up for the meager achievements under the loan-for-wiring program. In addition, about 5000 prepaid meters were installed and another 15,000 meters are being installed, with good initial financial results . Also, the project's participatory biomass energy and privately managed off-grid electrification components were successfully carried out, leading to a follow up program
 Energy Sector reforms have eliminated EDM's monopoly over power generation and distribution . Tariffs are now based on cost recovery principles, Petroleum product distribution has been deregulated, and costs have fallen . Partially as a result of the return to peace conditions which made commercial energy more easily obtainable, the broader project objectives of decreased pressure on woodlands around major cities and better air quality have been achieved.

5. Significant Shortcomings :
 The projects highly ambitions objective of financing electrical wiring and small appliances for 40,000 households was not met.
 Credit disbursement was slow, and eleven percent of the IDA credit (\$2.3 million) was canceled.
 Institutional strengthening objectives, including raising electric tariffs to economic levels, were only achieved in the last one or two years of the project, and long-term sustainability of these reforms is still uncertain .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments

Outcome :	Unsatisfactory	Marginally Satisfactory	Major failing was lack of support for financing of household wiring program . But total connections increased rapidly, even if primarily outside of project scope . And, most importantly, sector institutional reform was highly positive (see below).
Institutional Dev .:	Partial	Substantial	OED puts more emphasis on final outcome and less on early performance, particularly regarding institutional strengthening and reform.
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Deficient	Unsatisfactory	
Borrower Perf .:	Deficient	Satisfactory	Primarily on account of substantial progress made recently on sector institutional and policy reform (incl. tariff policy)
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

In countries with acknowledged weak institutional capabilities the Bank should avoid designing complex, multi-component projects that require coordination of several agencies . Supervision budgets for such multi-component projects should be sufficient to ensure financing for the resulting need for multi -disciplinary supervision teams.

Radical shifts in a country's macroeconomic and political environment can profoundly change country priorities and policies. In such cases projects need to be reassessed and redesigned starting with a review of their basic objectives. Piecemeal modifications of project components that marginally improve project design should be avoided.

Standard financial performance covenants are meaningless and difficult to monitor unless they are an integral part of the entity's normal financial management reporting process . This problem is particularly acute where western accounting practices are not well developed . In such cases, covenants should be tied to simpler, and easier to monitor proxy indicators, that related directly to basic financial survival .

Providing targeted onlending facilities for wiring of individual households is probably not an efficient project design when the main objective is to expand the number of new electricity connections .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is detailed and thought provoking . It could have been clearer as to why less than one percent of EDM 's 60,000 new connections over the past decade made use of the project's onlending facility for household wiring . Generic lessons on the use of such dedicated onlending facilities might also have been drawn .