

<b>1. Project Data :</b>	
<b>OEDID:</b>	C2628
<b>Project ID:</b>	P001777
<b>Project Name:</b>	Second Economic Recovery Credit (SERC)
<b>Country:</b>	Mozambique
<b>Sector:</b>	Other Non-sector Specific
<b>L/C Number:</b>	C2628
<b>Partners involved :</b>	Great Britain, Switzerland, Denmark
<b>Prepared by :</b>	David Greene (consultant), OEDCR
<b>Reviewed by :</b>	Roger Robinson
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<b>Date Posted :</b>	08/18/1998

**2. Project Objectives, Financing, Costs and Components :**  
 SERC, approved in 1994, was the fourth adjustment credit in support of the Government's Economic and Social Rehabilitation program. The project had four components; (1) support for integrated programs in agriculture, health and education; (2) support for the central bank in monetary management, foreign exchange management and banking system supervision; (3) development of a competitive banking system; and (4) acceleration of the privatization program. The credit provided US\$ 200 million and was cofinanced by Great Britain, Switzerland and Denmark. Disbursement was to be in three tranches, the first of the US\$ 80 million on effectiveness and the second two of US\$ 60 million each would be available eight and 16 months later. Continued satisfactory macroeconomic management was a condition of release of all three tranches .

**3. Achievement of Relevant Objectives :**  
 The timing of this project was extremely propitious . A peace agreement signed in 1992 ended a devastating civil war, and a reform-minded economic team took over following elections in 1994. This contributed to the project accomplishing virtually all its specific objectives . Management of public expenditures was improved by removing price controls and budgetary subsidies to state enterprises . Health and education outlays were increased significantly. Expenditures on the social safety net were maintained but the program was mismanaged, resulting in less than optimal distribution of benefits . Monetary management was strengthened as audited central bank accounts were produced, a T-bill auction was conducted, a foreign exchange law and associated regulations were approved. The largest and second largest commercial banks were privatized, ending their issuance of overdrafts and simplifying monetary management. Entry of new banks has resulted in a more competitive, entirely privately owned banking system and improvement of services . The Government exceeded the privatization targets, including 46 large enterprises (45 targeted) and 900 small and medium firms. The private sector now produces almost all the country's industrial output. The national airline is being reorganized . Negotiations for the privatization of the railways and port of Maputo are underway . The Agricultural Marketing Board has been liquidated and replaced by a marketing agency with more limited functions and restricted access to bank credit .

**4. Significant Achievements :**  
 Improved fiscal and monetary management and privatization of the banking and industrial sector has contributed to a sharp reduction of inflation, increased private investment and higher economic growth . Expansion of expenditures on the social sectors has resulted in a noticeable improvement in health and education services .

**5. Significant Shortcomings :**  
 There were no significant shortcomings . Although release of the second tranche was delayed four months and the third eleven months, this is not excessive; given the number and complexity of conditions that had to be fulfilled .

<b>6. Ratings:</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Satisfactory	Highly Satisfactory	The government strongly embraced the objectives of this operation and

			proceeded speedily in privatization reform. Furthermore the macroeconomic outcome has been very positive. The quality of health services was also significantly improved.
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

The experience of this project confirms the almost universal conclusion that restructuring and recapitalization of state-owned banks is a failed policy alternative . Privatizing state-owned banks and stopping non-commercial overdraft borrowing from the central bank are crucial to macroeconomic stability . Depending upon the design and administrative structure of social safety net systems, they often are only partially successful in addressing severe poverty. These systems need to be complemented by strong reforms in areas such as agricultural pricing, marketing and micro-finance, which impacts directly upon the poorest groups .

**8. Audit Recommended?**  Yes  No

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

The ICR is satisfactory.