

**Document of  
The World Bank**

Report No: ICR00001039

IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON THREE CREDITS

IN THE AMOUNT OF 220 MILLION EQUIVALENT

TO

**MOZAMBIQUE**

FOR THE

**POVERTY REDUCTION SUPPORT CREDITs 3-4-5**

May 28, 2010

Poverty Reduction and Economic Management (AFTP1)  
Southern Africa (AFSC2)  
Africa Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 23, 2010)

Currency Unit = Metical (MZN)

MZN 1.00 = US\$ 0.02952

US\$ 1.00 = MZN 33.875

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

|       |   |
|-------|---|
| CAS   | Country Assistant Strategy  |
| CEM   | Country Economic Memorandum                                       |
| CFAA  | Country Financial Accountability Assessment                       |
| CNCS  | Conselho Nacional de Combate ao SIDA (AIDS National Council)      |
| CPAR  | Country Procurement Assessment Report                             |
| CPS   | Country Partnership Strategy                                      |
| CTA   | Confederation of Economic Associations of Mozambique              |
| DB    | Doing Business  |
| DPL   | Development Policy Lending  |
| EU    | European Union  |
| FSAP  | Financial Sector Assessment Program                               |
| FY    | Fiscal Year   |
| GBS   | General Budget Support  |
| GoM   | Government of Mozambique  |
| G19   | Group of nineteen donors  |
| ICA   | Investment Climate Assessment                                     |
| ICR   | Implementation Completion and Results Report                      |
| IFRS  | International Financial Reporting Standards                       |
| INE   | Instituto Nacional de Estatística (National Statistics Institute) |
| INSS  | National Institute for Social Security (National Pension System)  |
| IO    | Indicators Outcome  |
| ISR   | Implementation Status and Results Report                          |
| MEC   | Ministry of Education and Culture                                 |
| MIC   | Ministry of Industry and Commerce                                 |
| MINAG | Ministry of Agriculture   |
| MOF   | Ministry of Finance   |
| MOH   | Ministry of Health  |
| MOU   | Memorandum of Understanding                                       |
| MOZAL | Mozambique Aluminium Company                                      |
| MPD   | Ministry of Planning and Development                              |
| MoPWH | Ministry of Public Works and Housing                              |

|         |   |
|---------|---|
| OE      | Orçamento do Estado (State Budget)  |
| PAP     | Program Aid Partners  |
| PAPPA   | Programme Aid Partners' Performance Assessment  |
| PARPA   | Programa de Acção para a Redução da Pobreza Absoluta<br>(Action Plan for the Reduction of Absolute Poverty) |
| PAF     | Performance Assessment Framework  |
| PD      | Program Document  |
| PEN     | National Strategic Plan   |
| PES     | Plano Económico e Social  |
| PEFA    | Public Expenditure & Financial Accountability   |
| PDO     | Program Development Objectives  |
| PMTCT   | Prevention of mother-to-child transmission  |
| PRSC    | Poverty Reduction Support Credit  |
| SADC    | Southern African Development Community  |
| SISTAFE | Integrated Financial Management System  |
| UFSA    | Unidade Funcional de Supervisão das Aquisições<br>(Central Procurement Supervision Unit)                    |
| UGE     | Unidade Gestora Executora (Unit for Budget Execution)   |
| UGEA    | Unidade Gestora Executora das Aquisições<br>(Unit for Execution and Management of Acquisition)              |
| UTRESP  | Unidade Técnica para a Reforma do Sector Público<br>(Technical Unit for Public Sector Restructuring)        |
| VAT     | Value Added Tax   |

|                          |                               |
|--------------------------|-------------------------------|
| Vice President:          | <b>Obiageli K. Ezekwesili</b> |
| Acting Country Director: | <b>Olivier P. Godron</b>      |
| Sector Manager:          | <b>John Panzer</b>            |
| Project Team Leader:     | <b>Antonio Nucifora</b>       |
| ICR Team Leader:         | <b>Antonio Nucifora</b>       |
| ICR Primary Author:      | <b>Brendan Horton</b>         |

# REPUBLIC OF MOZAMBIQUE

## IMPLEMENTATION COMPLETION AND RESULTS REPORT FOR THE PRSCs3-4-5

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| <b>A. Basic Information</b>  |            |                  |   |
|--|------------|------------------|---|
| <b>Program 1</b>   |            |                  |   |
| Country  | Mozambique | Program Name     | PRSC 3                                  |
| Program ID   | P083459    | L/C/TF Number(s) | IDA-42560                               |
| ICR Date   | 05/28/2010 | ICR Type         | Core ICR                                |
| Lending Instrument   | DPL        | Borrower         | REPUBLIC OF MOZAMBIQUE                  |
| Original Total Commitment  | XDR 46.6M  | Disbursed Amount | XDR 46.6M                               |
| <b>Implementing Agencies</b><br>Ministry of Finance  |            |                  |   |
| <b>Cofinanciers and Other External Partners</b><br>African Development Bank (AfDB)<br>Department for International Development UK (DFID)<br>BELGIUM<br>Canada<br>DENMARK<br>FINLAND<br>FRANCE<br>ITALY<br>Netherlands<br>NORWAY<br>SWEDEN<br>SWITZERLAND<br>GERMANY<br>SPAIN<br>IRELAND<br>Portugal<br>Austria<br>European Commission (EC) |            |                  |   |
| <b>Program 2</b>   |            |                  |   |
| Country  | Mozambique | Program Name     | Fourth Poverty Reduction Support Credit |
| Program ID   | P103277    | L/C/TF Number(s) | IDA-43830                               |
| ICR Date   | 05/28/2010 | ICR Type         | Core ICR                                |
| Lending Instrument   | DPL        | Borrower         | GOVERNMENT OF MOZAMBIQUE                |
| Original Total Commitment  | XDR 37.8M  | Disbursed Amount | XDR 37.8M                               |
| <b>Implementing Agencies</b><br>Ministry of Finance  |            |                  |   |

**Cofinanciers and Other External Partners**

African Development Bank (AfDB)  
 Department for International Development UK (DFID)  
 BELGIUM  
 Canada  
 DENMARK  
 FINLAND  
 FRANCE  
 ITALY  
 Netherlands  
 NORWAY  
 SWEDEN  
 SWITZERLAND  
 GERMANY  
 SPAIN  
 IRELAND  
 Portugal  
 Austria  
 European Commission (EC)

**Program 3**

|                           |            |                  |  |
|---------------------------|------------|------------------|--|
| Country                   | Mozambique | Program Name     | Fifth Poverty Reduction Support Credit (PRSC5) |
| Program ID                | P107313    | L/C/TF Number(s) | IDA-45280,TF-93203                             |
| ICR Date                  | 05/28/2010 | ICR Type         | Core ICR                                       |
| Lending Instrument        | DPL        | Borrower         | GOVERNMENT OF MOZAMBIQUE                       |
| Original Total Commitment | USD 90.0M  | Disbursed Amount | USD 85.0M                                      |
|                           |            |                  |  |

**Implementing Agencies**

Ministry of Finance

**Cofinanciers and Other External Partners**

African Development Bank (AfDB)  
 Department for International Development UK (DFID)  
 BELGIUM  
 Canada  
 DENMARK  
 FINLAND  
 FRANCE  
 ITALY  
 Netherlands  
 NORWAY  
 SWEDEN  
 SWITZERLAND  
 GERMANY  
 SPAIN

IRELAND  
 Portugal  
 Austria  
 European Commission (EC)

## B. Key Dates

### PRSC 3 - P083459

| Process         | Date       | Process           | Original Date | Revised / Actual Date(s) |
|-----------------|------------|-------------------|---------------|--------------------------|
| Concept Review: | 11/08/2006 | Effectiveness:    |               | 02/15/2007               |
| Appraisal:      | 12/07/2006 | Restructuring(s): |               |                          |
| Approval:       | 01/25/2007 | Mid-term Review:  |               |                          |
|                 |            | Closing:          | 09/30/2007    | 09/30/2007               |

### Fourth Poverty Reduction Support Credit - P103277

| Process         | Date       | Process           | Original Date | Revised / Actual Date(s) |
|-----------------|------------|-------------------|---------------|--------------------------|
| Concept Review: | 10/25/2007 | Effectiveness:    |               | 03/24/2008               |
| Appraisal:      | 11/29/2007 | Restructuring(s): |               |                          |
| Approval:       | 01/29/2008 | Mid-term Review:  |               |                          |
|                 |            | Closing:          | 08/31/2008    | 08/31/2008               |

### Fifth Poverty Reduction Support Credit (PRSC5) - P107313

| Process         | Date       | Process           | Original Date | Revised / Actual Date(s) |
|-----------------|------------|-------------------|---------------|--------------------------|
| Concept Review: | 07/03/2008 | Effectiveness:    |               | 12/04/2008               |
| Appraisal:      | 08/26/2008 | Restructuring(s): |               |                          |
| Approval:       | 11/04/2008 | Mid-term Review:  |               |                          |
|                 |            | Closing:          | 10/31/2009    | 10/31/2009               |

## C. Ratings Summary

### C.1 Performance Rating by ICR

#### Overall Program Rating

|                             |              |
|-----------------------------|--------------|
| Outcomes                    | Satisfactory |
| Risk to Development Outcome | Moderate     |
| Bank Performance            | Satisfactory |
| Borrower Performance        | Satisfactory |

| <b>C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)</b> |                |                               |                |
|---|----------------|-------------------------------|----------------|
| <b>Overall Program Rating</b>   |                |                               |                |
| <b>Bank</b>   | <b>Ratings</b> | <b>Borrower</b>               | <b>Ratings</b> |
| Quality at Entry  | Satisfactory   | Government:                   | Not Applicable |
| Quality of Supervision:   | Satisfactory   | Implementing Agency/Agencies: | Not Applicable |
| Overall Bank Performance  | Satisfactory   | Overall Borrower Performance  | Satisfactory   |

| <b>C.3 Quality at Entry and Implementation Performance Indicators</b> |                   |                                 |                |
|---|-------------------|---------------------------------|----------------|
| <b>PRSC 3 - P083459</b>   |                   |                                 |                |
| <b>Implementation Performance</b>                                     | <b>Indicators</b> | <b>QAG Assessments (if any)</b> | <b>Rating:</b> |
| Potential Problem Program at any time (Yes/No):                       | No                | Quality at Entry (QEA)          | None           |
| Problem Program at any time (Yes/No):                                 | No                | Quality of Supervision (QSA)    | None           |
| DO rating before Closing/Inactive status                              |                   |                                 |                |

| <b>Fourth Poverty Reduction Support Credit - P103277</b> |                   |                                 |                |
|--|-------------------|---------------------------------|----------------|
| <b>Implementation Performance</b>                        | <b>Indicators</b> | <b>QAG Assessments (if any)</b> | <b>Rating:</b> |
| Potential Problem Program at any time (Yes/No):          | No                | Quality at Entry (QEA)          | None           |
| Problem Program at any time (Yes/No):                    | No                | Quality of Supervision (QSA)    | None           |
| DO rating before Closing/Inactive status                 |                   |                                 |                |

| <b>Fifth Poverty Reduction Support Credit (PRSC5) - P107313</b> |                   |                                 |                |
|---|-------------------|---------------------------------|----------------|
| <b>Implementation Performance</b>                               | <b>Indicators</b> | <b>QAG Assessments (if any)</b> | <b>Rating:</b> |
| Potential Problem Program at any time (Yes/No):                 | No                | Quality at Entry (QEA)          | None           |
| Problem Program at any time (Yes/No):                           | No                | Quality of Supervision (QSA)    | None           |
| DO rating before Closing/Inactive status                        |                   |                                 |                |



| <b>D. Sector and Theme Codes</b>                                |                 |               |
|---|-----------------|---------------|
| <b>PRSC 3 - P083459</b>   |                 |               |
|   | <b>Original</b> | <b>Actual</b> |
| <b>Sector Code (as % of total Bank financing)</b>               |                 |               |
| Central government administration                               | 28              | 28            |
| General education sector  | 11              | 11            |
| General industry and trade sector                               | 18              | 18            |
| Health  | 11              | 11            |
| Sub-national government administration                          | 32              | 32            |
|   |                 |               |
| <b>Theme Code (as % of total Bank financing)</b>                |                 |               |
| Administrative and civil service reform                         | 17              | 17            |
| Decentralization  | 17              | 17            |
| Public expenditure, financial management and procurement        | 33              | 33            |
| Regulation and competition policy                               | 17              | 17            |
| Tax policy and administration                                   | 16              | 16            |
|   |                 |               |
| <b>Fourth Poverty Reduction Support Credit - P103277</b>        |                 |               |
|   | <b>Original</b> | <b>Actual</b> |
| <b>Sector Code (as % of total Bank financing)</b>               |                 |               |
| Central government administration                               | 40              | 40            |
| General agriculture, fishing and forestry sector                | 20              | 20            |
| Roads and highways  | 10              | 10            |
| Sub-national government administration                          | 30              | 30            |
|   |                 |               |
| <b>Theme Code (as % of total Bank financing)</b>                |                 |               |
| Decentralization  | 17              | 17            |
| Infrastructure services for private sector development          | 17              | 17            |
| Macroeconomic management  | 16              | 16            |
| Public expenditure, financial management and procurement        | 33              | 33            |
| Rural services and infrastructure                               | 17              | 17            |
|   |                 |               |
| <b>Fifth Poverty Reduction Support Credit (PRSC5) - P107313</b> |                 |               |
|   | <b>Original</b> | <b>Actual</b> |
| <b>Sector Code (as % of total Bank financing)</b>               |                 |               |
| General agriculture, fishing and forestry sector                | 20              | 20            |

|  |    |    |
|--|----|----|
| General finance sector                                   | 10 | 10 |
| General industry and trade sector                        | 10 | 10 |
| General public administration sector                     | 40 | 40 |
| Sub-national government administration                   | 20 | 20 |
|  |    |    |
| <b>Theme Code (as % of total Bank financing)</b>         |    |    |
| Administrative and civil service reform                  | 16 | 16 |
| Global food crisis response                              | 17 | 17 |
| Public expenditure, financial management and procurement | 33 | 33 |
| Rural services and infrastructure                        | 17 | 17 |
| Tax policy and administration                            | 17 | 17 |

| <b>E. Bank Staff</b>    |                            |                    |
|-------------------------|----------------------------|--------------------|
| <b>PRSC 3 - P083459</b> |                            |                    |
| <b>Positions</b>        | <b>At ICR</b>              | <b>At Approval</b> |
| Vice President:         | Obiageli Katryn Ezekwesili | Gobind T. Nankani  |
| Country Director:       | Luiz A. Pereira da Silva   | Michael Baxter     |
| Sector Manager:         | John Panzer                | Emmanuel Akpa      |
| Task Team Leader:       | Antonio Nucifora           | Gregor Binkert     |
| ICR Team Leader:        | Antonio Nucifora           |                    |
| ICR Primary Author:     | Brendan Horton             |                    |

| <b>Fourth Poverty Reduction Support Credit - P103277</b> |                            |                            |
|--|----------------------------|----------------------------|
| <b>Positions</b>   | <b>At ICR</b>              | <b>At Approval</b>         |
| Vice President:  | Obiageli Katryn Ezekwesili | Obiageli Katryn Ezekwesili |
| Country Director:  | Luiz A. Pereira da Silva   | Michael Baxter             |
| Sector Manager:  | John Panzer                | John Panzer                |
| Task Team Leader:  | Antonio Nucifora           | Antonio Nucifora           |
| ICR Team Leader:   | Antonio Nucifora           |                            |
| ICR Primary Author:                                      | Brendan Horton             |                            |

| <b>Fifth Poverty Reduction Support Credit (PRSC5) - P107313</b> |                            |                            |
|---|----------------------------|----------------------------|
| <b>Positions</b>  | <b>At ICR</b>              | <b>At Approval</b>         |
| Vice President:   | Obiageli Katryn Ezekwesili | Obiageli Katryn Ezekwesili |
| Country Director:   | Luiz A. Pereira da Silva   | Michael Baxter             |
| Sector Manager:   | John Panzer                | John Panzer                |
| Task Team Leader:   | Antonio Nucifora           | Antonio Nucifora           |
| ICR Team Leader:  | Antonio Nucifora           |                            |
| ICR Primary Author:   | Brendan Horton             |                            |

## **F. Results Framework Analysis**

### **Program Development Objectives (from Program Document)**

The goal of PRSC 3-4-5, the second of three series to date, was to support the implementation of Mozambique's second Poverty Reduction Strategy, commonly referred to by its Portuguese acronym (PARPA II). In support of this goal, all three operations had three specific Program Development Objectives (PDOs):

- (i) Support the consolidation and deepening of institutional reforms in the area of macroeconomic management;
- (ii) Support the reforms in governance by (a) supporting decentralization to enhance public investments and service delivery at the provincial and district level; and (b) supporting public sector reform; and
- (iii) Support economic development by improving the investment climate, removing constraints to growth, such as infrastructure, and promoting agricultural growth.

Expected outcomes were defined (PRSC3 Program Document, paras 77-80) for each PDO (or component of the operations), and progress towards them was to be measured by a corresponding set of indicators. These were drawn from the 2007-2009 Program Assessment Framework (PAF) which is jointly monitored by the nineteen donors (G19) providing General Budget Support (GBS) to Mozambique in the context of the donor-Government Memorandum of Understanding (MOU) first signed in 2004 and revised in 2009. The PAF is a subset of the Strategic Matrix of Second Poverty Reduction Strategy (PARPA II, by the Portuguese acronym). The only non-PAF indicators were introduced in PRSC5 in response to the food price crisis which had emerged in 2008.

This ICR has been prepared on the basis of information presented in the ISRs, of which the last was archived on May 2010. There is complete information for 2007 and 2008, but end of year values for 2009 were not yet fully available.

The PDOs and Intermediate Indicators were kept roughly unchanged over the three operations in the series. Hence the information entered below under PRSC-3 also applies to PRSC-4 and PRSC-5. Where there have been changes in Intermediate Indicators across the operations this is noted in the comments.

### **Revised Program Development Objectives (as approved by original approving authority)**

None

**(a) PDO Indicator(s)**

| <b>PRSC 3 - P083459</b>             |   |   |                                       |  |
|-------------------------------------|---|---|---------------------------------------|--|
| <b>Indicator</b>                    | <b>Baseline Value</b>   | <b>Original Target Values (from approval documents)</b> | <b>Formally Revised Target Values</b> | <b>Actual Value Achieved at Completion or Target Years</b> |
| <b>Indicator 1 :</b>                | Support the consolidation of and deepening of the institutional reforms in the area of macroeconomic management.  |   |                                       |  |
| Value (quantitative or Qualitative) | As the PRSC consists of a series of annual operations, no specific value was defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below).  |   |                                       |  |
| Date achieved                       | 12/31/2006  |   |                                       |  |
| Comments (incl. % achievement)      | All 16 prior actions related to this PDO were met on time (one was modified downwards). Notable improvements in revenue and expenditure management, procurement, internal controls and external audits. Overall performance has been highly satisfactory. |   |                                       |  |
| <b>Indicator 2 :</b>                | Strengthen reforms in governance by (a) supporting decentralization to enhance public investments and service delivery at the provincial and district level; and (b) supporting public sector reform.   |   |                                       |  |
| Value (quantitative or Qualitative) | As the PRSC consists of a series of annual operations, no specific values were defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below)   |   |                                       |  |
| Date achieved                       | 12/31/2009  |   |                                       |  |
| Comments (incl. % achievement)      | Five out of seven triggers were met on time and without modification. Performance for the decentralization reforms moderately satisfactory. Civil Service reforms have progressed well. Overall performance towards this PDO is moderately satisfactory.  |   |                                       |  |
| <b>Indicator 3 :</b>                | Support economic development by improving the investment climate, removing constraints to growth, such as infrastructure, and promoting agricultural growth.  |   |                                       |  |
| Value (quantitative or Qualitative) | As the PRSC consists of a series of annual operations, no specific values were defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below).  |   |                                       |  |
| Date achieved                       | 12/31/2009  |   |                                       |  |
| Comments (incl. % achievement)      | Four out of seven triggers met on time w/o modification. Overall performance is rated moderately satisfactory.  |   |                                       |  |

|              |  |
|--------------|--|
| achievement) |  |
|--------------|--|

| Fourth Poverty Reduction Support Credit - P103277 |                     |  |                                |   |
|---|---------------------|--|--------------------------------|---|
| Indicator   | Baseline Value      | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
| <b>Indicator 1 :</b>                              | See PDOs for PRSC-3 |  |                                |   |
| Value (quantitative or Qualitative)               |                     |  |                                |   |
| Date achieved                                     |                     |  |                                |   |
| Comments (incl. % achievement)                    |                     |  |                                |   |

| Fifth Poverty Reduction Support Credit (PRSC5) - P107313 |                     |  |                                |   |
|--|---------------------|--|--------------------------------|---|
| Indicator  | Baseline Value      | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
| <b>Indicator 1 :</b>                                     | See PDOs for PRSC-3 |  |                                |   |
| Value (quantitative or Qualitative)                      |                     |  |                                |   |
| Date achieved  |                     |  |                                |   |
| Comments (incl. % achievement)                           |                     |  |                                |   |

**(b) Intermediate Outcome Indicator(s)**

| PRSC 3 - P083459                    |   |  |                                |   |
|-------------------------------------|---|--|--------------------------------|---|
| Indicator                           | Baseline Value  | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
| <b>Indicator 1 :</b>                | Share of indicators going to priority sectors to be at least 65 percent   |  |                                |   |
| Value (quantitative or Qualitative) | 64.6% in 2006   | 65 percent in 2007, 2008, 2009                   |                                | 62.0% in 2007; 64.5% in 2008; 61.6% in 2009;        |
| Date achieved                       | 12/31/2006  | 12/31/2007                                       |                                | 12/31/2009  |
| Comments (incl. % achievement)      | In 2007, the actual was 62%, due to delays in disbursements of donor funds led to under-spending on investment in priority sectors. On basis of available information, there have been minor shortfalls compared to target, so performance is satisfactory (S). |  |                                |   |

|  |  |  |  |   |
|--|--|--|--|---|
| <b>Indicator 2 :</b>                   | Alignment of annual budget with first year of corresponding MTEF   |  |  |   |
| Value<br>(quantitative or Qualitative) | No alignment between MTEF and annual budget  | Aggregate allocation for priority sectors in the budget should be in line with the first year of corresponding MTEF. |  | Aggregate budget envelope and total budget allocation to priority sectors aligned with MTEF in 2008 and 2009, but not in 2010 .   |
| Date achieved                          | 12/31/2007   | 12/31/2008   |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Introduced as a trigger for PRSC5. Achieved for 2008 and 2009 budgets, but not in 2010, partly due to financial crisis. Als o significant differences persist in the allocations by sector. Performance is satisfactory (S). |  |  |   |
| <b>Indicator 3 :</b>                   | Roll out of e-SISTAFE  |  |  |   |
| Value<br>(quantitative or Qualitative) | e-SISTAFE had been introduced in 22 ministries at end of 2006.   | All 25 ministries and main institutions of the State by end-2007.  |  | e-SISTAFE was operational in all 25 ministries and main institutions of the State by end-2007. Further, by end 2008 e-SISTAF E was successfully rolled out to 50 districts. |
| Date achieved                          | 12/31/2006   | 12/31/2007   |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Target was considerably exceeded by 2007. Performance is highly satisfactory (HS).   |  |  |   |
| <b>Indicator 4 :</b>                   | Direct Budget Execution through e-SISTAFE  |  |  |   |
| Value<br>(quantitative or Qualitative) | e-SISTAFE not operational. PFM system based on ledgers.  | 90% of UGE expenditure for goods services investment to be executed directly through e-SISTAFE in 2008 and 2009.     |  | Actual was 95% in 2008 and 97% in 2009  |
| Date achieved                          | 12/31/2006   | 12/31/2008   |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Trigger was introduced in PRSC5, following the successful roll-out of e-SISTAFE. Target was exceeded. Performance highly satisfactory (HS).  |  |  |   |

|  |  |  |  |  |
|--|--|--|--|--|
| <b>Indicator 5 :</b>                   | Creation of the Central Revenue Authority (CRA) and increase revenue as a share of GDP   |  |  |  |
| Value<br>(quantitative or Qualitative) | In 2005, revenues were collected through the National Directorate of Taxes, and the General Directorate for Customs. Revenue to GDP ratio was 15.3 percent in 2006   | Creation of Central Revenue Authority by end 2006 and increase revenues by at least 0.5 percent of GDP per year through 2009;<br>2007: 15.8%;<br>2008: 16.3%;<br>2009: 16.8%;                            |  | CRA created on time; Revenue targets exceeded in 2007, and 2009.<br>2007: 16.4%<br>2008: 16.0%<br>2009: 17.8%  |
| Date achieved                          | 12/31/2006   | 12/31/2007   |  | 12/31/2009   |
| Comments<br>(incl. % achievement)      | Revenues marginally under target in 2008 by 0.3% of GDP due to temporary removal of fuel taxes to cope with the high fuel prices. Overall average for 2007-2009 however was substantially above target. Performance highly satisfactory (HS).            |  |  |  |
| <b>Indicator 6 :</b>                   | Implement new procurement system up to district level, in line with action plan as measured by: (i) share of contracts carried out through open bidding and (ii) share of other modalities of contract which have submitted due justification.           |  |  |  |
| Value<br>(quantitative or Qualitative) | Action plan for implementing new procurement system has been prepared; 71% of contracts carried out through open bidding in 2006; justifications for other modalities not recorded.  | (i) public contracts were subject to tender: 90% by end 2008 and 95% by end 2009;<br>(ii) information on other modalities of contract has due justification: 90% of cases by end-2008; 100% by end-2009. |  | (i) Share of contracts carried out through open bidding: 85% in 2007; 88% in 2008; 72% in 2009;<br>(ii) Justification for other modalities communicated to UFSA: 100% of cases in 2008 and 2009. |
| Date achieved                          | 12/31/2006   | 12/31/2007   |  | 12/31/2009   |
| Comments<br>(incl. % achievement)      | Evidence from PRSC-6 indicates much progress was made. However, more is needed to ensure use of competitive procurement system. Also, UFSA data suffers from shortcomings - a better monitoring system is needed. Performance is rated satisfactory (S). |  |  |  |

|  |   |  |                                      |   |
|--|---|--|--------------------------------------|---|
| <b>Indicator 7 :</b>                   | Audits of districts and municipalities by IGF.  |  |                                      |   |
| Value<br>(quantitative or Qualitative) | 32 percent  | Not defined  |                                      | Not defined   |
| Date achieved                          | 12/31/2006  | 12/31/2007   |                                      | 12/31/2007  |
| Comments<br>(incl. % achievement)      | Not monitored, so not included in ratings   |  |                                      |   |
| <b>Indicator 8 :</b>                   | Increase coverage and efficiency of Internal Audit Bodies, measured by the share of central and provincial bodies with operational control units.   |  |                                      |   |
| Value<br>(quantitative or Qualitative) | 16% in 2006.  | Initial targets were:<br>2007: 30 percent<br>2008: 65 percent<br>2009: 100 percent | Target was lowered to 75 % for 2009. | Actual were:<br>2007: 25%<br>2008: 59%<br>2009: 75% |
| Date achieved                          | 12/31/2006  | 12/31/2007   | 12/31/2008                           | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Following the failure to meet the 2007 and 2008 targets, the target for 2009 was lowered from 100 percent to 75 percent. The average shortfall relative to targets was 6 percent, so performance is rated satisfactory (S). |  |                                      |   |
| <b>Indicator 9 :</b>                   | Increase coverage and efficiency of external audit bodies, as measured by the number of financial audits approved by the Court of Accounts.   |  |                                      |   |
| Value<br>(quantitative or Qualitative) | 2006: 115   | 2007: 90<br>2008: 118<br>2009: 144   |                                      | 2007: 357<br>2008: 350<br>2009: 491                 |
| Date achieved                          | 12/31/2006  | 12/31/2007   |                                      | 12/31/2009  |
| Comments<br>(incl. % achievement)      | The original target for 2007 was set prior to the assessment of 2006 performance. In any event, the performance of the Court of Accounts far exceeded the targets. Performance highly satisfactory in all years (HS).       |  |                                      |   |
| <b>Indicator 10 :</b>                  | Increase coverage and efficiency of external audit bodies, using as an indicator the share of the State Budget audited by the Court of Accounts according to INTOSAI standards and Mozambican legislation.                  |  |                                      |   |
| Value<br>(quantitative or Qualitative) | Not determined (was 26% in 2007)  | 2008: 30%<br>2009: 35%   |                                      | 2008: 33%<br>2009: 35%                              |
| Date achieved                          | 12/31/2006  | 12/31/2007   |                                      | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Performance exceeded the target for 2008 and was on target in 2009. Performance to date is highly satisfactory (HS)   |  |                                      |   |



|  |  |  |                      |  |
|--|--|--|----------------------|--|
| <b>Indicator 11 :</b>                  | Transfer of budget to provinces, districts and municipalities, measured by the share of the budget transferred to them.  |  |                      |  |
| Value<br>(quantitative or Qualitative) | Provinces:<br>24%<br>Districts:<br>3%<br>Municipalities:<br>0.8%   | 2007 Targets:<br>P: 24%;<br>D: 3%;<br>M: 0.8%;<br>2008 Targets:<br>P: 23.3%;<br>D: 3.7%;<br>M: 0.9%;<br>2009 Targets:<br>P: 27.8%;<br>D: 3.6%;<br>M: 1.0%; |                      | 2007 Actuals:<br>P: 34%;<br>D: 3%;<br>M: 0.9%;<br>2008 Actuals:<br>P: 32%;<br>D: 4%;<br>M: 1%;<br>2009 Actuals:<br>P: 28.0%;<br>D: 5.5%;<br>M: 1.1%; |
| Date achieved                          | 12/31/2006   | 12/31/2007   |                      | 12/31/2009   |
| Comments<br>(incl. % achievement)      | Targets systematically met or exceeded. Performance highly satisfactory (HS)   |  |                      |  |
| <b>Indicator 12 :</b>                  | Decentralization - completion of National Program for Decentralized Financial Planning.  |  |                      |  |
| Value<br>(quantitative or Qualitative) | No program   | Approval by end 2007   | Approval by end 2008 | Met in 2008  |
| Date achieved                          | 12/31/2006   | 12/31/2007   | 12/31/2008           | 12/31/2009   |
| Comments<br>(incl. % achievement)      | This was originally a trigger for PRSC4, but was deferred to PRSC5, and met. Given the delay of one year in meeting the target, performance is rated moderately satisfactory (MS)                          |  |                      |  |
| <b>Indicator 13 :</b>                  | Decentralization - Cabinet approval of decentralization strategy.  |  |                      |  |
| Value<br>(quantitative or Qualitative) | No strategy  | Approval by end 2007   | Deferred to 2010     | Original target not met  |
| Date achieved                          | 12/31/2006   | 12/31/2007   | 12/31/2008           | 12/31/2009   |
| Comments<br>(incl. % achievement)      | This was originally a target for PRSC4, but could not be met. It was decided to defer it to the third PRSC series. Because of the three year delay in completion, performance is rated unsatisfactory (U). |  |                      |  |
| <b>Indicator 14 :</b>                  | Completion of civil service census and single personnel registry created   |  |                      |  |
| Value<br>(quantitative or Qualitative) | No precise knowledge on number and characteristics of civil servants; and three separate databases on civil servants exist, none of which is complete.   | Census by end 2007 and single personnel registry by end 2008. Approval of new wage policy in 2009  |                      | All targets met  |
| Date achieved                          | 12/31/2006   | 12/31/2007   |                      | 12/31/2009   |
| Comments                               | All targets met on time, without shortcomings. Performance is highly   |  |                      |  |

|  |   |   |  |  |
|--|---|---|--|--|
| (incl. % achievement)                  | satisfactory (HS).  |   |  |  |
| <b>Indicator 15 :</b>                  | Improve efficiency and celerity of justice services, using as an indicator the number of cases tried per judge per year.  |   |  |  |
| Value<br>(quantitative or Qualitative) | Not indicated.  | 150 cases per judge per year beginning in 2007  | Dropped                                  |  |
| Date achieved                          | 12/31/2006  | 12/31/2007                                      | 12/31/2007                               |  |
| Comments<br>(incl. % achievement)      | This indicator was initially included in the results framework in PRSC3, as the program envisaged a trigger in the justice sector for PRSC5. The latter was dropped, and this indicator was not monitored.  |   |  |  |
| <b>Indicator 16 :</b>                  | Improve the business environment by reducing the number of days to open a business  |   |  |  |
| Value<br>(quantitative or Qualitative) | 113 days in 2006  | Targets:<br>2007: 60<br>2008: 40<br>2009: 30    |  | Actuals:<br>2007: 29<br>2008: 26<br>2009: 26     |
| Date achieved                          | 12/31/2006  | 12/31/2007                                      |  | 12/31/2009                                       |
| Comments<br>(incl. % achievement)      | Targets exceeded in 2007, 2008 and 2009. Given that targets were exceeded, rating is highly satisfactory (HS). In the PAF, this indicator has since been replaced by one pertaining to number of days to complete export and import transactions.               |   |  |  |
| <b>Indicator 17 :</b>                  | Improve the insurance and social insurance sector by (i) an actuarial study of INSS; and (ii) preparation of an investment strategy.  |   |  |  |
| Value<br>(quantitative or Qualitative) | Financial situation of INSS, lynchpin of the pension system, is unknown.  | Audit and strategy prepared by end 2007.        | Audit and strategy prepared by end 2008. | Met during 2008 with a delay of one year.        |
| Date achieved                          | 12/31/2006  | 12/31/2007                                      | 12/31/2008                               | 12/31/2009                                       |
| Comments<br>(incl. % achievement)      | Both triggers were deferred from PRSC4 to PRSC5. The studies indicate that situation is worse than expected. On basis of annual performance implementation is moderately satisfactory (MS), but performance relative to expected outcome is unsatisfactory (U). |   |  |  |
| <b>Indicator 18 :</b>                  | Improve Conditions for Road Traffic, by increasing the % of roads in good and fair condition  |   |  |  |
| Value<br>(quantitative or Qualitative) | 2006: 64%   | Targets:<br>2007: 67%<br>2008: 70%<br>2009: 73% |  | Actuals:<br>2007: 69%<br>2008: 67%<br>2009: 71%. |
| Date achieved                          | 12/31/2006  | 12/31/2007                                      |  | 12/31/2009                                       |
| Comments<br>(incl. % achievement)      | Target exceeded by 2 percent in 2007, missed by 3 percent in 2008, and missed by 2% in 2009, implying a 1.5% shortfall for the three years combined, a minor shortcoming. Thus, performance is satisfactory (S).  |   |  |  |

|  |   |   |  |   |
|--|---|---|--|---|
| <b>Indicator 19 :</b>                  | Promote construction and rehabilitation of rural infrastructure by increasing number of irrigated hectares irrigated and put under the management of beneficiaries.   |   |  |   |
| Value<br>(quantitative or Qualitative) | 2006: 2546 Ha were rehabilitated  | Original Targets:<br>2007: 4000 Ha<br>2008: 3400 Ha<br>2009: 3000 Ha                                |  | Actuals:<br>2007: 3500 Ha<br>2008: 1788 Ha<br>2009: 2062 Ha |
| Date achieved                          | 12/31/2006  | 12/31/2007  |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | The shortfalls relative to targets for 2007, 2008 and 2009 were 13% , 46% and 31% respectively, making for a 29% shortfall i n all, which is significant given the importance of reducing rural poverty. Performance is rated moderately unsatisfactory (MU). |   |  |   |
| <b>Indicator 20 :</b>                  | Increase Farmer Access to improved technologies and extension services, as measured by the number of farming households assis ted by public extension services  |   |  |   |
| Value<br>(quantitative or Qualitative) | 2006 actual: 192,000  | Original Targets:<br>2007: 222,300<br>2008: 222,300<br>2009: 411,000                                |  | Actuals<br>2007: 285,000<br>2008: 354,000<br>2009: 364,752  |
| Date achieved                          | 12/31/2006  | 12/31/2007  |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Targets largely exceeded in 2007 and 2008. Performance is thus highly satisfactory (HS). Performance in 2009 was moderately satisfactory (shortfall of 11 percent). Overall, highly satisfactory performance, since overall target was exceeded.              |   |  |   |
| <b>Indicator 21 :</b>                  | Increase response to the food crisis by increasing the share of budget to agriculture.  |   |  |   |
| Value<br>(quantitative or Qualitative) | 4.7% of the budget (excluding projects) in 2008.  | Targets (% of budget, excluding projects):<br>2009: 6%<br>2010: 7%                                  |  | Actuals:<br>Targets met in both years.                      |
| Date achieved                          | 12/31/2008  | 12/31/2008  |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | This action was a prior action for PRSC5. It is not part of the PAF but is in the PARPA. Performance is highly satisfactory (HS). Note that these data are still preliminary.   |   |  |   |
| <b>Indicator 22 :</b>                  | Increase response to the food crisis by increasing production of certified seeds (maize and rice) in 2008 and 2009.   |   |  |   |
| Value<br>(quantitative or Qualitative) | Benchmark is level of production as in 2007/08 campaign.  | 2008/09:<br>Maize: +1250 MT<br>Rice: +2200 MT<br><br>2009/10:<br>Maize: +2000 MT<br>Rice: +11500 MT |  | 2008/09:<br>N.A.<br><br>2009/10:<br>N.A.                    |
| Date achieved                          | 12/31/2008  | 12/31/2008  |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Data not available at this time.  |   |  |   |

|  |   |   |  |   |
|--|---|---|--|---|
| <b>Indicator 23 :</b>                  | Increase response to the food crisis by increasing areas put into intensive production of these crops |   |  |   |
| Value<br>(quantitative or Qualitative) | Benchmark is the level of production in 2007/08 campaign.   | 2008:<br>Maize: + 50000 ha<br>Rice: + 22000 ha<br><br>2009:<br>Maize: +80000 ha<br>Rice: +115000 ha |  | Actuals 2008:<br>Maize: + 46017 ha<br>Rice: + 13130 ha<br><br>2009:<br>Maize: +88460 ha<br>Rice: +115327 ha |
| Date achieved                          | 12/31/2008  | 12/31/2008  |  | 12/31/2009  |
| Comments<br>(incl. % achievement)      | Data are preliminary at this time.  |   |  |   |

| <b>Fourth Poverty Reduction Support Credit - P103277</b> |                    |  |                                |   |
|--|--------------------|--|--------------------------------|---|
| Indicator  | Baseline Value     | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
| <b>Indicator 1 :</b>                                     | See IOs for PRSC-3 |  |                                |   |
| Value<br>(quantitative or Qualitative)                   |                    |  |                                |   |
| Date achieved  |                    |  |                                |   |
| Comments<br>(incl. % achievement)                        |                    |  |                                |   |

| <b>Fifth Poverty Reduction Support Credit (PRSC5) - P107313</b> |                    |  |                                |   |
|---|--------------------|--|--------------------------------|---|
| Indicator   | Baseline Value     | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
| <b>Indicator 1 :</b>  | See IOs for PRSC-3 |  |                                |   |
| Value<br>(quantitative or Qualitative)                          |                    |  |                                |   |
| Date achieved   |                    |  |                                |   |
| Comments<br>(incl. % achievement)                               |                    |  |                                |   |

## G. Ratings of Program Performance in ISRs

| <b>PRSC 3 - P083459</b> |                          |              |              |  |
|-------------------------|--------------------------|--------------|--------------|--|
| <b>No.</b>              | <b>Date ISR Archived</b> | <b>DO</b>    | <b>IP</b>    | <b>Actual Disbursements (USD millions)</b> |
| 1                       | 10/03/2007               | Satisfactory | Satisfactory | 69.75                                      |

| <b>Fifth Poverty Reduction Support Credit (PRSC5) - P107313</b> |                          |              |              |  |
|---|--------------------------|--------------|--------------|--|
| <b>No.</b>  | <b>Date ISR Archived</b> | <b>DO</b>    | <b>IP</b>    | <b>Actual Disbursements (USD millions)</b> |
| 1   | 01/30/2009               | Satisfactory | Satisfactory | 61.77                                      |

## **H. Restructuring (if any)**

**1. Program Context, Development Objectives and Design** (this section is descriptive, taken from other documents, e.g., Program Document/ISR, not evaluative):

*1.1 Context at Appraisal (brief summary of country macroeconomic and structural/sector background, rationale for Bank assistance)*

1. This Implementation Completion and Results (ICR) report covers the second PRSC series in Mozambique, which included PRSC-3, 4 and 5. The first PRSC series had supported the implementation of Mozambique’s first PRSP (PARPA I, according to the Portuguese acronym), adopted in 2001. Series I consisted of two operations, but the second had two tranches, at the request of the authorities, in order to better align disbursements with the Mozambican financial year. PRSC-1 was discussed and rated in a simplified implementation completion report (SICR) and PRSC-2 in a full ICR (Report No 38051) with ratings as shown in Table 1. IEG reviewed the two ICRs and concurred with the ratings, except that the sustainability of PRSC 1 was rated as likely rather than highly likely. Bank performance was considered as satisfactory both as regards quality at entry and supervision. The rest of this section briefly describes the context at the time of appraisal of the PRSC3, which is when the new series was designed.

| Indicator                        | PRSC 1        | PRSC2        |
|----------------------------------|---------------|--------------|
| Outcome                          | Satisfactory  | Satisfactory |
| Institutional Development Impact | Substantial   | Substantial  |
| Sustainability                   | Highly likely | Likely       |
| Bank Performance                 | Satisfactory  | Satisfactory |
| Borrower Performance             | Satisfactory  | Satisfactory |

2. Political context. Mozambique gained independence from Portugal in 1975, and shortly afterwards fell into a protracted civil war, which finally ended in 1992. Since then, the country has been peaceful without a resurgence of violence. The third round of presidential elections was held in 2004 without incident.<sup>1</sup> The President was elected with 64 percent of the votes, and thus had a clear mandate. Following the election, the new government submitted its Five Year Program to Parliament, which outlined an ambitious program to reduce poverty. Subsequently, the operational plan of this five year program, the Second Poverty Reduction Strategy Plan (PARPA II), was approved by Cabinet in 2006.

3. The Economic context. The country requested assistance from the BWI in the mid 1980s, to help it replace its command and control economy with one based on market principles, and since then has shown consistently good performance, and shown itself to be committed to the reform process. In particular between 1993 and 2006, GDP growth rates had exceeded 7 percent per year, except for one or two years, and averaged nearly 8 percent annually due to a combination of factors in particular good economic management, driven by a few foreign financed mega projects, buoyant donor support, debt relief under the HIPC and MDRI initiatives, healthy agricultural growth and substantial foreign investment in the services sector.

4. Macroeconomic management had generally been prudent. Inflation had been brought down from over 60 percent in the mid nineties to the 10 percent range as of 2004-06. Average per capita GDP growth was about 5 percent over the period under consideration. The overall fiscal balance, including grants, had generally been less than 5 percent of GDP since 2000, and had been financed mainly by

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<sup>1</sup> Most recently, the fourth round of presidential elections was held in October 2009. The incumbent President was reelected and obtained 75 percent of the votes, and thus has a very strong mandate. Following the election, in March 2010 the new government submitted its Five Year Program to Parliament. The related operational plan, which will be the Third Poverty Reduction Strategy Plan (or PARPA III), is expected to be approved by Cabinet in the Fall 2010.

external savings thus without recourse to monetary financing. The primary deficit was showing an improving trend better than originally forecast, and the share of primary expenditures going to priority sectors close to the 65 percent target.

5. The country was considered at low risk of debt distress, given that it had reached the HIPC completion point and benefitted from the MDRI initiative. The exchange rate showed a rapid appreciation in real terms in 2003-2004, but this was corrected by a nominal depreciation in the first half of 2005 which brought the rate back to its January 2004 level. Foreign exchange reserves remained adequate. Mozambique remained on track with the IMF, with whom it had uninterrupted relations since 1987. Looking forward, there was a clear need for continued budget support, which appeared likely to materialize from the Group of nineteen countries and institutions providing it at the time.

6. There had been substantial reductions in monetary and non monetary poverty between 1997 and 2003, with the poverty headcount falling from 69 to 54 percent. Reduction in rural poverty was even more pronounced although the rate of rural poverty remains higher than in urban areas. At the same time, the southern region of the country, and Maputo in particular, seems to have experienced an increase in poverty. However, no evidence was available on the evolution of poverty rates after 2003. Yet social indicators showed significant improvements over the period 1990-2006, as may be seen from Table 2. Moreover, Mozambique was making substantive progress towards achieving the MDG goals for poverty reduction (reduction by 50 percent by 2015), and access to water supply.

**Table 2: Mozambique Selected Social Indicators: 1990-2006**

|   | latest single year |           |           |
|---|--------------------|-----------|-----------|
|   | 1990-1996          | 2000-2003 | 2005-2006 |
| Primary school enrolment (net %)                              | 43                 | 56        | 77        |
| Primary school enrolment (gross %)                            | 61                 | 84        | 103       |
| Ratio of girls to boys in primary and secondary education (%) | 72                 | 75        | 83        |
| Under-5 mortality rate (per 1,000 live births)                | 212                | 178       | 145       |
| Infant mortality rate (per 1,000 live births)                 | 145                | 122       | 100       |
| Life expectancy at birth (years)                              | 27                 | 42        | 42        |
| Physicians per 1,000 people                                   | 0.012              | 0.024     | 0.026     |
| Immunization, DPT (% of children under 12 months)             | 60                 | 72        | 72        |
| Immunization, measles (% of children under 12 months)         | 58                 | 77        | 77        |
| Access to improved water sources (% of population)            | 39                 | 42        | 43        |
| Access to improved sanitation facilities (% of population)    | 22                 | 27        | 32        |

Source: World Bank, Development Data Group (DECDG)

7. Nevertheless, despite this progress, substantial challenges remained, as of 2006. Mozambique remained poor (US\$ 310 per capita income in 2005), with low adult literacy rates (47 percent) and life expectancy at birth of 42 years. Malaria accounted for 35 percent of deaths for children less than five years of age, and there was a very serious HIV/AIDs problem which appeared likely to significantly retard the growth of the economy.

8. Public Financial Management (PFM) systems had shown improvements. Progress had been made in the adoption of the new framework law in 2002, and through the rollout of the integrated financial management system (e-SISTAFE) to six ministries (agriculture, education, finance, health, planning, and public works) in July 2006. These ministries were satisfactorily executing their budget for



goods and services and capital expenditures, although payment of salaries continued to be paid centrally by the Ministry of Finance. There was a medium term Action Plan and Budget for 2006-09 to further extend e-SISTAFE, which was judged to be well structured.

9. Overall progress in public sector governance had been more limited. Despite some progress, implementation of public sector reforms, including decentralization, remained slow. Improvements in the efficiency and transparency of the justice system remained elusive, and corruption and conflict of interest were important issues. Government's response had mainly focused on improving transparency and accountability based on a comprehensive public financial management reform program.

10. Limited progress had been made to improve the business environment and constraints to private sector development and trade remained substantial. Mozambique was still 134<sup>th</sup> out of 175 countries in the 2008 Doing Business survey, and 129<sup>th</sup> out of 207 countries in the 2007 Governance Survey. According to the 2007 LPI index it ranked 110<sup>th</sup> out of 150 countries. The first PRSC series supported private sector development *inter alia* by supporting reforms that reduced the start up time for new firms from 113 to 29 days.

11. Donor coordination. Under the first PRSC series, donor coordination had been increasing in Mozambique following the signing of the MOU in 2004. By 2006 there were a total of 19 budget support providers (G19) who harmonized their procedures according to the MOU. The Bank was a signatory but like several other donors had been granted a number of exceptions which were however expected to be eliminated over time.

12. Rationale for further PRSC support. It was in the context of these developments that the Government, together with its partners decided to pursue its poverty reduction strategy – specifically on the basis of PARPA II. PARPA II, adopted by Cabinet in September 2006, was to continue the overall thrust of PARPA I, although increasing the focus on conditions for sustained economic growth, and was to be organized around three pillars (governance, human capital and economic development) and eight cross cutting sectoral themes (including HIV/AIDs). PARPA II also highlighted the objectives of (i) increasing donor alignment and harmonization, (ii) increasing direct support to the budget through so-called General Budget Support; and (iii) deepening the use by all donors of a single strategic matrix of monitorable indicators, and in particular the PAF.

13. In their reviews of the PARPA II through the JSAN, the Bank and the IMF recognized the strengths of the PARPA as emphasis on improving governance and capacity building, private sector development and the recognition of the HIV/AIDs problem, but pointed to the weakness of the treatment of the agricultural sector. The JSANs also emphasized, *inter alia*, the need: for (i) e-SISTAFE to identify and effectively monitor priority primary expenditure identified in the PARPA; (ii) better and more regular data collection in order to improve the quality of M&E; and (iii) timely dissemination of key results to the public and obtaining of feedback.

14. Overall context. In summary, political economic and financial risks were perceived to be minimal, and manageable. The government's commitment to reform appeared unlikely to waiver, G19 donors could be expected to continue their financial support, the IMF also. Thus the Bank considered that the overall political and economic situation was conducive to further support from IDA in the form of PRSCs. The expectation was thus that the second PRSC series would address these questions, as a

core component of IDA's Country Assistance Strategy (2004-2007) and the Country Partnership Strategy for 2008-2011.

### *1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved):*

15. The overriding objective of the second PRSC series was to help the Government of Mozambique in implementing its Poverty Reduction Strategy, and specifically PARPA II. The PARPAs, together with the “*Plano Economico e Social*” and the Annual Budget are the instruments for operationalizing the Government's Five Year Program. Within this overall context, the specific objectives of the PRSCs 3-5 were to support:

- (i) Consolidation and deepening of institutional reforms in the area of macroeconomic management;
- (ii) Reforms in governance by (a) supporting decentralization to enhance public investments and service delivery at the provincial and district level; and (b) supporting public sector reform; and
- (iii) Economic development by improving the investment climate, removing constraints to growth, such as infrastructure, and promoting agricultural growth.

16. The series bridged the 2004-2007 Country Assistance Strategy (CAS) and the 2008-2011 Country Partnership Strategy (CPS). The 2004-2007 CAS supported the Government's first poverty reduction strategy (PARPA) across three pillars: (i) Improving the investment climate and sustaining GDP growth; (ii) expanding service delivery; and (iii) building public sector capacity and improving governance. The 2008-11 CPS was similarly built around three pillars (i) increased accountability and public voice; (ii) equitable access to services; and (iii) sustainable and broad-based growth. The PRSCs were part of overall programmatic budget support provided by the Group of nineteen donors (G-19) in the context of a Memorandum of Understanding (MOU) of the provision of Direct Budget Support and Balance of Payments Support, originally signed in 2004 and updated in 2006. The purpose of the MOU was to encourage harmonization of budget support around a common set of principles, and in particular a common Performance Assessment Framework.

17. More specific program objectives, and expected outcomes were set forth in the PRSC3 Program Document (paras 77-80) as follows:

- ***Under macroeconomic management***, the expected outcomes at the end of the PRSC series were: (i) the composition of actual public spending would be in accordance with the objectives of PARPA II; (ii) revenue administration would be more efficient; hence total revenues are a higher percentage of GDP, despite the lowering of import duties; (iii) budget execution would be less time-consuming and more transparent; (iv) the budget document would be comprehensive, that is incorporate all ministerial own receipts and donor funds including from investment projects; (v) the public procurement institutions would be functioning more effectively and transparently up to the district level; (vi) the coverage and quality of audits at the local level would have improved, and the external audit institution (i.e. the *Tribunal Administrativo* or Court of Accounts) would have improved its capacity to issue opinions on a larger number of financial audit reports. The related triggers and indicators covered the areas of resource allocation for poverty reduction, institutional reforms to enhance domestic revenue mobilization, budget management, procurement systems, and auditing.

- *Under the governance pillar*, the expected outcomes at the end of the PRSC series were: (i) districts were to have strengthened institutional capacity to decide on local investment programs in a participatory manner, and more resources were to have been transferred to local governments; (ii) the capacity to monitor the wage bill of civil servants would be in place; (iii) the productivity of judges benefiting from justice sector reform measures would have increased, as illustrated by an increase in the number of cases tried per judge per year. The related triggers and indicators covered the areas of civil service reform, decentralization, and reform of the judiciary system by making its administration more efficient.
- *Under the economic development pillar*, expected outcomes at the end of the PRSC series were: (i) the time to open a business was to have been reduced from 153 days in 2005 to 30 days in 2009; (ii) the national road network (primary, secondary, and tertiary roads) would be in better conditions thereby reducing transport costs as illustrated by an increase in the percentage of roads in good or reasonable conditions from 71% in 2006 to 78% in 2009; (iii) the pension system would be on a sounder footing due to the implementation of (i) the recommendations of an actuarial study of the National Social Security Institute (INSS) and (ii) the resulting investment strategy, thereby contributing to the development of the financial sector; (iv) agricultural productivity would have increased and vulnerability to irregular rainfall would have been reduced in areas where irrigation systems had been constructed or rehabilitated (13,600 hectares in total were expected to be brought under irrigation and management by the beneficiaries during the period 2006-2009); (v) 411,000 farmers would be benefiting from extension services compared to 193,500 in 2006. The related triggers and indicators corresponded to these outcomes.

18. All triggers were drawn from the G19 Performance Assessment Framework matrices for 2006 and 2007-2009.

*1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification:*

19. The development objectives were not revised during the series. However, a number of triggers were revised, delayed or dropped due to delays in implementation and/or because of the need to limit the total number of prior actions. Also, two new triggers (i.e. not foreseen at the beginning of the series) were introduced, one pertaining to civil service reform and the other to the food price crisis that emerged in 2008 (the latter was not included in the PAF).

*1.4 Original Policy Areas Supported by the Program (as approved):*

20. Under the **macroeconomic management** component, all operations focused on improving efficiency of public financial management. Measures on the expenditure side focused on (i) the share of expenditures going to PARPA priority sectors, as regards both allocations and actual expenditures, and the alignment of the annual budget with the MTEF; (ii) the roll out of the computerized IFMIS system (e-SISTAFE) at the national and sub-national (central and local) levels; and (iii) revenue mobilization; (iv) increasing the comprehensiveness of the budget; (v) making the procurement system transparent and efficient at the national and district levels; and (v) increasing the coverage and efficiency of the internal and external audit bodies.

21. Under the **governance** component, the focus was on (i) strengthening the institutional capacity of local governments with respect to financial management, in particular pertaining to investment increasing resource transfers to them; (ii) developing a national decentralization strategy; (iii) improving human resource management in the public sector, in particular the development of a personnel information management system; and (iv) improving efficiency and celerity in the provision of justice services (speeding up number of court cases per judge per year).

22. Under the **economic development** component, attention concentrated on (i) improving the business environment (reducing the number of days to open a business); (ii) improving the insurance and social protection sectors (completion and implementation of an INSS actuarial study and its investment strategy); (iii) rehabilitation and maintenance of the national road network; (iv) rehabilitation and construction of irrigated perimeters; and (v) increased access by farmers to technologies and extension information. More specifically, in order to achieve the targets for the construction and rehabilitation of the national road network, the following key policy actions were required in implementing the new integrated Road Sector Program: (i) the successful restructuring of the National Roads Administration (NRA) both at headquarters and in the provinces; and (ii) the internalization of the procurement process with the NRA. With regard to extending irrigated areas, among other required policy actions, an appropriate policy framework to increase water storage and distribution and to strengthen beneficiary organizations should be prepared by the government; and communities with access to irrigation resources have to be strengthened.

#### *1.5 Revised Policy Areas (if applicable):*

23. The areas of focus were not revised during the series, although the reforms in the justice sector (under the governance pillar) to improve the efficiency and celerity in the provision of justice services, that were initially envisaged to start with PRSC5, were in fact not included under the PRSC series. In addition, PRSC5 also supported the implementation of the government policy response to the higher global food and food crisis which emerged in 2008, and to this end introduced a new trigger.

#### *1.6 Other significant changes (in design, scope and scale, implementation arrangements and schedule, and funding allocations):*

24. None.

## **2. Key Factors Affecting Implementation and Outcomes**

### *2.1 Program Performance (supported by a table derived from a policy matrix):*

25. Mozambique has been a very strong performer in Africa, with rapid growth and poverty reduction, as it recovers steadily from the damage of the civil war concluded in 1992. Looking back at the last fifteen years, the growth record has been remarkable, averaging above 8 percent from 1993 to 2008, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa. In line with this good track record, Mozambique's economic growth in the years covered by this PRSC series was 8.7% in 2006, 7% in 2007, 6.7% in 2008 (in spite of the food and fuel price crisis), and 6.3% in 2009 (in spite of the global financial crisis). Mozambique's rapid economic growth has been accompanied by

significant strides in reducing poverty.<sup>2</sup> In addition to the reduction in poverty, other social indicators have also shown significant improvements since the mid-1990s (see Table 2 and Table 10).

26. The rapid economic growth continues to be made possible by good macroeconomic management, policy reforms and continuing strong donor support, permitting broad-based expansion across most sectors of the economy, and mega-project investments. The Government of Mozambique has been consistently pursuing sound fiscal, monetary, and external policies, demonstrating a clear understanding of the benefits of a solid underlying macroeconomic framework. The government has also been implementing an active program of structural reforms, ranging across PFM, public sector reforms, and sectoral policies, accompanying significant (donor-financed) public investments in infrastructure and social services.

27. There is enormous momentum for continuing the reforms program and striving to reach even higher growth rates. Mozambique has a vast, diversified economic potential, including in mining, energy, agribusiness, fishing, forestry, tourism, light manufacturing and services serving as a gateway to neighboring countries. Mozambique also has a largely untapped potential in electricity production from hydro and coal as well as in mining in general. Businesses' interest to expand and initiate operations in Mozambique is palpable. However, while the significant progress over the past 15 years has moved Mozambique from the bottom of the league to the average of Sub-Saharan Africa, Mozambique remains a country with enormous challenges and needs in terms of infrastructure, human capital, public services, and capacity of the public sector. In this context it remains critical for government to continue to address these challenges by scaling up public investments in infrastructure and public services, accelerating its efforts to maximize efficiency in the management of public resources, and accelerating the implementation of growth-enhancing reforms to increase private investment. These challenges have been articulated in the PARPA-II, and constitute the priority areas in the government program which has been at the center of this PRSC series.

28. Overall there is a consensus (by civil society, donors, and the population) that significant progress has continued to be achieved in Mozambique in the past few years, in an environment in which the number and severity of the challenges remains overwhelming. As expected, progress has moved more rapidly than anticipated in some reform areas (e.g. PFM reforms, civil service wage reforms, roads management), but there are also sectors where progress has been slower than expected/required (e.g. decentralization, social security reforms). On balance, there has been visible improvement across a number of important areas supported by the PRSCs which will play a pivotal role in accelerating Mozambique's development.

29. The rest of this section discusses (i) prior actions, triggers and their implementation; (ii) outcome indicators as per the Results Framework; (iii) major factors affecting implementation; (iv) monitoring and evaluation, implementation and utilization; and (v) expected next phase.

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<sup>2</sup> Household survey data indicate that the national poverty headcount fell from 69 to 54 percent during 1997 to 2003, and the results of the new household survey (due in mid-2010) will show whether poverty has continued falling. The 2007 poverty assessment suggests that poverty and inequality may not have decreased in recent years, based on the analysis of the agricultural panel survey data (*Trabalho de Inquerito Agrícola*, TIA, 2002-2005), but highlights that this preliminary result may also be related to the impact of the drought in 2005. If confirmed, this result would indicate that the rapid GDP growth in recent years has been less broadly shared than during the past decade. The recent dramatic spike in world agricultural and fuel prices may also have contributed to set back at least some of the gains achieved during the past decade.

30. All three operations were implemented on schedule. Preparation of the operations was as far as possible aligned with undertakings in the joint donor MOU, and more importantly with the government's budget preparation cycle. Documents for PRSC of year n were always transmitted to the Board in quarter 4 of the calendar year n (and seeking Board approval for budget support in year n+1). Disbursements were made in the first quarter of the budget year being supported, except for PRSC5 which was disbursed right at the end of the preceding budget year in response to the government's request to accelerate the disbursement in order to assist them cope with the impact of the food and fuel prices crisis (Table 3).

|       | Distribution to Board | Board Approval | Disbursement | Budget year supported |
|-------|-----------------------|----------------|--------------|-----------------------|
| PRSC3 | 12/19/2006            | 1/25/07        | 02/16/2007   | 2007                  |
| PRSC4 | 12/20/2007            | 1/25/08        | 03/24/2008   | 2008                  |
| PRSC5 | 10/30/2008            | 11/4/08        | 12/09/2008   | 2009                  |

31. In all years, the prior actions were completed before Board Approval and the reform program continued to be on track with a clear focus on the three areas of the PDO: better macroeconomic management, governance reforms, and a better investment climate, albeit with delays (though no reversals) generally in governance and the investment climate. These delays were always noted in the Joint Annual and Mid-Term Reviews of April and September 2007/2008/2009 and the IMF PRGF review of June 2007 and PSI reviews of June 2008 and December 2009. The government showed strong ownership and has been willing to take corrective actions when delays occur. The Joint Monitoring with the G19 GBS donors made this program and the policy dialogue more effective.

32. Performance with respect to prior actions and triggers. Table 4 presents the prior actions for each of the three operations as well as how they were implemented, that is whether they were implemented on time without modification; delayed without modification; modified without delay; modified with delay; or dropped.

33. As originally conceived, in the area of macroeconomic management, most focus was put on PFM issues and in particular on: (i) the share of the budget for and/or actual expenditures on priority sectors as per PARPA; (ii) ensuring the continuing roll out of e-SISTAFE with a view to continuing to improve expenditure management; (iii) improving revenues through the creation of the Central Revenue Authority and better incorporation of own ministerial receipts to ensure a more comprehensive budget; (iv) continuing implementation of the new procurement system at the national and the local level; (v) improving internal controls and audits; (vi) improving external audits. In general, these triggers constituted policy or institutional actions, although they had little or no policy content. They were however underpinned by a significant program of reforms and directly related to the desired end of series PFM outcomes. They represented a continuation of the reforms begun under PRSCs1-2. They were accompanied either by corresponding quantitative targets for 2007-2009 or, in the case of procurement, an indicator requiring that implementation of the reform plan was on track (as determined by specific milestones and/or quantitative indicators).

34. There were seventeen macro/PFM triggers in all, of which one was dropped to reduce the total number of prior actions in PRSC5, pertaining to the requirement that the revenue to GDP ratio should increase by 0.5 percent per year. Of the remaining 16 triggers all except one were implemented on time and without change. The one that was missed pertained to the share of central and provincial level bodies with operational internal audit units (also referred to as 'internal control units'), for which the

original target for 2007 was 30 percent. However, only 25 percent was realized and the corresponding PRSC5 trigger was reduced accordingly (ex-post). The original target turned out to be too optimistic given the resources available to IGF, and that simultaneously IGF was in the middle of an internal reorganization. The shortfall relative to the original target (15 percent reduction) may be considered a moderate shortcoming, especially since substantial progress has been made in 2008 and 2009 such that the share of central and provincial level bodies with operational internal audit units reached 75 percent by end-2009.

**Table 4: Prior Actions and Triggers for PRSCs 3-5**

| <b>PRSC3</b>   |                                       |
|--|---------------------------------------|
| <b>Prior actions</b>   | <b>Status</b>                         |
| Actual expenditures for 2005 and budgeted expenditures for 2006 were at least 65 percent for priority sectors  | Implemented without change            |
| Rollout of basic functionality of e-SISTAFE to 3 more ministries (agriculture, health, public works)   | Implemented without change            |
| Creation of the Central Revenue Authority  | Implemented without change            |
| Increase in the 2007 budget of own revenues of the Ministries of Education, Health, Agriculture, Public Works, Tourism, Mineral, Youth and Sport   | Implemented without change            |
| Implementation of new procurement system up to district level (first create UFSA, issue standard documents);   | Implemented without change            |
| Definition of criteria for allocation of the investment budget for districts for 2007 budget   | Implemented without change            |
| Simplification of the procedures for starting a business   | Implemented without change            |
| <b>PRSC4</b>   |                                       |
| <b>Prior actions as defined in PRSC 3 (<i>final agreed wording in italics, if different</i>)</b>   | <b>Status</b>                         |
| Actual expenditures were at least 65 percent in 2006   | Implemented without change            |
| Roll out of basic functionality of e-SISTAFE to 22 ministries by end-2006  | Implemented without change            |
| Elaboration and approval of the 2007-2010 Information Technology Plan of the new Central Revenue Authority   | Implemented without change            |
| Implementation of new procurement system up to district level (second phase – UFSA fully staffed; website operational; monitoring database available; capacity building at central and local level; audits taking place)<br><i>Finally agreed wording: Implementation of new procurement system up to district level (second phase): (i) UFSA fully staffed; (ii) website operational;</i> | Implemented without change            |
| Audits of 20 percent of districts and municipalities by the Inspectorate General of Finance, in the Ministry of Finance, by end 2006   | Implemented without change            |
| Conclusion of court opinion of 70 financial audits by the Court of Accounts in 2006  | Implemented without change            |
| National strategy for planning and finance at district level approved including a common M&E framework;<br>National Decentralization Strategy completed  | Delayed to PRSC5;<br>Dropped          |
| Completion of census of civil servants, and creation of an integrated payroll database.  | Implemented without change            |
| Completion of actuarial study of INSS and elaboration of its investment strategy   | Delayed to PRSC 5                     |
| Rehabilitation and maintenance of the national roads network such that at least 71 percent will be in good or fair condition by end-2006   | Implemented without change            |
| Construction and rehabilitation of 3200 ha of irrigated area and put under the management of the beneficiaries in 2006.<br><i>Finally agreed wording: Construction and rehabilitation of 2500 ha of irrigated area and put under the management of the beneficiaries in 2006</i>   | Revised, target lowered to 2500 ha    |
| Adoption by 30 percent of farmers assisted by public extension services that adopted at least one new technology in 2006;<br><i>Finally agreed wording: Adoption by 21 percent of farmers assisted by public extension services that adopted at least one new technology in 2006;</i>  | Revised, target lowered to 21 percent |

| <b>RSC5</b>   |  |
|---|--|
| <b>Prior actions as defined in PRSC 4 (with final wording, if different, in italics)</b>  | <b>Final status</b>  |
| Total allocation to priority sectors in 2008 budget is line with MTEF   | Implemented without change   |
| Rollout of basic functionality of e-SISTAFE to 25 ministries, organs, and at least 291 UGEs by end 2007   | Implemented without change   |
| Total revenues are increased by at least 0.5 percent of GDP   | Dropped to reduce total number of prior actions  |
| Implementation of new procurement system up to district level (third phase – monitoring system operational, and allows performance measurement): <i>(i) availability of information on public purchases available from UFSA that show at least 50% of contracts of the public sector were subject to public tender in accordance with the current Mozambican procurement legislation; (ii) information on other modalities of contract with the due justification in at least 90% at the central level and 50% at the district and provincial level communicated to UFSA; (iii) the process of complaints as defined in the current Mozambican procurement legislation is operational and UFSA has data on the process and decisions available.</i> | Implemented without change (as per comments italics)   |
| The share of central and provincial level bodies with operational internal audit units (also referred to as internal control units) is at least 30 percent in 2007<br><b>Finally agreed wording:</b> The share of central and provincial level bodies with operational internal audit units (also called internal control units) is at least 25 percent.  | Revised and Implemented on time  |
| Mozambique's Court of Accounts (TA) has concluded its opinion of at least 90 financial audits of Ministries and State Agencies in 2007  | Implemented without change   |
| The Ministry of Planning and Development has approved the National Programming for Decentralized Planning and Finance   | Implemented without change   |
| Development and implementation of the unified personnel information system (ANFP, MF, and TA)<br><b>Finally agreed wording:</b> The Ministry of Civil Service has created the single registry of State officials and civil servants ( <i>Cadastro Unico dos Funcionarios, CUF</i> )   | Implemented without change   |
| Completion of the actuarial study of INSS and elaboration of its investment strategy  | Implemented without change   |
| Rehabilitation and maintenance of the national roads network such that at least 76 percent will be in good or fair condition by end-2006  | Dropped because closely associated with physical investments (and not in line with OP 8.60) and also to reduce total number of prior actions |
| Construction and rehabilitation of 3500 ha of irrigated area and put under the management of the beneficiaries in 2006  | Dropped because closely associated with physical investments (and not in line with OP 8.60) and also to reduce total number of prior actions |
| 222,300 peasants assisted by public extension services, including sub-contracting in 2007   | Implemented without change   |
| The Council of Ministers as approved the MTEF for 2009-2011, with an increase in the allocation to the agricultural sector to at least 6 percent of the budget (excluding projects) in 2009, and at least 7 percent in 2010   | Implemented without change   |

35. In the area of governance, the focus of the prior actions and triggers was on: (i) strengthening the institutional capacity of local government through the determination of criteria for use of district grants; (ii) the preparation of a decentralization strategy; and (iii) improving human resource management in the public sector through a census and the creation of a single personal information system (CAF). The first two triggers were relevant to improving governance at the local level, and within the public service. As in the case of macroeconomic management, the triggers were generally associated with indicators for 2007-2009 as well as the desired end of series outcomes.



36. There were seven governance triggers in all, of which one was deferred from PRSC4 to PRSC5, pertaining to the preparation of a National Strategy for Planning and Finance at the district level, and one was dropped, which called for the completion of the National Decentralization Strategy which is now expected to be approved in 2010. The deferral of these measures points to over-optimism in terms of the speed of preparation of the related actions. The decision to drop the decentralization strategy also suggests that it was premature to have introduced this trigger in the first place. It is even more unfortunate that it was decided not to actively pursue this issue in the context of the third PRSC series, given that it is an essential component of the government's strategy for poverty reduction at the local level. Given the importance of decentralization in the PARPA, the one year delay in the approval of the NPDP target can be considered a moderate shortcoming, due to overoptimistic planning. In fact, the plan has since been used as the blueprint for a sector wide approach, underpinned by a donor common fund, which has become operational in 2010. On the other hand, the delay in the completion of the Decentralization Strategy is to be considered a major shortcoming, all the more so that it has not been followed up in the third PRSC on the grounds that the political economy questions surrounding the issue are not yet well understood. This suggests that it may have been premature to include the trigger in the first place. It should also be noted that the donors and government have continued to work on preparing the decentralization strategy, and it is expected to be approved in 2010.

37. In the area of economic development, the focus of the triggers was on measures to: (i) facilitate the creation of enterprises; (ii) strengthen the insurance and social protection sector; (iii) improve connectivity (improving the percentage of roads in good or fair condition); and (iv) improve agricultural productivity (increasing irrigated areas rehabilitated and put under the control of beneficiaries; improving the use of improved technologies by farmers with the assistance of extension services; improving access of farmers to extension services; and increasing agriculture's share of the budget).

38. There were initially eight triggers, of which two were dropped as being incompatible with OP 8.60 (roads, irrigation) and to reduce the total number of prior actions in line with best practice. A new one was added under PRSC5, even though not in the PAF (increasing agriculture's share of the budget) pursuant to the food price crisis. Of the seven triggers finally retained, four were implemented in a timely manner without change, one was delayed from PRSC4 to PRSC5 (related to the Social Security Institute, INSS), while the other two were also implemented in a timely manner but modified downwards to reflect slower progress than originally anticipated. The PRSC4 trigger pertaining to the INSS (an actuarial study and preparation of an investment plan) was deferred from PRSC4 to PRSC5 when it was successfully completed – a moderate shortcoming. Two PRSC4 triggers pertaining to the agriculture were met on time, but modified (reconstruction and rehabilitation of irrigated areas put under beneficiary management; and adoption by farmers of new technologies with the assistance of extension services). In the event, the original target of 3,000 hectares was reduced to 2,500 hectares, a reduction of almost 17 percent (a moderate shortcoming); and the number of farmers adopting a new technology was only 21 percent as compared to a target of 30 percent, a significant shortcoming.

| Table 5: Triggers and Prior Actions, PRSC3-5 |               |                 |            |            |                          |                        |                          |
|--|---------------|-----------------|------------|------------|--------------------------|------------------------|--------------------------|
|  |               | Original number | Dropped    | New        | Original - Dropped + New | Met on time w/o change | Modified and/or deferred |
| PRSC3  | Macro/PFM     | 5               |            |            | 5                        | 5                      | 0                        |
|  | Governance    | 1               |            |            | 1                        | 1                      | 0                        |
|  | Ec. Developt. | 1               |            |            | 1                        | 1                      | 0                        |
|  | <b>Total</b>  | <b>7</b>        |            |            | <b>7</b>                 | <b>7</b>               | <b>0</b>                 |
| PRSC4  | Macro/PFM     | 6               |            |            | 6                        | 6                      | 0                        |
|  | Governance    | 3               |            |            | 3                        | 1                      | 2                        |
|  | Ec. Developt. | 4               |            |            | 4                        | 1                      | 3                        |
|  | <b>Total</b>  | <b>13</b>       | <b>0</b>   |            | <b>13</b>                | <b>8</b>               | <b>5</b>                 |
| PRSC5  | Macro/PFM     | 6               | 1          |            | 5                        | 4                      | 1                        |
|  | Governance    | 3               |            |            | 3                        | 3                      | 0                        |
|  | Ec. Developt. | 3               | 2          | 1          | 2                        | 2                      | 0                        |
|  | <b>Total</b>  | <b>12</b>       | <b>3</b>   | <b>1</b>   | <b>10</b>                | <b>9</b>               | <b>1</b>                 |
| <b>Overall</b>                               |               | <b>32</b>       | <b>3</b>   | <b>1</b>   | <b>30</b>                | <b>24</b>              | <b>6</b>                 |
| PRSC3-5                                      | Macro/PFM     | 17              | 1          | 0          | 16                       | 15                     | 1                        |
|  | Governance    | 7               | 0          | 0          | 7                        | 5                      | 2                        |
|  | Ec. Developt. | 8               | 2          | 1          | 7                        | 4                      | 3                        |
|  | <b>Total</b>  | <b>32</b>       | <b>3</b>   | <b>1</b>   | <b>30</b>                | <b>24</b>              | <b>6</b>                 |
| % of total                                   | Macro/PFM     | 53.1            | 5.9        |            |                          | 93.8                   | 6.3                      |
|  | Governance    | 21.9            | 0.0        |            |                          | 71.4                   | 28.6                     |
|  | Ec. Developt. | 25.0            | 25.0       |            |                          | 57.1                   | 42.9                     |
|  | <b>Total</b>  | <b>100.0</b>    | <b>9.4</b> | <b>0.0</b> |                          | <b>80.0</b>            | <b>20.0</b>              |

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39. Table 5 provides an overview of the number of triggers by component and by operation. There were initially 32 triggers of which 3 were dropped by the Bank in PRSC5 to reduce the total number of prior actions, in line with best practice recommended by OPCS. In addition, two of these triggers were judged by OPCS as inconsistent with OP 8.60 because they were related to physical investments, rather than constituting policy or institutional actions. It should be noted, however, that all these triggers remained in the PAF and continued to be jointly monitored with the G19. In addition, one new trigger was introduced under PRSC5. This trigger, which was not in the PAF and thus strictly not in compliance with the undertakings of the MOU, pertained to increasing the budget to the agricultural sector in the wake of the food price crisis and was introduced after discussion with G19 donors. Overall, 24 of these triggers were introduced in a timely manner and without modification, whereas the remaining six were either (i) introduced in a timely manner but revised downwards, or (ii) deferred or dropped for technical reasons. In overall terms, judging by the number of triggers met without modification, there was an 80 percent success rate, with corresponding rates of 94 percent for macro/PFM, 71 percent for governance and only 57 percent for economic development. This is a very strong performance, especially when considering that the Macro/PFM pillar was by far the most important both in terms of the strategic focus of the series and also in terms of the much larger number of triggers. It is also worth noting that the macro/PFM pillar included a significant component of PFM reforms, which can also be considered part of the broader governance agenda.

40. To make an overall assessment of performance taking account the nature of modifications and deferrals, etc, performance with respect to triggers has been rated, as per ICR Guidelines, from highly satisfactory (HS, no shortcomings, score of 6) to highly unsatisfactory (HU, severe shortcomings, score of 1).<sup>3</sup> The results indicate that overall performance was satisfactory (score of 5.5). Performance in macro/PFM was highly satisfactory (score of 5.9), while governance (5.1) and economic development (5.0) are right on the cusp of moderately satisfactory ( $\leq 5$ ) and satisfactory ( $>5$ ). The same kind of calculation for each of the PRSCs reveals that PRSC3 performance was highly satisfactory (score 6.0); PRSC4 was moderately satisfactory (score 4.9), while PRSC5 was at the upper end of satisfactory (score of 5.8) and close to highly satisfactory. Overall, performance was satisfactory with a score of 5.5.

41. Program implementation. The purpose here is to report on program implementation and make an assessment of the extent to which (i) annual targets were met for each Credit, and (ii) the overall program development objectives were met. To this end, use is made of Annex 7, which uses the same information as in the Results Framework Analysis, and the Policy Matrices used in the operations. Annex 7 summarizes the program implementation by theme *during* each of the PRSC operations (i.e., after board approval), that is 2007 for PRSC3, 2008 for PRSC4 and 2009 for PRSC5 (the correspondence is not exact, but it is close, since the closing dates of the operations occur before the end of the year). An assessment of program implementation during each PRSC can then be obtained by reading down the columns, while reading across the rows gives an appreciation of program implementation by theme during the PRSC series as a whole. The penultimate column of the Table gives the expected outcomes as set forth in the PRSC3 Program Document (paras 77-80). The last column of Annex 7 includes an assessment of the extent to which targeted outcomes have been fully achieved or less than fully achieved – that is in the first case achieved with no shortcomings and in the others achieved with minor, moderate, significant, major or severe shortcomings. The column then includes the corresponding performance rating as per ICR guidelines – highly satisfactory (HS), satisfactory (S), moderately satisfactory (MS), moderately unsatisfactory (MU), unsatisfactory (U), or highly unsatisfactory (HU). The same approach is used to rate performance for each operation, the ratings being presented at the bottom of the corresponding column. As in the preceding section, numerical scores of 1-6 are associated with each ranking (HS=6, etc).

42. PRSC3. During its implementation (2007), eight targets were met or exceeded; two were met with minor shortcomings, four had moderate shortcomings and one had major shortcomings.

43. With respect to the targets that were fully met the targets were considerably exceeded (macro management/PFM, number of days to open a business and the number of farmers assisted by public extension services). In such cases, a rating of highly satisfactory was recorded (that is the same as if the target were fully met and no more). Two of the targets missed pertained to the PFM, two were related to decentralization, and the remaining one to the Economic Development pillar: (i) the share of public

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<sup>3</sup> Triggers that were met on time without modification were rated highly satisfactory (HS, with a numerical score of 6). Deferrals without modification were considered to have been implemented with moderate shortcomings and rated as moderately satisfactory (MS, with a numerical rating of 4). Timely realization of triggers but with reduction of targets were considered to have exhibited minor shortcomings if the reduction if the reduction was less than 10 percent (rating satisfactory — S —with a score of 5). Reduction of 11–20 percent were considered as moderate shortcomings (rating of moderately satisfactory – MS – with a numerical score of 4). Reductions of 21-30 percent were considered significant and rated as moderately unsatisfactory (MU with a score of 3). A 31-40 percent reduction in the target was considered a major shortcoming and associated with a rating of unsatisfactory (U, with a score of 2). Reductions of more than 40 percent were considered as severe leading to a rating of Highly Unsatisfactory (HU with a rating of 1). Abandonment of a trigger was considered as equivalent to unsatisfactory performance.

expenditure going to priority sectors (62 vs 65 percent) – a minor shortcoming, hence a rating of satisfactory; (ii) the share of central and provincial bodies with operational internal control units (target 30 percent, actual 25 percent) – a moderate shortfall of 17 percent, hence a rating of moderately satisfactory; (iii) a one year delay in the finalization of the NPDP, a moderate shortcoming and a rating of moderately satisfactory; (iv) a three year delay in the approval of the decentralization strategy – a major shortcoming, an unsatisfactory performance; (v) completion of the actuarial study of the INSS and preparation of its implementation which was delayed by one year to 2008 – a moderate shortcoming, hence a rating of moderately satisfactory; and a shortfall of 12.5 percent in the acreage of irrigated perimeters to be rehabilitated and transferred to beneficiaries (target 4000 hectares, realized 3500) – a moderate shortcoming and a rating of moderately satisfactory. Two indicators could not be rated, pertaining to (i) the audits of districts and municipalities for which no target was set, because it had been decided by donors not to monitor this indicator; and (ii) the number of cases tried per judge which was supposed to exceed 150 and for which no information was available. Regarding the latter, it should be noted that while the inclusion of justice sector reforms was considered as a possibility at the time of PRSC3 and an indicative trigger related to reforms in the justice sector had initially been envisaged for PRSC5, it was later decided in PRSC4 that the justice reforms should not become part of the PRSC series in order not to dilute the focus of the operations. Hence, the indicator related to the number of cases per judge (a measure of the efficiency of the justice system) was also dropped.

44. This leads to an overall score of 5.1, that is satisfactory, albeit somewhat marginally. But in order to form a definitive judgment, account should also be of performance with respect to the joint donor PAF and under the IMF program.

45. Joint Donor Review. The JR review of PAF performance for 2007 was successfully concluded (in April 2008), with 24 out of 40 targets (i.e. 60 percent) being met, 11 not met but progress being made towards their satisfaction, and 5 not met at all. Using a numerical rating system of 6 for targets which are fully met (highly satisfactory), 4 for those which are not met (moderately satisfactory) but with progress and 2 that are not met (unsatisfactory), the overall rating would be 4.95, that is below the cusp of moderately satisfactory and satisfactory under the ICR system. Corresponding ratings by components are: (i) macro/poverty, 5.1; (ii) governance, 5.6; (iii) human development, 4.6; (iv) economic development, 5.0; and (v) cross-cutting issues, 4.0.

| Text Table 6: Performance with respect to PAF triggers indicators CY 2007 |     |                       |         |           |       |                |            |
|---|-----|-----------------------|---------|-----------|-------|----------------|------------|
|   | Met | Not met with progress | Not Met | Not Rated | Total | percentage met | ≤fully met |
| Macro/Poverty   | 5   | 4                     | 0       | 0         | 9     | 55.6           | 100.0      |
| Governance  | 7   | 2                     | 0       | 0         | 9     | 77.8           | 100.0      |
| Human Development   | 6   | 1                     | 3       | 0         | 10    | 60.0           | 70.0       |
| Economic Development  | 5   | 2                     | 1       | 0         | 8     | 62.5           | 87.5       |
| Cross-cutting   | 1   | 2                     | 1       | 0         | 4     | 25.0           | 75.0       |
| Total   | 24  | 11                    | 5       | 0         | 40    | 60.0           | 87.5       |
| Source: AM, Joint Review April 2009 (JR_2009_Performance Table.xls)       |     |                       |         |           |       |                |            |

46. Progress with respect to the IMF Program. Implementation of the IMF program was satisfactory during 2007 notwithstanding a small number of waivers.

47. Overall Conclusion. Putting together the information from assessments of the PRSC per se, the common PAF, and the IMF program, it can be seen that the overall ratings indicate performance which is satisfactory or slightly better. For these reasons, the final assessment that PRSC3 implementation performance in 2007 was satisfactory.

48. PRSC 4. During its implementation in 2008, 11 targets were achieved as planned or exceeded, thus highly satisfactory, six were missed with minor shortcomings (satisfactory), and two had major shortcomings (unsatisfactory).

49. In the macro/PFM area, there were ten targets in all of which one could not be assessed. Of the remainder, all were realized except for that pertaining to the share of central and provincial bodies with operational internal control units where the target (65 percent) was missed by 9 percent. Nevertheless, this was considered to be satisfactory performance. In the area of governance, the delays observed in 2007 with respect to decentralization were made up with respect to the finalization of the NPDP, which had caused the corresponding PRSC4 trigger to be delayed until PRSC5. In other words, the non-performance of 2007 in this area was caught up, so that the PRSC5 trigger could be met in a timely manner. Performance was thus rated satisfactory. On the other hand, performance with respect to the completion of the decentralization strategy continued to be unsatisfactory, given that no corrective actions had been called for in 2008. In the economic development component, performance was mixed. As regards the INSS, the actuarial study, whose completion had been deferred from 2007, was completed on schedule, hence a rating of highly satisfactory. But the implementation of its recommendations could not begin because not yet ready, so this had to be deferred to 2009 – a moderate shortcoming hence a combined rating of satisfactory. There were also shortcomings with respect to the other triggers – minor for roads (shortfall of 4 percent relative to target, so a rating of satisfactory, but major for access to irrigated areas (major shortfall of 40 percent, whence a rating of unsatisfactory). On the positive side, one should note that access by farmers to extension service exceeded the target, a highly satisfactory performance. And finally, in line with the authorities' intent to improve the policy response to the food price, the 2009 budget for agriculture was significantly increased, this being considered as implemented during 2008 since the budget for 2009 was prepared and voted in 2008.

50. Overall, the weighted average of all rated indicators for 2008 was 5.3, a satisfactory performance, with the best performance in macro/PFM, followed by governance and then economic development. Furthermore, overall performance in 2008 was notably better than in 2007, for which the overall rating was 5.1.

51. Joint Review. The review of PAF performance in 2008 (completed in April 2009) indicated somewhat weaker performance than in 2007, with only 20 (i.e. 50 percent) of the 40 triggers being met or exceeded, 14 not being met but with progress, 5 not met, and 1 not rated (Table 7). As may be seen, performance was strongest in cross-cutting areas (HIV, Gender, Rural Development, and Environment) where 3 out of the 4 targets were met, followed by Macro/poverty (6 out of 9 targets met), then Governance and Human Development (4 out of 9 met in each case) with Economic Development showing the weakest performance (only 3 out of 9 targets fully met). It may also be noted that, of the three components, which concern the PRSCs, macro/poverty, which includes the PFM indicators, was the best performing component, which followed by governance and economic development.

Performance scores were as follows: overall (4.8), macro/poverty (5.3), governance (4.4), and economic development (4.0). On average, the overall rating is 4.6, that is moderately satisfactory, with ratings of 5.3 for macro/poverty; 4.4 for governance and 4.0 for economic development – thus the same tendency towards best performance in the area of poverty/macro, followed by governance and economic development. Furthermore, performance in poverty/ macro improved relative to 2007, while it deteriorated in the other two sectors.

|                      | Met | Not met with progress | Not Met | Not Rated | Total | percentage met |
|----------------------|-----|-----------------------|---------|-----------|-------|----------------|
| Macro/Poverty        | 6   | 3                     | 0       | 0         | 9     | 66.7           |
| Governance           | 4   | 3                     | 2       | 0         | 9     | 44.4           |
| Human Development    | 4   | 4                     | 0       | 1         | 9     | 44.4           |
| Economic Development | 3   | 3                     | 3       | 0         | 9     | 33.3           |
| Cross-cutting        | 3   | 1                     | 0       | 0         | 4     | 75.0           |
| Total                | 20  | 14                    | 5       | 1         | 40    | 50.0           |

Source: AM, Joint Review April 2009 (JR\_2009\_Performance Table.xls)

52. IMF program. Performance in 2008 with respect to the IMF program under the PSI instrument was judged fully satisfactory (apparently without waivers).

53. Overall conclusion. The analysis for PRSC4 indicators indicates a solid satisfactory performance in 2008 (5.3), somewhat better than in 2007 (5.1), with a continuation of the tendency for performance in macro/poverty to be better than in governance and economic development. However, in accepting this assessment for the PRSC, it appears important to note the potential disconnect with the finding of the overall JR for 2008 of lower overall performance (4.8) compared to that for 2007 (5.0), and a notable deterioration from satisfactory to moderately satisfactory in governance (5.6 to 4.4), and economic development (5.0 to 4.0). This may be in part due to differences in composition of the overall indices, but the finding appears relevant because of the emerging concerns expressed by donors in 2009 about deteriorating overall performance, and in particular with respect to governance.

54. PRSC 5. It is currently possible to report only partially on performance under PRSC5, as little information is currently available for 2009 – the Joint Review of performance will only occur in April 2010. At the present time, available information indicates that eleven targets have been met or exceeded, four have been missed with minor shortcomings (pertaining to procurement, the alignment between budget and MTEF, and the targets on irrigated areas and the reach of extension services), and two are unsatisfactory (decentralization and social security). On the basis of currently available evidence, performance is satisfactory (numerical rating of 5.2).

55. Overall performance for the series as a whole. Turning now to overall performance of the series as a whole, aggregating the results for PRSCs 3 and 4 for 2007-2008 shows that there were a total of 34 rated targets, of which 19 (56 percent) were fully met or exceeded, 8 (24 percent) were met with minor shortcomings, 4 (12 percent) had moderate shortcomings, 3 (9 percent) showed major shortcomings and

12 (35 percent) could not be rated. This makes for an overall rating of 5.2, which is satisfactory performance, albeit closer to moderately than highly satisfactory. Inclusion of the available results for 2009 indicators confirms this finding on the basis of available evidence as of March 2010.

56. Summing up, the implementation ratings for the individual operations and the series as a whole:

|          |              |
|----------|--------------|
| PRSC3:   | Satisfactory |
| PRSC4:   | Satisfactory |
| PRSC5:   | Satisfactory |
| Overall: | Satisfactory |

*2.2 Major Factors Affecting Implementation:*

57. A number of factors contributed to the broadly successful implementation and outcome of the second PRSC series: (i) alignment with government policy instruments; (ii) government ownership; (iii) effectiveness of donor coordination; and (iv) a sound analytical basis. On the negative side, the main influence was the impact of the food and fuel price increases of 2007-2008, which however was skillfully handled by the authorities.

58. Alignment with Government Policy instruments. The PRSCs were well aligned with the government’s poverty reduction strategies, especially PARPA II (covering 2006-2009) and its key pillars (i) macroeconomic management, in particular the reform of the PFM and procurement system; (ii) governance including decentralization; and (iii) economic development. Furthermore, all of the PSRC monitoring indicators were drawn from the PARPA strategic matrix and related Performance Assessment Framework (PAF), with one exception however. The exception pertained to PRSC5, where a non-PAF indicator was included in response to the food and oil price crises of 2007-2008 – whose importance demanded an immediate policy response but for which the PAF, prepared in 2005-2006, had no indicators. At the same time, the PSRCs were intended to be aligned to the Government’s policy review and budget processes, particularly the latter. Indeed, starting with PRSC 3, all PRSCs in calendar year [n] have been processed on a time schedule permitting the government to effectively incorporate the related resources into the national budget, as approved by Parliament, for year [n+1]. Furthermore, disbursements have all occurred in the first quarter of the budget year being supported or immediately before its commencement (PRSC5).

59. Government ownership. The above factors have all contributed to strong government ownership, all the more so that they have been prepared with thorough consultations with government and key stakeholders. Indeed government ownership has grown over the life of the PRSCs, which has led to the fact that, notwithstanding some delays in politically sensitive areas, none of the reforms have been reversed.

60. Effectiveness of donor coordination. The PRSCs are prepared in the context of the harmonized General Budget Support mechanisms used by the group of 19 donors (G-19), whose relations with the Government of Mozambique are governed by a Memorandum of Understanding initially signed in 2004 and revised in 2009. The MOU sets the ground rules for the preparation and review processes of all budget support operations prepared by signatories, and have undoubtedly helped to improve

predictability of the transfer of funds as well as the quality and coordination of analytical support to capacity building. Also, donor coordination helped to address issues, that would not otherwise have been addressed, for example increasing the comprehensiveness of the budget through inclusion of ministerial own receipts and donor projects other than budget support operations. This being said, donor coordination has posed two problems which have somewhat hampered the design and implementation of PRSCs namely: (i) reticence of some donors to grant (a) the merits of revising the PAF during PARPA implementation to reflect emerging issues (e.g. the food and oil price crisis of 2007-2008); and (b) more use of policy and institutional actions as triggers/prior actions, which are called for by the Bank Operational Policies (OP 8.60); and (ii) the large number of working groups and task forces (in 2009 they reached a total of 71, of which 29 groups are joint with government, 42 are inter-donor only), which fragments policy discussions and can retard the building of consensus (PRSC6 Program Document, paras 41-43, 52).

61. Quality of the Analytical Basis. The second PRSC series, like its predecessor was designed on the basis of an extensive amount of analytical work undertaken since 2000 and well prior to the preparation of the series. This included two Public Expenditure Reviews (2001 and 2003), two Country Economic Memoranda (CEMs, 2001, 2005), a Country Financial Accountability Assessment (FY02), a Country Procurement Assessment Review (CPAR 2003), a Financial Sector Assessment (2003), Investment Climate Assessment (ICA 2003) Public Expenditure and Financial Accountability Review (PEFA 2006), Government Poverty Assessment (2004); Education and Health sector reports (2005), as well as work on agricultural extension (2005 and the Agricultural Development Strategy (2006).

62. The analytical basis was further deepened by work undertaken *during* the second series, including a Country Procurement Assessment Review (CPAR 2008), Public Expenditure and Financial Accountability Review (PEFA, 2008). In addition, analytical work has been undertaken by other donors or jointly with them, including the IMF, pertaining in particular to Public Finances (both on the revenue and expenditure side) and Natural Resource Management. Other relevant work includes the integrated Poverty Social and Gender Assessment (2007) and the 2009 CEM, for which work began in 2007. Work on private sector development has also been informed by the annual Doing Business Surveys.

63. Of particular importance was the work done at the behest of the Government in 2008 on the response to the rise in international prices of food and fuel in 2008 (Report Number 47455), which seems to have had a direct impact on the preparation of PRSC5 which included a specific trigger even though there was none such in the PAF. With the exception of this report, it cannot be said that specific reports were prepared as inputs into specific operations. All of them were designed to support the PRSC process rather than specific PRSC operations.

64. Capacity Building. The PRSC series in itself did not entail capacity building components, and was limited to providing budget support to support the Government's progress in the reform program. However, most of the reform areas were supported by parallel Bank technical assistance projects (such as the Public Sector Reforms Project which supported the work on improving the human resources and payroll management of civil servants or the multi-donor Financial Sector Technical Assistance Project which supported the measures related to the INSS), or by technical assistance provided through donor common funds (such as the e-SISTAFE common fund which supported the implementation of the e-SISTAFE roll out, and the PLACOR External Audit Common Fund which supported the strengthening of the Supreme Audit Institution, or the PROAGRI which supports agricultural sector institutions, or the Road Fund which supports the institutional strengthening and physical investments in the roads and



bridges). In general these parallel sectoral projects or common funds provided for coordinated technical assistance, which was instrumental in ensuring the success of the reforms in the respective areas.

65. Political and External Factors. External factors were not a major influence on PRSC implementation, with the exception of the food and fuel price shocks. These caused some domestic unrest in 2008 which necessitated the introduction of emergency compensatory measures which were managed well without major adverse fiscal impact, in net terms.

66. Design of PRSC series. In hindsight, the design of the series in PRSC3 was excessively optimistic with respect to the speed with which the decentralization strategy could be prepared. The same was true with respect to the strategy for reforming INSS and rehabilitating rural infrastructure. These issues could have been given more attention in the preparation process.

### *2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:*

67. M&E design. The Program Document for PRSC3 introduced a Results Framework as well as monitoring indicators for the series as a whole. This policy matrix of PRSC3 highlights the linkages between policy actions and results in support of specific objectives and actions defined in the PARPA monitoring framework, the Strategic Matrix. The Strategic Matrix represents the results framework of the PARPA II and it was prepared by a joint Government and donor team led by the Ministry of Planning and Development and involving all line ministries, key agencies as well as representatives of civil society, with technical support from the Bank.

68. The indicators and actions for PRSCs3-5 are aligned with a subset of the PARPA Strategic Matrix selected by the joint Government and donors group providing budget support (G19) and laid out in the Performance Assessment Framework (PAF) for 2007-2009. Normally these indicators are taken only from the PAF, in accordance with the prescriptions of the MOU, and their indicative values are initially set in year  $n$  for year  $[n+2]$ , on the occasion of the joint Mid-Term Review, held in September. The values are then finalized one year later in the midterm review for year  $[n+1]$ . Thus in principle indicators are established with a two year lead. However, exceptionally, the PRSC-5 results framework has been adjusted to include two non-PAF indicators to monitor the implementation of the main food crisis measures adopted by the Government, and which resulted in additional financing being provided through PRSC5 to the Government via the Bank's Food Price Crisis Response Trust Fund.

69. Thus, the PRSCs have attempted to make good use of the monitoring and evaluation framework for the PARPA, notwithstanding its weaknesses, which have been pointed out in recent JSANs. The PRSC results framework does attempt to retain policy and institutional measures which are related to desired outcomes. But these links are frequently partial.

70. At the same time, the Government, with technical assistance from IDA and other development partners, has been working since the beginning of 2006 to strengthen the monitoring system of the Strategic Matrix of PARPA-II, in the context of the development of an integrated national Monitoring and Evaluation system. Sector working groups, including representatives of each relevant Ministry, Ministry of Planning and Development, donors and technical assistance, worked to select the key PARPA II objectives in each sector and corresponding results indicators, actions, and output indicators. A Quality Control Group led by the Ministry of Planning and Development and by the chair of the G19 was set up to oversee finalization of the Strategic Matrix and identification of key indicators.

Implementation of sector specific matrices is carried out by line Ministries and sector agencies, while the overall poverty monitoring is the responsibility of the National Statistic Institute (INE). In addition, following finalization of the PARPA Strategic Matrix with technical support from the Bank, in July 2006 the Monitoring Team within Ministry of Planning and Development began preparation of Technical Notes for each indicator. A national workshop involving M&E units in ministries was planned for early 2008, but had to be deferred until later in the year (July). Following this meeting, the team has subsequently prepared a working plan to define decentralized level of responsibility in monitoring indicators involving provincial level of government.

71. In addition, an Institutional Development Fund (IDF) grant has recently been approved to assist the government in strengthening the overall monitoring and evaluation framework for the upcoming PARPA III, and in particular the government's capacity to coordinate the overall M&E framework and strengthen results orientation at the sector level, in a sustainable manner. To this end, the Ministry of Planning and Development commissioned a study get a deeper understanding of issues underlying the impediments to a functioning national M&E system. This study has pointed to the following issues: (i) fragmentation of the M&E system in a multitude of different systems and instruments at national, sectoral, provincial and district level without standardization or integrated methodology; (ii) insufficient support by MPD in regard to institutionalization of structures, clarity of methodology and processes; and (iii) absence of a strong statistical system and integrated mechanism of data production and dissemination to support the preparation of the annual BdPES. Activities under the IDF grant would pick up the analysis of the study and target specific areas: namely: (i) improving the results orientation at sector level by strengthening the logical linkage between different levels of results and relating them to budget and policy actions as well as provincial plans; and (ii) improving the linkage between M&E and planning, by strengthening the coordination mechanism and production cycle of the annual PARPA progress report.

72. Various other activities are underway to strengthen the monitoring and evaluation capacity of government. Notably, the government with support from DANIDA has also started a training program of government officials at central and decentralized level in the preparation of Log-Frame matrices and the carrying out cost-benefit analysis of projects and activities.

73. M&E implementation and utilization. Very limited direct information is provided in PRSC3 documentation and very little in the G19 Joint Reviews as to progress with respect to (i) improvement of the PARPA M&E framework; nor (ii) its implementation and utilization. It is however apparent from the documents that data are effectively collected and in a timely manner so permitting their effective utilization in the context of the PRSCs, and that they have been used to assist the government in decision making. Notably, administrative data on the progress towards PARPA (and PAF and PRSC) indicators is collected annually and published in the '*Balanco do PES*' (*BdPES*) report. In addition, specific reports on individual reform areas are also produced on a regular basis (e.g., annual e-SISTAFE reports, annual report by Supreme Audit Institution, etc.).

#### *2.4 Expected Next Phase/Follow-up Operation (if any):*

74. Following the successful completion of the second PRSC series, a third series (PRSC6-8) has been initiated, and intends to continue to support a key subset of objectives from the PARPA II results matrix focusing on improving public financial management and adopting growth enhancing reforms to increase private investment. The first operation (PRSC6) was approved by the Board November 12,

2009 and focuses on: (i) the consolidation of the institutional reforms in the area of the budget process, the quality of public financial management systems, the transparency and efficiency of the State procurement system, and the coverage of the internal and external auditing system; and (ii) economic development by removing constraints to growth, notably by reducing constraints to growth, notably by reducing structural constraints to financial intermediation. Thus the third PRSC series focuses on the same areas as the second series, except that: (i) there is no longer a *specific* component on governance and public sector reform; and (ii) in the area of economic development a new theme – reducing structural constraints to financial intermediation – is added. Governance of course remains an issue and is treated in the component of PFM, procurement and auditing, to which civil service reform has been added.

75. The new series intends to take account of lessons drawn from the second series, in particular relating to the need for (i) a good analytical foundation for policy reforms, (including their political economy dimension) which should have been fully appropriated by government before their implementation; (ii) improved harmonization with donors; (iii) accompanying coordinating capacity building efforts; and (iv) avoiding forcing the pace on reforms where their political economy was not fully understood.

76. The third series should be careful to focus more on ensure better monitoring of (i) poverty and expenditure monitoring, which was a weakness of earlier series; (ii) decentralization and public sector reform, in particular the decentralization strategy which was dropped as of PRSC3. At the same time, it would be important to avoid forcing the pace on reforms in these areas before their political economy is fully understood.

### **3. Assessment of Outcomes**

#### *3.1 Relevance of Objectives, Design and Implementation (to current country and global priorities, and Bank assistance strategy):*

77. The operations were all highly relevant to Mozambique's Poverty Reduction Strategy, in regard to all three components (Macroeconomics/PFM, Governance/PSR, and Economic Development). While there were some weaknesses in the design of the PRSC3 (see below), these did not lead to significant implementation difficulties in the three operations. Hence, the design of PRSC3, PRSC4 and PRSC5 are all rated satisfactory.

78. There are three aspects with respect to the design of PRSC3 which could have been improved. First, the design of the decentralization component was optimistic in terms of timing which led to a delay in the implementation of the triggers pertaining to the NDFDP and the decentralization strategy and subsequently the abandonment of the decentralization as a trigger and as a theme for the third PRSC series. This was unfortunate given the importance of the issue for implementation of the PARPA. Perhaps the operation could have been designed differently by setting triggers pertaining to ensuring that preparation of the strategy was on track.

79. Second, the design with respect to the justice sector was lacking in that there was only an indicative trigger for PRSC5, the last in the series. It makes the issue appear to be of marginal importance, in which case it would have been better to omit it. It would have been possible to design a better component related to justice sector reforms, and there are issues that would have merited

systematic treatment throughout the series and were referred to in the PAF, for example the number of corruption cases. In fact, the justice sector reforms were dropped from the series (already in PRSC4), as it became clear that the PRSC series already covered too many areas of reform.

80. Third, the component pertaining to economic development certainly addressed some of the right issues (roads, irrigation, access of farmers to extension services and new technologies) but the inability of the government to attain the targets particularly in the area of irrigation in a timely manner indicates that the constraints to implementation had not been properly appraised when the operation was designed. The same considerations pertain to the reforms dealing with pensions and social security.

81. PRSC4 and PRSC5 were adequately designed and tried to address the shortcomings highlighted above. A further problem was that during the preparation of PRSC4, it became clear that the obligation to use triggers drawn only from the PAF was an increasing constraint to adjusting program design to changing circumstances and emerging issues. This problem was effectively solved in PRSC5 when the Bank obtained agreement from donors and the government to introduce a subcomponent pertaining to the food price crisis.

### *3.2 Achievement of Program Development Objectives (including brief discussion of causal linkages between policy actions supported by the operation and outcomes):*

Rating: Satisfactory

82. Outcomes by operation were assessed in section 2.1 through the lens of implementation performance and the realization of annual indicator targets. The overall conclusions were as follows: PRSC3 – satisfactory; PRSC4 – satisfactory; PRSC5 – satisfactory and PRSC3-5 overall – satisfactory. The present section assesses the extent to which expected end-of-series outcomes (i.e. development objectives), as set forth in PRSC3, were attained using the rating methodology in the ICR guidelines, and the quality of those achievements.<sup>4</sup> Furthermore, an attempt is made to assess the extent to which the results are causally linked to the PRSC operations. In this connection, the relevant information is summarized in Annex 7.

83. Available information, as of March 2010, enables ratings to be made for 19 out of 23 specified development outcomes (albeit in some cases for only 2 out of the 3 years), and indicates that 12 outcomes were highly satisfactory (in that the specified targets were met or exceeded), three satisfactory (attained with only a minor shortcoming), one was moderately satisfactory (moderate shortcomings); one was moderately unsatisfactory; and two were unsatisfactory. Using the 0-6 rating scale (see footnote) implies an overall rating of 5.2, that is at the low end of satisfactory. A rating of satisfactory is therefore proposed.

84. The evidence from the JRs for 2007 and 2008 also indicate that at the end of 2008, a total of 44 out of 80 triggers had been met, 25 not met but with progress (i.e. partially met), 10 not met at all, while 1 could not be rated at all (see Table 8). Sixty-one percent of PFM triggers were fully met, but 100 percent fully met or partially met, etc.. On this basis, using a rating scale of 1-6, the overall rating for compliance with PAF indicators in 2007-2008 would be 4.9, that is moderately satisfactory, albeit close

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<sup>4</sup> According to which objectives are attained with no shortcomings (highly satisfactory), minor shortcomings (satisfactory), moderate shortcomings (moderately satisfactory), significant shortcomings (moderately unsatisfactory), major shortcomings (unsatisfactory) or severe shortcomings (highly unsatisfactory). To permit an aggregation, the present document assign

to satisfactory. The same assessment results from making the same calculations just for the components pertaining to macro/poverty, governance, and economic development, i.e. omitting indicators related to human development and cross cutting issues which were not specifically covered by the PRSC series. A total of 11 macro/poverty indicators were fully met, and 7 partially so, which gives a global rating of 5.2. The corresponding figures for governance were 11 met, 5 partially met, and 2 not met, while for economic development, they were 8, 5 and 4. This gives an overall indicator compliance rating of 4.9, with individual ratings of 5.2 for macro/PFM, 5 for governance, and 4.5 for economic development. On balance, an overall assessment of moderately satisfactory for implementation of PAF indicators in the areas addressed by the PRSCs in 2007-2008.

**Table 8: Performance with respect to PAF triggers, CY 2007+8**

|                      | Met | Not met with progress | Not Met | Not Rated | Total | percent age met | ≤fully met |         |
|----------------------|-----|-----------------------|---------|-----------|-------|-----------------|------------|---------|
| Rating               | 6   | 4                     | 2       |           |       |                 |            | average |
| Macro/Poverty        | 11  | 7                     | 0       | 0         | 18    | 61.1            | 18         | 5.2     |
| governance           | 11  | 5                     | 2       | 0         | 18    | 61.1            | 18         | 5.0     |
| Human Development    | 10  | 5                     | 3       | 1         | 19    | 52.6            | 18         | 4.8     |
| Economic Development | 8   | 5                     | 4       | 0         | 17    | 47.1            | 17         | 4.5     |
| Cross-cutting        | 4   | 3                     | 1       | 0         | 8     | 50.0            | 8          | 4.8     |
| Total                | 44  | 25                    | 10      | 1         | 80    | 55.0            | 79         | 4.9     |
| PFM+G+ED             | 30  | 17                    | 6       | 0         | 53    | 56.6            | 53         | 4.9     |

Source: JR\_2009\_Performance Table

85. Significant outcomes, and their importance in development terms, are presented below and summarized in Annex 7.

86. Macroeconomic management. No development objective was clearly specified in the PRSC3 project document, but it was clearly expected that (i) the IMF program would remain on track; and (ii) that the macroeconomic policy framework would be conducive to growth and poverty reduction. These objectives were clearly attained, since growth remained strong and the IMF PRGF and PSI reviews were concluded in a timely manner generally with only minor waivers. Mozambique’s economic growth continued to be strong. GDP growth was 8.7% in 2006, 7% in 2007, 6.7% in 2008 (in spite of the food and fuel price crisis), and 6.3% in 2009 (in spite of the global financial crisis). This is in line with Mozambique’s remarkable growth record over the past decade, averaging just below 8% from 1996 to 2008, making Mozambique the fastest growing non-oil African economy over the decade (ADI 2007, page 2). In terms of the IMF program, Mozambique has been “on-track” with IMF program since 1987. It was also one of the first African countries to graduate into a PSI program in June 2007. The 6th PSI review mission was successfully concluded in March 2010, and confirmed that the macroeconomic performance in 2009 has remained good. Although the economy was adversely affected by the international financial crisis, the impact has been successfully mitigated by accommodating fiscal and monetary policy, successfully seeking access to IMF ESF resources to maintain a prudent level of reserves, while at the same time allowing the exchange rate to depreciate gradually (to compensate for the appreciation in 2008).

87. In fact GOM has repeatedly demonstrated its ability to mitigate the impact of internal and external shocks with rapid and flexible policy responses. The impact of higher oil and food prices in 2008 was successfully mitigated by tightening monetary policy, limited adjustments to foreign reserves, and fiscal measures to alleviate the social impact and to support the productive sectors of the economy. Similarly the 2005 drought and the damage from the 2007 floods and cyclone in 2007 were dealt with by reallocations in the budget and much better preparedness in the case of the floods.

88. Fiscal policy has been consistent with macro stability and debt sustainability, and GOM medium-term fiscal strategy objective is to make room for private sector credit by avoiding recourse to domestic financing. In 2009, the fiscal response to the crisis is expected to lead to a positive Net Credit to Government, for the first time since 2003. In fact GOM has made large domestic debt repayments since 2003 (but was unable to make repayments in 2007 because of the need to fill the gap resulting from shortfalls in external aid due to donor administrative delays). Monetary/exchange rate policies clearly target price stability. Annual average inflation decreased from 13.2% in 2006 to 8.2 in 2007, then increased temporarily as a result of the international food and fuel price spike to 10.3% in 2008, and decreased to 3.5% in 2009, as a result of the subsequent fall in commodity prices. The Balance of Payments was projected to deteriorate by approx US\$350 million between 2008 and 2009, as a result of the financial crisis and also reflecting movements in the exchange rate. However, Mozambique's balance of payments has been temporarily bolstered as stronger capital flows (notably due to the acceleration to 2009 of PRSC6 budget support, the Fund resources under the ESF and the Fund SDR allocation), that have largely offset the deterioration in the current account. The current account has worsened because of a deteriorated trade balance, associated with a substantially weaker trade balance in 2009, as lower commodity prices reduced export receipts by more than the import expenditures. The foreign exchange market has remained fairly stable. The real effective exchange rate appreciated significantly in 2008, but depreciated towards equilibrium in 2009. Real interest rates are still high, but continue to decrease. International reserves remain at a comfortable level and as of end-December 2009 were around 5.5 months of import cover which is above the IMF program target. Credit to the economy has continued to grow rapidly, at above 30% nominal growth in the past 2 years. Public and private investments continue to grow, with a notable surge in FDI in recent years.

89. In the area of public expenditure management, expenditure in priority sectors continued to fluctuate within a narrow band around 65 percent of total primary expenditure, which is the PARPA target (Prior actions for PRSC3 and PRSC4). In terms of the provision of public goods for growth, substantial improvements have been registered in most areas. Significant progress has been made in rehabilitating the roads network since 1992; also, significant improvements in providing access to water in urban areas since 2002, accompanied by some improvements in access to water in rural areas. Rapid expansion of mobile telecommunications throughout the country with the leading operators achieving over 4 million customers, and internet using fiber optics being available in all major cities. The main ports and railway lines have been concessioned, and rehabilitation of the Maputo-RSA railway line, and the Sena railway line to Zimbabwe are almost complete. The electricity grid has been extended to the last two provincial capitals in 2005, and two thirds (98/128) of district capitals by 2009, but business people complain about erratic electricity in some areas, notably outside Maputo and main cities. Authorities are partly covering periodic maintenance in roads from fuel taxes, and water supply for small piped systems is poor. Recent studies have shown that public agricultural extension service is effective in increasing farmers' productivity. There has been a massive expansion of the education system at all levels. Provision of public goods is in many areas is sufficient to support further growth. Nevertheless, the gap in infrastructure needs (including for social services) remains substantial.

Although significant progress is being made across a large number of sectors as a result of well targeted public investments/expenditures, it would be important for the PRSCs to delve further into the structure of expenditures and to seek to improve their poverty orientation, their quality so as to ensure more value for money. In this regard, it is regrettable that more attention was not paid to the use of PETS.

90. Establishment of the MTEF. The second PRSC series has supported the Government's efforts to put in place an MTEF that is directly linked or derived from the PARPA and to ensure that annual budget allocations correspond to the first year of the corresponding MTEF (Prior Action for PRSC5). The government goal has been to strengthen the MTEF to use it as the basis for the sectoral budget allocations, and support programmatic implementation of PARPA II. The quality of the MTEF has undoubtedly improved over the years since its introduction in 2006, when the 2007-2009 MTEF was subjected to Cabinet approval for the first time. In this context, the government is working to better develop the role of the MTEF as a planning tool which can be adapted to changing circumstances, while continuing to work to improve the underlying processes of budget preparation and medium term planning. The most important aspect is that the development of the budget reconciles with the baselines developed in the MTEF, especially for outlying years, and deviations should be justified (in budget formulation as well as execution). Despite the progress made in the elaboration of the MTEF over the years, some significant challenges remain in order for the budget to be more closely aligned with the PARPA and to contribute more to poverty reduction. There are still a number of weaknesses associated with this instrument, as reflected in the relevant 2008 PEFA indicator (score of C+ for PI-12, multi-year perspective in fiscal planning, expenditure policy and budgeting, including a D on the dimension related to linkages between investment budget and forward expenditure estimates), as well as the Joint Review aide-memoire. The MTEF has still not progressed to being the instrument used to facilitate strategic allocation and operational efficiency of resources. This is due to the lack of clarity on the medium term resource envelope, notably for external funding. In fact, there is a significant gap between the scope and quality of data in the MTEF pertaining to the domestic versus the external component of the budget. This matters a great deal for the strategic impact of the budget, because in Mozambique, the actual composition of spending differs significantly from budget allocations (over 5 percent variance in excess of aggregate deviations for two out of the three years under review in the PEFA, justifying a C on indicator PI-2), and most of this variance can be attributed to the external component of the budget. Therefore, in order to increase the likelihood that the budget as a whole contributes to the PARPA objectives, it would be important to focus not only on appropriations of the domestic component, but also on its execution as well as on the appropriation and execution of the external component of the budget.

91. Overall, while performance in this regard was less than perfect, it bodes well for the future because it will set a tighter link between the PRS and budget allocations for priority sectors. Going forward, it would be preferable to pursue the gradual introduction of the programmatic approach that is contemplated by the authorities. This should help to focus attention on the issue of budget execution, which is an important part of strategic alignment, as well as on the effect of the execution of donor projects on the overall performance of the budget, as a policy instrument.

92. Revenues. The development objective of better revenue generation was achieved, in terms of attaining overall targets. More broadly, the performance of the tax reform process has been very good, and characterized by continuous efforts to improve the efficiency of the tax administration, the consolidation of the taxes and the modernization of customs procedures for trade facilitation. As a critical part of the reforms, the government successfully established the Central Revenue Authority

(AT), which integrates the general administration of taxes and customs in one single entity, and became operational and started to function formally when its president took office in November 2006 (Prior Action for PRSC3). As part of the reforms, the Information Technology Plan (PDTI) for 2007–2010 of the new Central Revenue Authority was elaborated by end 2006 and approved in June 2007, and will ensure the development of an adequate system to manage and control information that supports all taxes (Prior Action PRSC4). Tax legislation is also being strengthened. Following the December 2006 approval by Parliament of new legislation on the fiscal regimes for the mining and oil sectors, the new laws have become effective in mid-2007, and regulations have since been approved to implement them, including model contracts. In December 2007, the Parliament also approved new tax laws on Value Added Tax and Personal Income Tax. The new VAT Code replaces the previous Code and the dispersed enactments that amended it, and clarifies the list of VAT exempt transactions and exemptions for specific goods. The new Personal Income Tax Code simplifies the system of direct income taxation, and updates the income thresholds and tax brackets.

93. Government efforts in consolidating the tax reforms and strengthening the management of AT, are resulting in significant increases in total collected revenues, without raising any rates (Prior Action for PRSC5). Total revenue to GDP ratio rose from 13.1% in 2004 to 14.1% in 2005, to 15.6% in 2006, 15.9% in 2007, 16% in 2008 (due to a 0.6% loss of revenue as a result of the temporary tax removal on diesel and kerosene between June and December 2008), and 17.8% of GDP in 2009 (in spite of the impact of the financial crisis).

94. e-SISTAFE. There continues to be real progress as regards the roll out and use of e-SISTAFE (which is the Mozambique IFMIS), as is evident from Annex 7. It is clear that the development objectives, as set forth in the PRSC3 program document, of making budget execution less time consuming and more transparent are being achieved – in that the specific indicators pertaining to the roll-out and use of e-SISTAFE have been met. More broadly there has been very good progress in the implementation of the overall PFM reforms program. The 2006 PEFA assessment (published in 2006 and assessing performance in 2004) highlighted the weakest areas of public financial management systems to be accounting, auditing, and procurement. Based on the 2006 PEFA assessment, the authorities prepared and have been implementing (during the course of this PRSC series) the medium-term ‘Public Financial Management Action Plan and Budget’ (PFM-APB) for 2006-2009, which has been agreed with the donors and is financed through a multi-donor common fund. The 2008 PEFA assessment (assessing performance up to 2006) highlights that significant improvements have been made in the quality of PFM during the period 2004-2006, in particular with the implementation of the integrated electronic financial management system (e-SISTAFE). The areas that showed the most significant progress included payroll, procurement and internal controls, cash management, revenue collection and management and donor practices, whereas there was less progress on the indicators pertaining to credibility of the budget and external oversight, and a slight deterioration on reporting due to the lack of a Public Expenditure Tracking Survey (PETS) in the last three years. Areas for improvement (rated D+ or below) included the oversight of aggregate fiscal risk in the public sector, the effectiveness of tax collection, the availability of information on resources received by service delivery units, and the scope, nature and follow-up of external audit. This overall assessment was confirmed by the fiscal transparency ROSC conducted in 2007 by the IMF.



95. The cornerstone of the authorities' action plan to strengthen Public Financial Management has been the implementation of the integrated electronic financial management system (e-SISTAFE).<sup>5</sup> The implementation of the e-SISTAFE has been proceeding rapidly, and the system became operational in 2008. Following an initial pilot in 2005, the full version of the Direct Budget Execution Module was finalized and gradually rolled out to all ministries at the central and provincial levels by end-2007 (Prior Actions for PRSC3, PRSC4 and PRSC5).<sup>6</sup> Additional roll-out as of end-December 2008 led to the inclusion of a total of 50 districts (which had the prerequisite infrastructure) and 25 autonomous institutions at central level. Hence the e-SISTAFE system has now been comprehensively introduced across central government. The roll-out was accompanied by an extensive training program, involving 1850 users (more or less 6 users per Budget Execution Unit). Users have acquired good operational skills and are now at a level of being able to formulate requests for additional functionality. Following the roll out of e-SISTAFE, the government has started to make the transition towards a modern system of direct execution of the budget. Within the e-SISTAFE reform, one of the results with the highest impact in terms of improvement in Public Finance Management is direct budget execution (according to the sequence of commitment, verification, and payment directly by bank transfer from the Single Treasury Account), as this increases transparency, improves information on public spending and reduces the risk of diversion of funds.<sup>7</sup> The roll out and implementation of e-SISTAFE in all Ministries at central and provincial level has allowed the transition from the previous system of advance payments towards a modern system of direct budget execution. As of end-2007 budget units started to make their payments directly by bank transfer from the Single Treasury Account, such that as of end-2009 over 95 percent of goods and services and investments transactions of budget execution units are carried out live through e-SISTAFE, leading to significant benefits in terms of improved information on public spending and build-up of arrears, predictability in the availability of funds for expenditures and commitments by budget holders, and in internal control and transparency.

96. The roll out of e-SISTAFE has exceeded the targets set for it in the PRSC series, both at the national and sub-national levels. Implementation is therefore rated as highly satisfactory. The system is beginning to produce significant benefits which are expected to increase over time. In particular, there has been an improvement in the credibility of the budget in terms of the deviation between actual expenditure outturn compared to the budget (PEFA indicator P-1). There is improved monitoring of

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<sup>5</sup> The reforms started with the approval of a new financial management law in 2001 and accompanying regulations in 2002, which set the basis both for modern accounting procedures and for procurement reform.

<sup>6</sup> By end 2007, e-SISTAFE had been rolled-out to all 25 Ministries and 7 State Organs (out of a total of 32) at central and provincial level, and a total of 544 Budget Execution Units (*UGEs, Unidade Gestora Executora*) across the whole country. Further, by March 2008 e-SISTAFE was successfully rolled out to 31 districts.

<sup>7</sup> From September 2007 budget execution by 'direct execution' became obligatory for all State institutions with access to e-SISTAFE, and for all expenditures except overseas transfers and certain subsidy payments (for example, payment of funeral expenses). The direct budget execution modality stands in contrast to the legacy system of advances to spending units, which is still in vigor for the parts of government that are not connected to e-SISTAFE. Direct budget execution involves three phases or distinct steps in the expenditure authorization process: the commitment of the expenditure, its 'liquidation' when resources are assigned for payment and the actual payment, when funds are transferred directly from the Single Treasury Account (CUT) to the bank account of the supplier of goods or services. When it is adequately implemented, the direct budget execution modality ensures that the commitment, liquidation and payment of expenditure are authorized within e-SISTAFE by three different agents. These three agents are respectively in charge of budget execution (initiates the commitment and liquidation process), internal control (verifies compliance of the process and supporting documentation with rules and regulations), and financial execution (authorizes payment at the end of the process). The segregation of duties between these three agents is embedded in the design of e-SISTAFE, as the three user profiles are mutually incompatible. The direct budget execution modality should also ensure that budget commitments remain within their respective ceilings, as the system blocks excessive commitments.

expenditure arrears which have been reduced in volume. The authorities are now able to obtain, in a timely manner, much better information on budget execution which in turn enables them to better plan the use of resources for the remainder of the budget year. For example, analysis of information from e-SISTAFE enabled the authorities to identify the potential for saving \$46 million in travel expenses. This was of critical importance in finding the resources necessary to finance additional social protection expenditures in 2008, following the social unrest that followed the increase in food prices. In year budget reports are now produced much faster than in earlier years. There is also increased predictability in the availability of resources for budget holders, and improved cash flow management. Finally, e-SISTAFE should reduce the risk of funds being diverted away from their intended use. All in all sustained implementation of e-SISTAFE is likely to increase fiscal space, the efficiency of expenditure and the availability of public services to the population.

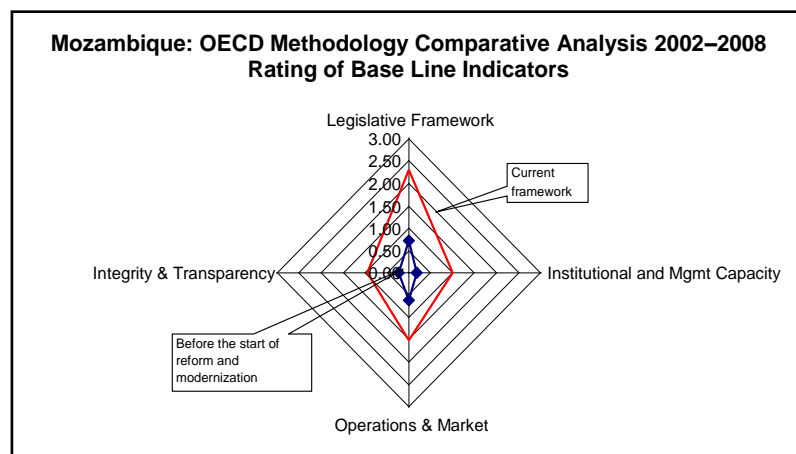
97. While the introduction of the direct execution through e-SISTAFE is already bringing the above benefits, there are challenges related to the introduction of the e-SISTAFE system in an existing paper-based culture, which limit its effectiveness. There is evidence that the actual use of the system is not always as envisaged in that the execution of goods and services often undergoes a dual process, partly manual and partly automated. More generally, following the successful introduction of the e-SISTAFE, the government has started working on complementary reforms designed to make full use of the benefits that the e-SISTAFE can deliver. In particular, the second generation of reforms will include integrating the payroll management and the revenue collection management in the e-SISTAFE information management system. Further progress is required under third PRSC series, in order to improve governance and reduce corruption in the area of financial management. In this regard, it can also be added that the government is preparing a new strategic public finance management vision which is expected to be finalized in mid-2010 and will guide the next phase of PFM reforms.

98. Procurement. Substantial progress was achieved since 2006 in the implementation of the procurement reforms, and making them more effective at the national and local levels – the desired development objective. Revised regulations governing procurement were approved in December 2005 so as to promote competition and transparency. With the approval of the regulations, from an outdated and fragmented legal and regulatory framework, Mozambique became equipped with a modern legal and regulatory framework, which is generally aligned to international good practice. A manual and a set of (nine) standard bidding documents and contracts based on international standards exist. A new central procurement institution, the Functional Unit of Supervision of Acquisition (UFSA), was established and staffed, and became operational in 2006 (Prior Action for PRSC3). A director, staff and consultants have been appointed, and a website is also operational (at <http://www.concursospublicos.gov.mz>). In addition, following the initial identification of location for Units for Execution and Management of Acquisition (UGEAs) at central and provincial level, a first set of 472 UGEAs was established as of end-2007 and a total of 950 UGEAs was been established as of end-2008. Hence, most of the activities envisaged as part of second phase of implementation of the procurement reforms have been completed (Prior Action for PRSC4). These reforms were accompanied by a comprehensive process of capacity building in the application of the new procurement regulations, aimed at increasing the number of specialized procurement technicians. Specifically around 1860 technicians have been trained at central, provincial, district and local municipality levels to facilitate the adoption of the new procurement system at the decentralized level. As a result of these reforms, from a situation where the standard procurement method was a noncompetitive process (contractors selected from a list) and a nontransparent evaluation process, Mozambique has now moved into a system based on open competition as the default setting, and where transparent and objective evaluation and

qualification criteria are being created. Public advertising is now mandatory. Reflecting these improvements, development partners increasingly rely on Mozambique's systems for National Competitive Bidding, with fewer exceptions to the national regulations, and move to organically integrated project implementation units. In order to deepen the implementation of the Procurement Regulation (Decree 54/2005), and the operationalization of the procurement system, UFSA regularly carries out several monitoring and capacity building activities. As of end-2008, UFSA had carried out 138 supervision missions and trained 1860 technicians assigned to the UGEAs as well as economic agents in the area of public procurement and contracts. A total of 779 enterprises related to public works, goods and services providers have been registered in the Single Registry enabling them to participate in public procurement.

### Box 1: Progress in Mozambique's Procurement System 2002-2008

The government and donors carried out an evaluation of the national procurement systems in February 2008 based on the OECD/DAC methodology. This exercise served as the basis for the preparation of a Country Procurement Assessment Review (CPAR) in late 2008, which gives recommendations on priorities in future procurement reforms. Figure 1 provides a summary chart of progress in procurement reforms over the past 6 years, using the OECD/DAC methodology, and highlights that significant progress has been made in all dimension of the procurement system, but that substantial challenges remain.



Source: Mozambique Country Procurement Assessment Review (CPAR), December 2008.

99. While significant progress has been made, yet there remain substantial challenges to make the procurement system operational. As part of the reforms, the government has started the development of a monitoring system to allow measurement of the performance of the reforms (Prior Action for PRSC5). Available data on the methods of procurement applied for acquisitions above the small purchases threshold suggest a rapid increase in the use of competitive procurement systems, although there has been a drop in 2009 (the reasons for which are currently being examined). As highlighted in the 2008 CPAR, however, there is as yet no system in place to ensure that all UGEAs systematically report procurement information to UFSA. This highlights the need for a more robust M&E system, which is one of the major recommendations of the CPAR update report. In this context, to enable effective procurement management and public monitoring, the government is working to develop a simple but strengthened Management Information System (MIS), with a web interface to allow UFSA to collect data directly from UGEAs through an electronic submission system, and track the procurement performance of the key ministries. Such a Management Information System (MIS) will allow UFSA to track the procurement performance of the key ministries to ensure compliance and best value for money.

100. Internal auditing, progress towards the development objective of increased coverage and quality of audits is moderately satisfactory. The internal audit institution (IGF) has been substantially strengthened in recent years and audit coverage is expanding. In 2006 the Government recruited 54 new technicians, thus improving the inspection capacity for the coming years. Also, IGF finalized the basic

internal auditing manual. In parallel, there has been substantial progress in recent years in expanding the coverage of auditing at all levels of government (Prior Action for PRSC4). The number of audits completed by the IGF in 2006 was almost double compared to 2005, and IGF carried out almost all planned audit activities. From the total target universe (districts and municipalities) 32 percent was audited. In 2007 the Government also made a significant effort to expand the internal audit system, such that the Government established Internal Audit Units in 25 percent of all central and provincial level bodies by end-2007 (Prior Action for PRSC5, which however was below the target of 30 percent), and this percentage has since increased to 75% as of end-2009. While the PRSC target was not achieved on time, it should be noted that there were no operational internal audit units in 2006, and therefore progress has been substantial. Further, the progress has been all the more significant when considering that: (i) the IGF is both reforming itself and structuring the internal audit system for the whole of GOM; (ii) there is substantial heterogeneity of sectoral internal audit/inspection bodies, which need to be harmonized; and, (iii) it is difficult to shift from a traditional inspection culture to an internal audit approach. In hindsight, therefore, it seems fair to conclude that the trigger was overly ambitious. In terms of the quality of the internal audit process, IGF has been monitoring the follow up of audit recommendations and in 2007 formally carried out an evaluation of the compliance on the part of the audited entities with the recommendations formulated by the IGF. As part of the evaluation, the Government has reviewed follow up on some 200 of the most relevant recommendations included in previous audit reports, and it found that approximately 70 percent of these recommendations had been adopted.

101. The sense of the reforms is clearly in the right direction, with an increasing number of operational internal control units being created. But the speed of their introduction has been somewhat slower than forecast, so leading to a moderate shortfall relative to targets both in 2007 and 2008. The program was overambitious relative to the capacity of IGF, which was responsible for overseeing their introduction while at the same time undertaking its own reorganization. In addition, areas of weakness remain in the functioning of the internal control systems. First, there are delays in the full implementation of the Subsystem for Internal Control (SCI), including the institutionalization of the Internal Control Units (OCI) in some State organs. In general, the performance of the Subsystem for Internal Control is still fairly weak, and moving forward the elaboration and implementation of the SCI plans should be a priority. Second, the internal monitoring and evaluation system is still weak and the sharing of information between the different OCIs and the IGF is not well defined yet. It is necessary to develop a model for coordination, supervision and reporting of the activities developed by the OCIs. Third, there remains a need to improve the links with the UTRAFE, in particular with respect to training and access to e-SISTAFE by the auditors.

102. External auditing. There has been excellent progress towards the development objective of increasing the coverage and quality of external audits. Strengthening external auditing and the Court of Accounts (Tribunal Administrativo) is a key component of the Government's strategy to increasing the efficiency of the PFM system and the accountability of its staff. The Report and Opinion on the Annual State Accounts are regularly completed within the terms stipulated by law and is available on-line. The Annual State Accounts (*Conta Geral do Estado, CGE*), which are audited every year by the TA, includes full information on revenue, expenditure, financial assets and liabilities, at all level of government. The good performance in this dimension is marked by the regular submission of the Report and Opinion on the Annual State Accounts (*Relatório e Parecer sobre a Conta Geral do Estado*) to the

Parliament within the term stipulated by law since the State Accounts of 2004.<sup>8</sup> These reports have also been made available on the web page of the TA.<sup>9</sup> In a well functioning system, as part of the preparation of the audit of the Annual State Accounts, the Supreme Audit Institutions (SAI) carries out audit activities to verify the data in the State Accounts. The scope of the audit indicates the entities and sources of funds that are audited in any given year. Substantial progress has been made over the past few years in improving the capacity and performance of (verification) audit activities. To inform the preparation of the audit of the Annual State Accounts, the Mozambique's Supreme Audit Institution (*Tribunal Administrativo*, TA) regularly carries out verification audits of the accounts of various public institutions at central and decentralized level. To this end, two sets of measures have been undertaken in the course of PRSCs 3-5: (i) increasing the number of audits undertaken completed and judged; and (ii) increasing the share of the budget being covered by these audits. On both scores, the targets set in the PAF were exceeded, so the desired development outcome of increasing external audits has been achieved in a highly satisfactory manner. Thus, the initial target were that that the TA should complete 70 audits in 2006 (Prior Action for PRSC4) and 90 in 2007 (Prior Action for PRSC5), but the prior actions were adjusted upwards in line with performance since these targets were widely exceeded at 115 in 2006 and 281 in 2007. The number of audits carried out has since increased to 350 in 2008 and 491 in 2009. While the increase in the number of verification audits by the TA is impressive, the scope of these audits remains limited, as it is estimated that in 2007 they covered approximately 26 percent of total expenditures. Building on the recent progress, in line with the findings of the PEFA assessment, the TA has therefore shifted the focus from the number of verification audits to expanding the share of the State Budget covered by the verification audits (in terms of the budget administered by the entities subject to the audits), such that the TA will continue to expand its coverage of the State Budget in accordance with the technical norms of INTOSAI and according to the Mozambican legislation to at least 30 percent in 2008 and at least 35 percent in 2009. Results to date are that the 2008 target was exceeded (33 percent) and the 2009 target was met (35 percent). Beyond this focus on increasing the scope of the external audit, it will be important for the TA to move towards a risk-based approach to the selection of the institutions audited and the size of the verification sample in each given institution. While the TA is interested in moving toward a risk-based approach, at present the TA's auditors lack familiarity with risk-based audit techniques. Further, none of its staff are qualified as chartered accountants or accounting technicians, and as a result the TA's financial audits are not conducted in compliance with international standards on auditing. In this context, the TA is working with development partners to create the capacity necessary to provide its auditors with international technical and professional qualifications so as to better carry out its mandate. In particular, the Bank has recently approved an IDF grant in support of the training and certification to international standards of the TA's auditors.

103. More broadly, there has been visible improvement in the external scrutiny and external audit function in recent years. The TA is involved in a process of continuous improvement embedded in a strategic action plan, with the technical assistance of AFROSAI-e and other Supreme Audit Institutions (SAIs) and the support of a multi-partner common fund. The 2008 PEFA report indicated that the

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<sup>8</sup> Since 2004 the Annual State Accounts (*Conta Geral do Estado*, CGE) has been audited each year by the TA and an audit report has reached the National Assembly within 6 months of receipt of the financial statement (CGE) by the TA, that is 11 months after the end of the corresponding fiscal year, which is compliant with Mozambican legislation (Article 50, Law 9/2002). This performance is very good in the African context.

<sup>9</sup> Following approval by Parliament, the Annual State Accounts and the relevant audit report by the Supreme Audit Institution are made available at the following internet address: [http://www.sislog.com/ta/rubrique.php3?id\\_rubrique=5](http://www.sislog.com/ta/rubrique.php3?id_rubrique=5) At present, this website makes available the reports and opinions for the years 2003, 2004, 2005, 2006 and 2007.

performance of the TA had improved between the 2006 and 2008 assessments on one of sub-dimensions of the relevant indicator (PI-26), namely the timeliness of submission of the audit reports to the legislature (from C to B). Yet there remains room for improvement in the scope and nature of the audit performed (from D to D), particularly in the compliance of the TA's audit work with international standards and the breadth of work undertaken, and also in the follow-up on audit recommendations (from C to C).

104. The response to the audit findings remains limited, however, which can reduce the accountability of financial managers and hence the credibility of the PFM system as a whole. In recent years there has been substantial coverage of the audit findings, and the related Parliamentary discussion, in the local media. Further, a comparison of the most recent audit opinions (on the CGE for 2007, 2006 and 2005) with the earlier ones shows a significant improvement in the comprehensiveness and quality of the analysis. This is partly due to improvements in the quality of the CGE itself but also seems to reflect a strengthening of the capabilities of the TA. In terms of the audit of the CGE, it is the Parliamentary Committee on Finance and Planning that recommends follow-up measures and a report on their implementation is included in the TA's audit report (*parecer*) for the following year's CGE. In practice, however, the follow up is largely limited to future audits by IGF and by TA specifically to verify the implementation of such recommendations. Credibility requires that sanctions be imposed in the event of irregularities and the initiation of prosecution in cases of criminal negligence or behavior. In this area, IGF is creating a data base that will facilitate the monitoring of the implementation of TA recommendations of preceding years' audits. The April 2009 JR reporting that financial sanctions have been imposed on 280 managers. Going forward, the TA and Parliament will need to build on the existing mechanism to ensure a more in-depth follow-up of audit findings, including detailed statistics on rates of implementation of the TA's previous recommendations.

105. Strengthen the institutional capacity of local governments. In this area, expected end of series development outcomes were that (i) more resources would be transferred to local governments, in particular for investment; (ii) their capacity to manage these resources would be improved; and (iii) that a national decentralization strategy would be approved. The corresponding prior actions and triggers as set forth in the Program Document for PRSC3 were that (i) criteria for the allocation of investment budgets for districts would have been defined in the 2007 budget (PRSC3 prior action); (ii) that the national program for planning and finance at the local level had been approved (PRSC4 Trigger); and (iv) the national decentralization strategy had been completed (PRSC4 Trigger). But there were no triggers pertaining to the amount of increases in transfers, although targets were met, and in the event, exceeded.

106. As has been seen in the section on implementation there were substantial slippages in this area. The PRSC3 trigger was met in a timely manner, but the two PRSC4 triggers were deferred. The NPDPF trigger was deferred to PRSC5, thus the program was approved with a delay of a year. The plan has since been used as the blueprint for a sector wide approach, underpinned by a donor common fund, which has become operational in 2010. This can be considered a satisfactory outcome, all the more that all the targets for transferring resources to the districts were met, and in fact exceeded.

107. The finalization of the decentralization strategy was put off to third PRSC series where in fact it has been dropped. It is argued that the political economy dimension of the decentralization strategy had not been well understood, so the Bank intends under the third PRSC series to eschew any the inclusion of any specific actions or triggers – thus limiting itself to participation in the policy discussion. To

which it may be added that the PAF for the period 2009-2011 does not refer to the decentralization question either. Nevertheless, the Bank and G19 have continued to follow up on the preparation of the decentralization strategy, and the approval of the strategy is now expected in 2010.

108. Overall, therefore, the expected outcomes of this PRSC area were partially attained as of end 2009, and it is likely that they will be attained fully as of end-2010. The inexistence of the decentralization strategy is a major shortcoming relative to the development objective of its approval. In hindsight, it seems that the inclusion of the trigger for the decentralization strategy in the PRSC series was premature and should have been avoided. It was a design weakness to have included it in PRSC3 and seems to have reflected insufficient preparation. This, together with the delay in the approval of the NPDPF, points to a rating of moderately satisfactory for the corresponding component of the PRSCs.

109. Improving Human Resource Management in the Public Sector. There has been important progress in the area of civil service reforms. The government created the Ministry of Civil Service (MCS) in October 2007. The MCS is responsible for the policies related to the management of the human resources in the public sector, control and inspection of the public service, organization of the public administration, as well as the program of reforms of the public sector. The expected outcome in this area was that the capacity to monitor the wage bill would be in place by the end of 2009 with prior actions and triggers being established as follows: (i) completion of civil service census and creation of an integrated payroll database (PRSC4 prior action); and (ii) development and implementation of the unified Personnel Information System (*Cadastro Unico dos Funcionários Públicos* – CAF; PRSC-5 prior action). As part of its activities the MCS carried out a detailed census of civil servants in 2007. The realization of the census has allowed the creation of the single registry of State Officials and Public Servants in 2007 (*Cadastro Unico dos Funcionários Públicos*, CAF). The CAF is an integrated database that allows the development and implementation of features that support the strategic management of human resources, including the payroll.<sup>10</sup> As a result, the government is now able, in real time, to tell how many civil servants there are, by grade and region, and ministry. Hence, the PRSC triggers were met in a timely manner and available evidence points to the fact that the coexistence of the CAF and a payroll module within e-SISTAFE has enabled much improved controls of salary payments, and in particular the (potential) elimination of salary payments to ghost workers, and the direct payment of salaries through e-SISTAFE. Achievement of development objectives is thus rated as highly satisfactory.

110. In addition, these reforms are being followed up in the third PRSC series. In particular, the government has also begun a reform of public sector wages and pensions, and a new medium salary policy approved in September 2008 which is built around the following guiding principles: (i) simplification and rationalization of salary scales across ministries, increased transparency; (ii) decompression of salary scales, better alignment of remuneration with qualifications, experience; (iii) reform of locality subsidies; and (iv) harmonization of the salary and the pension systems. These issues will be followed up throughout the third series. All in all, these civil service reforms are significant achievements, which if sustained, can be considered as major improvements in governance.

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<sup>10</sup> The government is in process to move towards a fully computerized Human Resources system including payroll. Such a system would involve several components: (i) a database (called e-CAF) with information on all public service employees was created in 2007, based on the data from the 2007 census of civil servants; (ii) a human resources management system (called e-SIP), which is in process of being developed; (iii) payroll system for calculating salary entitlements and issuing payment requests (called *e-folha*), which remains to be developed; and, (iv) a facility for making salary payments, which already exists within e-SISTAFE.

111. Improving the social security system. The government has undertaken a broad program to strengthen the social security system in Mozambique. PRSC3 included triggers for PRSCs4 and 5, according to which an actuarial study and investment strategy would be prepared for National Institute of Social Security (INSS) (PRSC4 trigger) and implemented (PRSC5 trigger). The expected outcomes, as specified in PRSC3, were that (i) the pension system would be on a sounder footing due to the implementation of the recommendations of the actuarial study and that (ii) the INSS would have a defined investment strategy. The preparation of these reports was delayed by one year and completed in early 2008 (originally a trigger for PRSC4, deferred to a PRSC5 prior action), and the implementation of the recommendations of the reports (originally a trigger for PRSC5) was deferred to the following series. The PRSC6, the first operation of the third PRSCs series, reports that the actuarial study revealed significant data gaps at INSS: (i) records being kept in manual form, although an IT system was under preparation; (ii) financial statements had not been published since 2004. The lack of reliable financial data precluded an accurate financial situation of INSS, but it raised the possibility of that the system may be financially unsustainable given the present level of contributions. Hence, the third PRSC series envisages support to a comprehensive, structured set of interventions to improve the situation at the INSS, which is the backbone of the pension system.

112. In the overall then the most positive development during the PRSC3 series was that a new law on social security had been developed in 2007 during PRSC3 implementation, although this is only mentioned in passing in the PRSC program document. All of the triggers initially set for PRSC4 (completion of study and preparation of investment strategy) and PRSC5 (implementation of strategy) had to be deferred. The actuarial study was eventually completed prior to PRSC5, and showed that the situation of the INSS was far worse than initially thought and that a new study would be needed to properly assess the institution's viability, once more reliable data had been developed. Moreover the INSS investment strategy which was prepared in 2008 has not yet been approved for implementation. Thus the end of series outcomes (pension system being on a sounder footing, INSS has a defined investment strategy) were not attained. In retrospect, the objectives were excessively ambitious, and the component ill prepared. There were major shortcomings relative to objectives, hence an outcome rating of unsatisfactory.

113. Improving the business environment. The expected outcome in the area of business climate was that the number of days to start a business would be reduced from 153 days in 2005 to no more than 30 days in 2009 (PRSC3 prior action). Information available shows that the 2009 target had already been exceeded in 2008 and improved further in 2009, so that the PRSC outcome rating is highly satisfactory. Nevertheless, the 2009 CEM highlights that the overall regulatory framework in Mozambique remains very unfriendly to small and medium enterprises and that Mozambican firms continue to be subject to excessive operational licensing, inspections (labor, health, environment), and red tape that constrains the ease of doing business. The government approved a new strategy to improve the business climate in early 2008. However, while some progress has been made in improving the business environment (and Mozambique was among the top five reforming countries in SSA in the 2008 Doing Business report), nevertheless the implementation of the strategy has been slow. For instance, while Mozambique's Cabinet has repeatedly stated the goal to be best among SADC countries in the Doing Business indicators by 2015, Mozambique actually dropped one position in the DBI ranking amongst SADC members from 2007 to 2009. This indicates that other countries have improved their business environment faster than Mozambique. In this connection, it should be noted that the PAF indicator in this area was changed, beginning in 2008, to the number of days for the completion of export and import transactions. According to the JR for 2008, the targets for this indicator were not met (for exports the



average delay was 26 days; and for imports 32 days, in both cases well in excess of the target of 20 days). Also, as regards the cost of hiring and firing workers, Mozambique was expected to attain 80<sup>th</sup> position in the Doing Business Survey (DB) ranking, but in fact the actual ranking turned out to be 161<sup>st</sup>. This suggests that the PRSC outcome rating, which is based on one indicator, may be excessively generous. Indeed, it may be noted that the ISR for PRSC3 pointed to the weakness of performance in this regard, bemoaning in particular the delays in restitution of the VAT, failure to advance with reform of the labor code, etc.

114. It can also be noted that improving the business climate is a key component of the third PRSC series, which has introduced a trigger for PRSC8, namely the approval by the Council of Ministers of a legislative proposal to simplify all business related licenses and eliminate all unnecessary licenses. This appropriately recognizes the fact that Mozambique has to address a number of constraints to improve the business environment via a reduction in the complexity of the regulatory framework. In this area, the government is planning to fast track a certain number of reforms, improving the procedures for private sector firms in starting and running a business, trading across borders, registering property, dealing with licenses, and closing a business, of which several have been implemented before the end of 2009 and the remainder are envisaged for implementation before the end of 2010 (PRSC 6 Program Document, Box 6). In fact, this approach, which is akin to that taken with respect to procurement (multi-indicator action plan on track) seems more appropriate as a means of tracking progress in such a diffuse area.

115. Improve conditions for road traffic. Infrastructure, notably roads, has been identified as one of the top constraints to increased private sector activity in Mozambique. In the context of Mozambique, where about 70 percent of the population still lives in rural areas, shared growth is necessarily linked to rural development. With regard to improving road conditions, the objective was to improve the percentage of roads in good and fair condition from 64 percent in 2006 to 73 percent by end 2009 (PRSC4 prior action and PRSC5 trigger, subsequently dropped). The target for 2007 was exceeded while that for 2008 the annual target was missed by 3 percent (67 percent vs 70 percent), and for 2009 it was missed by 2 percent (71 percent Vs 73 percent). This can be interpreted as a minor shortcoming relative to the expected end-of-series development outcome, so that the outcome rating is satisfactory.

116. In terms of the factors which explain these developments, the PRSC4 and PRSC5 Program Documents indicate that substantial progress has been made in the road sector since 2006. In order to improve the quality of investments in the road sector, the Government has been reorganizing the management and strategic priorities of the sector, with the adoption of the new Road Sector strategy (RSS) for 2007-2011, and the finalization of the Integrated Strategy for the Road Sector (PRISE) which is based on the RSS. In addition, in 2007 the Government also completed the restructuring of the Roads Authority (<http://www.ane.gov.mz>) which had started in 2006, including the recruitment of staff in accordance with the new organic structure of the Roads Authority (including the appointment of the Director General, four Department Directors, and ten provincial managers).

117. The PRISE foresees a common approach to the planning and reporting of all activities in the roads sector, and it requires donors to focus their funding on projects that are part of the sector program. Attention in the PRISE is also drawn to the need for the government to provide counterpart funds (a weakness also raised by the energy sector team within the Bank during the ROC on PRSC3) and speedy refund of the VAT, and to proceed apace with the institutional reforms which are necessary for further progress in this sector. The G19 Joint Reviews for 2007 and 2008 add that there has been relatively good performance with respect to bridge construction and rehabilitation, but regrets the slow pace of

launching major rehabilitation works. Looking forward, this subject has been dropped from the next PRSC series, and indeed it was decided to drop the roads trigger from PRSC5 both to reduce the total number of prior actions and also because this PAF indicator was formulated as an outcome indicator related to physical investments in roads quality, and thus not in compliance with OP 8.60 which calls for prior actions and triggers to take the form of institutional or policy actions.

118. Promote the construction and rehabilitation of agricultural infrastructure. In order to maintain the pace of agricultural growth it will be necessary to enhance productivity, and therefore, it is critical that the government supports the development and expansion of irrigation and of extension services. It was foreseen that the second PRSC series would support an increase in the acreage of irrigation perimeters that would be rehabilitated and put under the management of beneficiaries. Targets were set in the form of triggers for PRSC4 and PRSC5, with an end of series outcome of 13,600 hectares being so rehabilitated and transferred between 2006 and the end 2009. However, there was systematic underperformance from the start. The PRSC4 target was initially set at 3200 hectares in 2006, but this had to be reduced by about 22 percent to 2500 hectares when it became clear that the original target could not be met. While performance improved to 3500 hectares in 2007, this still represented a shortfall, albeit moderate, of 12.5 percent relative to target of 4000 hectares. In 2008 performance deteriorated sharply to 1778 hectares, which is a 40 percent and major shortfall relative to the annual target. Similarly in 2009 performance was 2062 hectares compared to a target of 3000 hectares. The overall performance for 2006-2009, gives a total of 9840 hectares, which represents a significant shortfall (28%) relative to the target of 13,600 hectares and, accordingly the outcome is assessed as moderately unsatisfactory. It should be noted, however, that the PRSC5 trigger was dropped due to the need to reduce the total number of prior actions for PRSC5, and also on the grounds of its incompatibility with OP 8.60 (as in the case of roads).

119. PRSC4 and PRSC5 attributed the lower than anticipated progress to several constraints, namely (i) the administrative delays in processing these projects, partly due to their complexity; (ii) the lack of quality control services for the construction of the irrigation works; and (iii) the high unit costs for the construction and rehabilitation of irrigation infrastructure. But efforts to tackle these problems do not seem to have worked well given that performance worsened in 2008 relative to 2007 and indeed 2006. This suggests that it was premature to include these targets in the PRSC3 series, and that its inclusion was a design weakness. Indeed it is striking that neither PRSC4 nor PRSC5 included institutional and/or policy measures of a corrective and binding nature to try and rectify the situation. This reflects the fact that the introduction of such measures would have been difficult given that such measures would have been outside the PAF and thus not normally allowable under the terms of the MOU. The only recourse of the PRSC team was to elevate the issue to the highest levels of Government (PRSC5 Program Document, paragraph 80).

120. Increase access to agricultural technologies and extension services. To increase the reach of the extension services the government in 2007 the government prepared and approved a new extension services strategy aimed at further strengthening the effectiveness and efficiency of public extension services. As part of the strategy, the government also aimed to significantly extend the scope of the agricultural extension services (Prior Action for PRSC4 and PRSC5). The expected outcome was that 411,000 farmers would be benefitting from extension services in 2009 as compared to 193,500 in

2006.<sup>11</sup> A PRSC5 trigger set a target of 222,300 for 2007, the same level being maintained for 2008, and increasing to 411,000 in 2009. Outcomes have exceeded targets by 28 percent in 2007 and 59 percent in 2008 (354,000 in number), but the 2009 target was missed as the total reached was 365,000 which was only 88% of the target. In terms of the PRSC there were no shortcomings, given that outcomes through the end of 2008 exceeded targets. More generally, while the 2009 target was missed by 12%, the number of small-scale farmers assisted in 2009 corresponds to a 90 percent increase with respect to the level in 2006. Correspondingly, the assessment of achievement of outcomes is highly satisfactory. It would have been useful to include a more in-depth attempt in the PRSC documents to establish the reasons for this very good performance, and draw lessons from it. The same is true for the JRs for 2008 and 2009.

121. Increased response to higher food prices. The Government's policy response to the higher food and fuel prices in 2008 focused on promoting economic growth, and agricultural production in particular, as the best means to achieve poverty alleviation, while also taking action to protect the vulnerable population from the impact of the price shocks. Hence the Government opted for a sustainable response that builds on the agricultural potential of Mozambique (being a fertile land abundant country), that is to help increase agriculture production in the short and medium term starting from the 2008/09 production season. In this context, in June 2008 the Government approved the Action Plan to Increase Food Production (*Plano de Acção Para a Produção de Alimentos*), which articulates an aggressive push to increase agricultural production over the 3-year period 2008-2011, and is intended to reduce Mozambique's future vulnerability to increases in food prices.

122. This policy response was introduced into the PRSC series in 2008 and led to the specification of (i) a prior action for PRSC5 calling for an increase in the budget for the agriculture; (ii) targets for 2008/09 and 2009/10 agricultural seasons pertaining to increases in: (a) the production of certified maize and rice seeds; and, (b) the area under cultivation for the same crops. The trigger and the targets are drawn from the Government's June 2008 Food Production Action Plan, and not from the PAF. Their inclusion into the PRSC was at the request of the authorities notwithstanding the fact they are not in the PAF. At the present point of time, no evidence is available as to whether the targets for 2008 and 2009 have been attained. Meaningful rating of performance with respect to these targets is thus not possible. However, the PRSC6 Program Document reports that the government skillfully managed the response to the 2008 crisis by (i) focusing on promoting agricultural production, while (ii) also protecting the vulnerable population, including through a temporary scaling up of social protection measures, and measures to support the productive sectors of the economy. In order to finance the measures, the government realized expenditure savings from non-release of 10 percent of the budget for recurrent expenditures in selected programs and the domestically financed investment expenditures, while protecting expenditures in PARPA priority sectors and programs.

123. Link between PRSCs and development outcomes. While there is no direct discussion in the Program Documents pertaining to the impact between PRSC triggers and the Project Development Outcomes for the PRSC series, in most cases the prior actions already constitute intermediate outcomes towards the development objectives, and therefore the links between the PRSC triggers and the development outcomes is strong. In a few cases, however, the links between the triggers and the

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<sup>11</sup> There was a change of the indicator used in the PRSC-4 and the PRSC-5: the percentage of farmers assisted by extension services that adopted at least one new technology (trigger in PRSC-4) can only be measured every three years; the number of farmers assisted by public extension services (trigger in PRSC-5) can be measured every year.

development outcomes are not as strong, such as for instance regarding the PAF/PRSC indicator used for the business environment. Overall, there seems to be agreement that the PARPA/PAF/PRSC triggers, together with the analytical work and capacity building efforts in support of the PRSCs and the PARPA has had a general influence in certain areas, particularly with respect to e-SISTAFE and procurement reforms, and the management of civil service human resources. This is true not only for Bank financed work but also for the work undertaken jointly with other donors. It corresponds to the reality that GBS is a package of three elements: (i) dialogue; (ii) specifically funded capacity building; and (iii) financial support to the budget.

3.3 *Justification of Overall Outcome Rating (combining relevance, achievement of PDOs):*

Rating: Satisfactory

124. Overall outcome ratings for the series as a whole are expected to reflect the ratings for relevance of design and outcomes. The table below (Table 9) combines this information using the annual outcome ratings for PRSC3, 4 and 5, as well as the end of series outcomes for the assessment of overall outcomes. In each case both the design and supervision are rated satisfactory, leading to the conclusion that the operations were satisfactory, overall.

| <b>Table 9: Overall ratings by operation and for the series as a whole</b> |                 |                 |                 |                                       |
|--|-----------------|-----------------|-----------------|---------------------------------------|
| <b>Heading</b>   | <b>PRSC3</b>    | <b>PRSC4</b>    | <b>PRSC5</b>    | <b>Overall<br/>i.e. End of Series</b> |
| Relevance  | Highly relevant | Highly relevant | Highly relevant | Highly relevant                       |
| Design   | Satisfactory    | Satisfactory    | Satisfactory    | Satisfactory                          |
| Outcome  | Satisfactory    | Satisfactory    | Satisfactory    | Satisfactory                          |
| Overall  | Satisfactory    | Satisfactory    | Satisfactory    | Satisfactory                          |

3.4 *Overarching Themes, Other Outcomes and Impacts (if any, where not previously covered or to amplify discussion above):*

(a) *Poverty Impacts, Gender Aspects, and Social Development*

125. Evidence on monetary poverty shows a sharp improvement between 1997 and 2003, but no evidence is available since then. A Poverty Perception Survey for 2006 indicates that a majority of people felt that poverty had stagnated or worsened over the period 2001-2006, both in rural and urban areas. The 2007 Poverty Gender and Social Assessment suggests that poverty and inequality may actually have increased in recent years, based on the analysis of the agricultural panel survey data (TIA 2002-2005), but highlights that this preliminary result may also be related to the impact of the drought in 2005. If confirmed, these results would indicate that the rapid GDP growth in recent years has been less broadly shared than during the past decade. The recent dramatic spike in world agricultural and fuel prices may also have contributed to set back at least some of the gains achieved during the past decade. Data collection for the new national household survey was completed in September 2009 and the main results are expected by mid-2010, and will clarify whether poverty has continued to decrease. At the same time, evidence on non-monetary poverty suggests significant improvements with respect to health, education, as well as access to water and sanitation between 2000-03 and 2006-08 (Table 10).

**Table 10: Mozambique Selected Social Indicators: 1990-2008**

|   | Latest single year |           |         |
|---|--------------------|-----------|---------|
|   | 1990-1996          | 2000-2003 | 2006-08 |
| Primary school enrolment (net %)                              | 43                 | 56        | 96      |
| Primary school enrolment (gross %)                            | 61                 | 84        | 105     |
| Ratio of girls to boys in primary and secondary education (%) | 72                 | 75        | 85      |
| Under-5 mortality rate(per 1,000 live births)                 | 212                | 178       | 138     |
| Infant mortality rate (per 1,000 live births)                 | 145                | 122       | 93      |
| Life expectancy at birth (years)                              | 27                 | 42        | 42      |
| Physicians per 1,000 people                                   | 0.012              | 0.024     | 0.030   |
| Immunization, DPT (% of children under 12 months)             | 60                 | 72        | 72      |
| Immunization, measles(% of children under 12 months)          | 58                 | 77        | 77      |
| Access to improved water sources (% of population)            | 39                 | 42        | 48      |
| Access to sanitation facilities(% of population)              | 22                 | 27        | 31      |

Source: World Bank, DECDG, MDG Report 2008 and INE.

126. Mozambique has made substantial progress towards achieving some of the MDG goals and in particular has a reasonable chance of those pertaining to (i) a reduction in the share of the population living in absolute poverty (MDG1); (ii) the achievement of universal primary education (MDG2); and (iii) sustainable access to potable water at least in urban areas (MDG7). However, there is little prospect of attaining the goals relative to (i) reduction in child mortality (MDG4); (ii) reduction in maternal mortality (MDG5); (iii) reduction in the incidence of malaria and HIV/AIDs (MDG7); and (iv) improving access to water in rural areas (MDG7).

127. As indicated, it is impossible to assess whether there has been a reduction in poverty during the first and second PRSC series. Furthermore, contrary to what might have been expected, the operations have focused only on whether the target for the share of expenditure (65%) going to ‘priority’ sectors has been respected without any examination as to the pro-poor structure of public expenditure. While efforts have been made to introduce a functional budget classifications of expenditure (which would permit analysis of the pro poor structure of expenditure), this is still not adequately used. The most that can be said is that PRSCs may have contributed to improved social outcomes to the extent that they have contributed to the growth of expenditures going to priority sectors, and that this increased level of expenditure is responsible, at least in part, for the improved social outcomes alluded to above.

128. An additional issue is that the PRSCs 3-5 did not focus on improving the poverty monitoring and evaluation framework and increasing the role of civil society organizations in this regard even though (i) this was a specific goal under PRSC1; and (ii) there is a related PAF indicator which could have been used in the PRSCs or at least alluded to in PRSC documentation.

129. The 2007 Poverty Gender and Social Assessment (PGSA) offers an interesting perspective in these areas, suggesting that, notwithstanding an effective increase in access to public services (in fact since before the advent of the PRSCs), much more needs to be done. In particular, not enough is being done to expand public services that directly increase the income of the poor (PGSA, page 23). Wealthier households currently receive a much higher share of the budget because of their better physical access to and use of public services. Accordingly, the government should ensure that larger share of the budget and effective public spending should go to the poor and vulnerable, and their quality

be improved. The PGSA also recommends that there should be more regular household surveys, and public expenditure tracking surveys (PETS). Yet the PRSCs have not monitored the PETS even though there is already such an indicator in the PAF which has not been well respected (see JR 2008 and 2009). Furthermore, the State needs to get closer to the poor through: (i) the provision of better access to the judiciary, including reduction of corruption therein; (ii) making increasing use of Civil Society Organizations (CSOs) as a means of overseeing of public service provision; (iii) making decentralization work for the poor through effective transfer of more resources to and control thereof by districts and municipalities; and (iv) making poor peoples' land rights real. Yet, PRSCs backed away from the justice sector and decentralization (delays in the trigger pertaining to the decentralization strategy in PRSCs4-5 and exclusion from the third PRSC series, on the grounds that it is too sensitive in terms of political economy). On the other hand, the third series does include a trigger (PRSC 8) pertaining to the implementation of a reform of land taxation.

*(b) Institutional Change/Strengthening (particularly with reference to impacts on longer-term capacity and institutional development):*

130. There has been substantial institutional development under PRSCs3-5, especially in the area of Public Financial Management and Civil Service Reform. These developments appear sustainable all the more that they appear to be enabling the government to manage financial and human resources more effectively in general and to be providing benefits in the form of more efficient resource use, the identification of budgetary savings (travel, etc) and lower corruption. These savings helped finance the increase in subsidies to vulnerable groups during the food and oil price crises of 2008-2009.

*(c) Other Unintended Outcomes and Impacts (positive and negative):*

131. PRSCs3-5 have pointed to some limitations of the PARPA, the PAF and the MOU governing donor coordination. In particular the PARPA and the subsequent PAFs were designed in 2005-2006. It proved difficult to adjust the PAFs to effectively incorporate triggers pertaining to important issues that emerged following the adoption of the PARPA, in particular (i) the very pressing ones which emerged during the oil food and financial crises of 2007-2009; and (ii) the growth related ones identified in the analytical work done over the period 2006-2008. This culminated in PRSC5 when the Bank was forced to insist on the introduction of a new non-PAF trigger to reflect the government response to the food and fuel crisis, notwithstanding the reticence of some other signatories to the MOU. At the same time, the staff consider that the very large number of working groups (71 in all, of which 29 core ones) complicate the policy dialogue the quality of which can even be eroded. The result is an unfortunate tendency for issues which are demanding in terms of political economy to be addressed outside of the PAF or be dealt with by non-PAF signatories.

*3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops (optional for Core ICR, required for ILI, details in annexes):*

132. None made.

#### 4. Assessment of Risk to Development Outcome

Rating: Moderate for all three operations.

| Assessment of Risk to Development Outcome |          |          |
|---|----------|----------|
| PRSC3                                     | PRSC4    | PRSC5    |
| Moderate                                  | Moderate | Moderate |

133. The risks to development outcomes are rated as moderate for all three operations given that they all had the same end of series objectives. The ultimate goal of the PRSCs was to spur reduction of poverty at the national and sub-national levels, although the contribution of the PRSCs was indirect coming through (i) an increase in the level of poverty related expenditures; (ii) an improvement in public financial management; and (iii) an improvement in the environment for economic development. The keys to this were and remain: (i) the maintenance of adequate fiscal space to accommodate the growing needs of the population; (ii) efficient utilization of these resources to increase access to and use by the poor of public services by the poor and vulnerable.

134. The Program Documents systematically set forth four categories of risks: (i) macroeconomic instability resulting from external/exogenous economic or non-economic shocks terms of trade variations, lack of rainfall or floods, regional instability, or lack of predictability of donor disbursements, or from (ii) internal/endogenous pressures to increase expenditures at electoral periods or inability to maintain the level of priority expenditures, especially those of a pro-poor nature; (iii) lack of capacity to implement reforms; and (iv) deterioration in governance that could compromise economic reforms and/or poverty reduction efforts, as well as their external financing.

135. On the first category of risks, macroeconomic management over the last decade indicates that the government has been able to handle these risks well, albeit with assistance from the IMF, the Bank and other donors, as the handling of the recent oil and food price spikes shows. There is no reason to suppose that this will change in the future, providing donor assistance remains as forthcoming as in the past. There is however a risk that this may not be the case either because of a general shortage of funds pursuant to the financial crisis or because of donor disinclination to continue support at present levels because of dissatisfaction with the pace of reform and/or a deterioration in overall governance. This risk should be considered as moderate given that the G19 aide memoires of 2008 and 2009 consider that performance with respect to improving governance, except for PFM, has been lagging over the last few years.

136. With respect to internal shocks, particularly those of a fiscal nature, experience over the last few years indicates that the government has done a good job in terms not only of overall expenditure control in macroeconomic terms but also the distribution of expenditure between prior and non-priority sectors, with the level of expenditures in favor of priority sectors rarely falling significantly below the agreed 65 percent. But again, this has depended on adequate availability of fiscal resources including external assistance from donors. The ability of government to manage in a world of reduced resource availabilities has yet to be seriously tested.

137. With respect to weak administrative capacity, the government and the donors have been working assiduously over the last few years to build capacity in the different areas of the reform program, and these efforts will continue for the foreseeable future. In addition, IDA in particular is supporting the

second phase of the government’s public sector reform efforts. Furthermore to strengthen capacity at the local level, the government has finalized its program for capacity building at the local level, and donors have recently agreed with government on a common fund to support the implementation of this national decentralized planning and finance capacity building program.

138. On the issue of governance, it has to be noted that improving governance is at the heart of the PFM reform program, procurement and improved HR management, all of which have now been functioning increasingly satisfactorily for several years, and there seems no reason to assume that this will change in the foreseeable future. Also there has been progress towards improving management of natural resources, with the country having been accepted as a candidate to join the EITI initiative. The G19 Joint Reviews for 2008 and 2009 have pointed to the need to also improve governance in other areas (such as anti-corruption, mega projects, elimination of conflict of interest for civil servants) and to accelerate reforms on the legal and judicial fronts. Slow progress in these areas may lead to lower donor assistance in future years (as already happened in 2008/2009 on the part of the Swiss and Swedish Governments, who reduced disbursements under the variable tranches of their GBS because of concerns about limited progress in the governance reforms).

**5. Assessment of Bank and Borrower Performance** (relating to design, implementation and outcome issues)

**5.1 Bank Performance**

(a) *Bank Performance in Ensuring Quality at Entry (i.e., performance through lending phase):*

Rating: PRSC3 –Satisfactory; PRSC4 Satisfactory; PRSC5 Satisfactory

| Assessment of Design |              |              |
|----------------------|--------------|--------------|
| PRSC3                | PRSC4        | PRSC5        |
| Satisfactory         | Satisfactory | Satisfactory |

139. PRSC3. Design was satisfactory to the extent that it was aligned with the PARPA, the Bank CAS and lessons from the preceding series. At the same time, PRSC3 had some minor design weaknesses which have been already been alluded to. These issues did not affect significantly the performance of the series as a whole, hence the satisfactory rating. However, the design of PRSC3 could have paid more attention to the structure of pro-poor expenditure or on the traceability of expenditures in key sectors. While this was difficult because of the lack of related triggers in the PAF for pro-poor expenditure and the lack of a corresponding budget classification, attention was drawn to these challenges in the policy dialogue with Government and support provided to rectify the weaknesses (as discussed in the Program Document for PRSC5). Also, the timing envisaged for the decentralization triggers (the NDFDP study, and the preparation of the decentralization strategy) turned out to be excessively optimistic. This is particularly unfortunate given the importance of this to the implementation of the PARPA. The risk of serious delay could have been better identified, as well as mitigating measures, during preparation of PRSC3. The same issues pertain to the design of the economic development pillar, where delays were incurred with respect to the INSS studies and there were significant shortfalls with respect to irrigation targets in particular. All of this indicates that these components had not been adequately prepared. Finally, the treatment of improving efficiency and celerity of justice services was not adequately



designed, leaving the impression that this component was not very important (in which case it would have been best not to include it at all).

140. PRSC4. Although four triggers had to be modified because they could not be met as originally specified in PRSC3, the preparation of PRSC4 was satisfactory, essentially because it took an active stance towards treating the above mentioned design issues for the rest of the series.

141. PRSC5. The preparation of PRSC5 is rated satisfactory, as only one trigger had to be modified, a minor shortcoming. Further, the proactive introduction of a new component addressing the food crisis should be commended. In this regard, PRSC5 benefitted from the quality of supervision of PRSC4, when Bank proactively reacted to the food price crisis and designed a new component for PRSC5 to specifically address this issue (PRSC5 Program Document, paras 18-22).

(b) *Quality of Supervision (including M&E arrangements):*

Ratings: PRSC3 Satisfactory; PRSC4 Satisfactory; PRSC5 Satisfactory

| Quality of supervision |              |              |
|------------------------|--------------|--------------|
| PRSC3                  | PRSC4        | PRSC5        |
| Satisfactory           | Satisfactory | Satisfactory |

142. In general design and supervision are closely linked for PRSCs, to the extent that the supervision of operation n occurs side by side with the preparation of n+1. In this connection, the institutional arrangements for supervision of the PRSCs were part and parcel of the overall G19 procedures as set forth in the MOU governing GBS operations. The G19 review process is continuous with two main reviews per year, April and September. The April review looks at performance in the preceding year, while the September one reviews performance during the current year and prepares the program for the following year. There are 29 joint donor-government working groups, most of which also meet on a monthly basis. To ensure full and regular participation, the PRSC TTL and other core specialists are based in Maputo. Supplemental missions are undertaken as necessary. The Bank also participates regularly in IMF program review and technical assistance missions.

143. PRSC3. The quality of supervision of PRSC3 was satisfactory, although a more active stance could have been taken towards treating the above mentioned design issues and help the government to meet the targets as originally defined.

144. PRSC4. The evidence from the PRSC5 Program Document indicates that the quality of supervision of PRSC4 was satisfactory in general and that it proactively sought to identify the issues needing to be addressed in each the areas supported by the PRSC series and a timetable for them. The program documents could have provided more detailed analysis of the reasons for these shortcomings and of the corrective measures to minimize risks to development outcomes and sustainability in related development outcomes, however. These may be considered as minor shortcomings, and so a rating of satisfactory is proposed for government performance. The quality of supervision of PRSC4 was also very good in that it proactively helped the government to design a strategy and action plan to effectively combat the potentially negative effects of the food and oil price crisis on fiscal sustainability, social stability, and the structure of priority expenditure (PRSC5 Program Document, Section D, paras 18-24).

In this regard, the Bank convinced donors and government, notwithstanding their initial reservations, of the need to introduce a new non-PAF trigger for PRSC5.

145. PRSC5. The evidence from the PRSC6 Program Document indicates that the quality of supervision of PRSC5 continued to be satisfactory in general and that it also continued to proactively (i) identify the issues needing to be addressed in each of the areas supported by the third PRSC series and a timetable for them; and (ii) assist the authorities in the elaboration of their response to the international financial crisis of 2009. Hence it is rated satisfactory.

(c) *Justification of Rating for Overall Bank Performance:*

*Ratings: PRSC3 Satisfactory; PRSC4 Satisfactory; PRSC5 Satisfactory*

146. According to ICR Guidelines, the overall ratings are dictated by the combination of ratings for Quality at Entry and Quality of Supervision. A combination of moderately satisfactory rating and a satisfactory or highly satisfactory implies a combined rating of moderately satisfactory. Overall satisfactory performance requires that both quality at entry and quality of supervision be satisfactory. The following Table summarizes the ratings for all operations, one by one and for the series as a whole.

| <b>Overall Bank performance</b> |              |              |              |               |
|---------------------------------|--------------|--------------|--------------|---------------|
|                                 | PRSC3        | PRSC4        | PRSC5        | Series rating |
| Quality at Entry                | Satisfactory | Satisfactory | Satisfactory | Satisfactory  |
| Quality of Supervision          | Satisfactory | Satisfactory | Satisfactory | Satisfactory  |
| Overall Performance             | Satisfactory | Satisfactory | Satisfactory | Satisfactory  |

147. There are two lessons for assuring quality of entry and supervision. First, good preparation of the first PRSC of a series, and realistic assessment of implementation speed, is very important to the implementation and outcome of the series as a whole. A further lesson is that the PAF, as originally designed, can quickly become obsolete and rigid. These two facts can be a real constraint to the effective incorporation of appropriate triggers to addressing problems not identified in the original PAF. These issues were effectively and proactively addressed/resolved during the preparation and supervision of PRSC4 and PRSC5.

## **5.2 Borrower Performance**

(a) *Government Performance:*

Rating: Satisfactory

(b) *Implementing Agency or Agencies Performance:*

Rating: Not rated, because government and implementing agency are indistinguishable.

(c) *Justification of Rating for Overall Borrower Performance:*

Rating: Satisfactory

148. Government ownership and commitment to achieving development objectives. The good implementation of the program supported by the PRSC reflects strong ownership and commitment by the government to the reforms. This performance results from the fact that the PARPA is the government's strategy and that the PAF indicators (and PRSC prior actions) are drawn from the PARPA strategic matrix. The overall amount of progress made, especially with regards to the PFM reforms is impressive, and underscores a significant commitment to advance the reforms. While a few areas have suffered delays, it can be argued that these are complex policy areas, such as decentralization and the social security system, which entail complex political economy realities. Nevertheless, even in these areas, the commitment to the reforms is underscored by the fact that there have been no reversals. Hence, Government performance could be considered as highly satisfactory, if it were not for a few reform areas where progress has been slower and commitment has not been as determined. For this reason, a rating of satisfactory is proposed.

149. Enabling environment. This was also satisfactory. The political situation was stable at the beginning at the beginning of the series, and remained so throughout. The social unrest that emerged in the wake of the food and oil price hikes in early 2008 was well handled. Performance with respect to the IMF programs was satisfactory. Relations with other donors remained broadly satisfactory throughout the period.

150. Readiness for implementation. Government performance has been characterized by sound macroeconomic management (including the handling of the high food/fuel prices in 2008 and the financial crises in 2009) and reasonably good progress in implementing the PRSC reforms agenda in all its components. Good macroeconomic management is reflected in the fact that all reviews of the PRGF and the PSI were satisfactorily concluded (although some waivers were required), and that macroeconomic performance continued to be strong during the period (in spite of the external shocks/crises). The overall rate of on time completion of PRSC triggers was 80 percent – but this reflects a rate of 94 percent for Macro/PFM triggers, 71 percent for governance and 57 percent in the area of economic development. This is a very good performance, especially when considering that the Macro/PFM pillar was by far the most important both in terms of the strategic focus of the series and also in terms of the much larger number of triggers. It should also be mentioned that the macro/PFM pillar included a significant component of PFM reforms, which can also be considered to be part of the broader governance agenda. While a few areas have suffered delays, the overall amount of progress made, especially with regards to the PFM reforms is impressive. Hence, Government performance could be considered as highly satisfactory, if it were not for a few reform areas where implementation has been slow. The shortcomings in implementation performance, suggest that certain aspects of the program were not entirely ready for implementation. It is clear that the PFM component of the PRSCs was ready for implementation. However, this was not the case for the decentralization strategy and the reforms pertaining to INSS. The overall satisfactory performance in implementing the PRSC program has been mirrored by substantial progress towards implementing its PARPA II. Overall performance with respect to the PAF indicators was judged by the G19 to be satisfactory for the continuation of GBS, notwithstanding mixed performance in some areas. In fact, as in the case of the PRSC, the full success rate was significantly lower for governance and economic development than for the macro/PFM component of the PAF (Table 8). On balance, performance with respect to implementation can be considered satisfactory.

151. Fiduciary arrangements. Performance in this regard can be considered satisfactory to the extent that the government has paid considerable attention to improving PFM arrangements, and that these are considered adequate by donors to support budget support operations. The reforms appear sustainable and risks to development outcomes low.

152. Consultations with stakeholders and beneficiaries. A specific process for consultations with potential stakeholders and beneficiaries was not put in place for the PRSCs. This is not necessary given that the triggers and policy measures are in principle all drawn from the PAF which is itself part of the Strategic Matrix of PARPA II, which was prepared by government through broad-based participatory consultations with major stakeholders and civil society. In addition, PRSCs are regularly discussed in the working groups of the G19. This can be complemented by specific consultations, as needed, with stakeholders affected by the PRSC in question. Similarly monitoring of implementation is open to participation of the public and representatives of Civil Society Organizations, created in 2003, through the work of the Development Observatories and their participation in the two annual G19 reviews. Notwithstanding the weakness of the consultation arrangement with civil society, Government performance in this regard is satisfactory.

153. Monitoring and Evaluation Framework. The overall availability of data on the indicators and the PAF triggers is good, and allows the monitoring of progress with the reforms program on an annual basis. However, as indicated earlier, the M&E system is in need of substantial strengthening. Moreover, the government has paid insufficient attention to the establishment of mechanisms for monitoring whether public expenditure is pro-poor, and whether resources are effectively transferred in full and a timely manner to service delivery units. Rating is moderately satisfactory.

154. The overall rating is satisfactory given: (i) a good performance with respect to triggers for PRSCs3-5 and the PAF; (ii) the basic but functional monitoring and evaluation systems which has allowed annual monitoring of progress with the implementation of PARPA reforms program and the PAF and PRSC indicators. Nevertheless, there are three areas where Mozambican performance could focus its improvement efforts: (i) governance, particularly as regards the capacity to implement reforms and implement decentralization; (ii) public service delivery; and (iii) structural reforms at the sectoral level, notably in agriculture. Improvements in these areas are essential for sustainable improvements in service delivery. In a nutshell, service delivery requires more than just transferring financial resources to service delivery units. Financial resources must be properly used by competent, well-trained professional staff, and these seem to be in short supply. The civil service reforms component of the PRSCs is aiming to address some of the root causes of these shortcomings

## **6. Lessons Learned**

155. Key lessons pertain to: (i) importance of Government ownership, taking the time to nurture it, through dialogue an analysis of the political economy of reforms; (ii) working together with the rest of the donor community through the G19 is helpful, notwithstanding the difficulties and tensions resulting there from; (iii) the PAF, as currently used, is too rigid to permit rapid and flexible response to emerging issues; (iv) the political economy of sensitive reforms needs to be well understood; and (v) coordinated capacity building is essential.

156. The PRSC series achieved its main objectives due to strong ownership of the reform program by the government, which is based on PARPA II, the PES and the BdPES. As a result, notwithstanding

some implementation delays and weaknesses in the area of governance and structural reforms, the medium term reform strategies never suffered reversals. For example, following initial delays in implementing the ambitious new electronic integrated financial management system (e-SISTAFE) in 2004 and 2005, the progress since then has more than compensated the delays. The transition to the new system has proceeded smoothly and with good results. Similarly, the first phase of the civil service/public sector reform produced limited results, but after a thorough external review and extensive internal consultations, a new strategy has been developed for the second phase that is fully owned by the government and which has started its implementation with renewed dynamism. A third example is decentralization, which was deferred during Series II and is not being addressed in the third series because more preparatory work is clearly needed. The same political economy approach is being pursued with respect to land taxation. It is important to give the authorities the time and the space to prepare credible and sustainable reforms in sensitive areas.

157. Working together with the rest of the multilateral and bilateral donor community through the G19 is helpful, notwithstanding the inherent difficulties and tensions resulting there from and in particular the rigidity of the PAF. There has been a positive impact from the highly harmonized policy dialogue across donors providing budget support. The MoU of the G19 aligns general budget support with the Mozambican budget cycle, improves the predictability of resource flows, and harmonizes the donors regarding policy benchmarks, the reporting and review process. It is a powerful instrument to improve the quality of budget planning and execution and enhance the effectiveness of aid. Largely as a result of donor harmonization, some reforms that had long been advocated, e.g. increasing budget coverage for externally financed projects and own revenues, have been implemented.

158. However the PAF, as currently designed and used by the G19, is excessively rigid needs to become more flexible and quickly adaptable to (i) changing government priorities and programs; and (ii) external shocks unforeseen when the PAF was originally designed at the time of the preparation of PARPA II in 2005/2006. The difficulties of introducing a non-PAF trigger into PRSC5 in the wake of the 2008/2009 food and oil prices shocks are examples thereof. Looking forward, it would be important to continue using the PAF, as derived from the PARPA, its sector strategies and monitoring frameworks, as the core policy matrix given that PAF can act as a safeguard against the introduction of purely “opportunistic” conditionalities on the part of one or more donors. Yet a means must be found to make it more easily adaptable during the PRSP implementation period, in light of changing circumstances and priorities. In this regard, looking forward, it could be appropriate to give more attention to the fact that the PARPA is an instrument which has been designed to complement the implementation of the Government’s Five Year Plan (FYP). The key instruments for implementation thereof are the PES and the BdPES, which must be presented to Parliament, and greater use thereof could facilitate revision of the PAF during PARPA implementation given that the PAF is common not only to the PARPA but also the PES and BdPES.

159. Progress has been slower in reform areas where the political economy context was critical, yet not adequately understood. In terms of the reform areas supported by the past PRSC series, progress has been slower in areas such as decentralization and public sector reforms, where the political economy realities appears to have been little understood and underestimated. Reforms in the area of PFM (that in other countries have proved to be just as difficult to implement as those related to governance and public sector reforms) have fared much better reflecting very strong commitment by the Minister of Finance and the entire Cabinet.

160. Reform programs should be accompanied by jointly financed capacity building efforts. Capacity building is essential, but in the past has often been uncoordinated, reflecting the priorities of individual donors. This has changed in the past few years, and multi-donor sector wide approaches have now been developed and common funds established and has show positive results in terms of results on the ground (e.g., the common fund for public financial management reforms, the multi-donor Financial Sector Technical Assistance Project). It would be desirable to pursue the same approach in the area of the business environment, but there is as yet no common fund or sector wide approach, even though donor efforts are being coordinated.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

(a) *Borrower/Implementing Agencies:*

[to be inserted]

(b) *Cofinanciers:*

[to be inserted]

(c) *Other partners and stakeholders* (e.g. NGOs/private sector/civil society):

[to be inserted]

## ANNEXES

## Annex 1. Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

#### Lending / Supervision (from Task Team in Program Document & ISR)

| Name                         | Title                                    | Unit  | PRSC3 | PRSC4 | PRSC5 |
|------------------------------|--|-------|-------|-------|-------|
| Antonio Nucifora             | Senior Economist                         | AFTP1 | x     | x     | x     |
| Gregor Binkert               | Task Team Leader                         | AFTP1 | x     | x     |       |
| Francisco Carneiro           | Senior Economist                         | AFTP1 | x     |       |       |
| Maria Teresa Benito-Spinetto | Research Analyst                         | AFTP1 | x     | x     | x     |
| Ligia Murphy                 | Program Assistant                        | AFTP1 | x     |       |       |
| Adelina Mucavele             | Team Assistant                           | AFCO2 | x     | x     | x     |
| Peter Nicholas               | CPC                                      | AFCMZ | x     | x     | x     |
| Paola Ridolfi                | Country Officer                          | AFCMZ | x     | x     |       |
| Aniceto Bila                 | Sr. Operations Officer                   | AFCO2 | x     | x     | x     |
| Lurdes Malate                | Executive Assistant                      | AFCO2 | x     | x     |       |
| Louise Fox                   | Lead Economist                           | AFTPM | x     | x     |       |
| Rui Benfica                  | Poverty Analyst                          | AFTPM | x     | x     |       |
| Eduardo de Sousa             | Senior Economist                         | AFTS1 | x     | x     |       |
| Daniel Sousa                 | Sr. Agricultural Services Specialist     | AFTS1 | x     | x     | x     |
| Gilberto de Barros           | Sr. Private Sector Dev. Specialist       | AFTPS | x     |       |       |
| Ana Ruth Menezes             | Education Specialist                     | AFTED | x     | x     | x     |
| Xiaoyan Liang                | Sr. Education Specialist                 | AFTED | x     | x     | x     |
| Jean Jacques de St. Antoine  | Lead Operations Officer                  | AFTH1 | x     | x     | x     |
| Humberto Cossa               | Sr. Health Specialist                    | AFTH1 | x     | x     | x     |
| Bina Valaydon                | Health Specialist                        | AFTH1 | x     |       |       |
| Kate Kuper                   | Sr. Urban Specialist                     | AFTU1 | x     | x     | x     |
| Jane Walker                  | Lead Water & Sanitation Specialist       | AFTU1 | x     | x     |       |
| Ali Alwahti                  | Urban Specialist                         | AFTU1 | x     | x     | x     |
| Guenter Heidenhof            | Lead Public Sector Specialist            | AFTPR | x     | x     |       |
| Jose Luis Macamo             | Public Sector Specialist                 | AFTPR | x     | x     |       |
| Ravi Ruparel                 | Sr. Financial Sector Specialist          | AFTFS | x     |       |       |
| Mohamed Khatouri             | Sr. Monitoring and Evaluation Specialist | AFTKL | x     | x     |       |



| Name                          | Title                                 | Unit  | PRSC3 | PRSC4 | PRSC5 |
|-------------------------------|---------------------------------------|-------|-------|-------|-------|
| <b>Brighton Musungwa</b>      | Sr. Management Specialist             | AFTFM | x     |       |       |
| <b>Alberto Ninio</b>          | Lead Counsel                          | LEGAF | x     |       | x     |
| <b>Luz Meza-Bartrina</b>      | Sr. Council                           | LEGAF | x     |       | x     |
| <b>Jordi Agusti-Panareda</b>  | Legal Analyst                         | LEGAF | x     |       |       |
| <b>Beth Dabak</b>             | Operations Analyst                    | LEGEN | x     | x     |       |
| <b>Slaheddune Ben-Halima</b>  | Sr. Procurement Specialist            | AFTQK | x     | x     |       |
| <b>Isabel Nhassengo</b>       | Procurement Assistant                 | AFCO2 | x     |       |       |
| <b>Anil Bhandari</b>          | Sr. Adviser                           | AFTTR | x     | x     |       |
| <b>Dieter Schelling</b>       | Lead Transport Specialist             | AFTTR | x     | x     |       |
| <b>Kavita Sethi</b>           | Sr. Transport Economist               | AFTTR | x     |       |       |
| <b>Wendy Hughes</b>           | Sr. Energy Specialist                 | AFTEG | x     | x     |       |
| <b>Joseph Narkevic</b>        | Sr. Water and Sanitation Specialist   | EWDAF | x     |       |       |
| <b>Natasha Beschorner</b>     | Sr. ICT Policy Specialist             | CIPTO | x     |       |       |
| <b>Isabel Neto</b>            | Sr. ICT Policy Specialist             | CIPTO |       | x     | x     |
| <b>Charles Schlumberger</b>   | Sr. Air Transport Specialist          | TUDTR | x     |       |       |
| <b>Jacques Morisset</b>       | Lead Economist                        | AFTP4 | x     | x     |       |
| <b>Nwanze Okidegbe</b>        | Advisor                               | ARD   | x     | x     |       |
| <b>Diepak Elmer</b>           | Economist                             | AFTP1 |       | x     | x     |
| <b>Christian Albert Peter</b> | Sr. Natural Management Specialist     | AFTEN |       | x     |       |
| <b>Anne Louise Grinsted</b>   | Economist                             | AFCS2 |       | x     | x     |
| <b>Patrick Verissimo</b>      | Sr. Sector Economist                  | AFTAR |       | x     | x     |
| <b>Pedro Arlindo</b>          | Agricultural Economist                | AFTAR |       | x     | x     |
| <b>Samuel Maimbo</b>          | Sr. Financial Sector Specialist       | AFTFS |       | x     | x     |
| <b>Mazen Bouri</b>            | Private Sector Development Specialist | AFTFE |       | x     | x     |
| <b>Luiz Tavares</b>           | Lead Water & Sanitation Specialist    | AFTU1 |       | x     | x     |
| <b>Uri Raich</b>              | Sr. Urban Specialist                  | AFTU1 |       | x     | x     |
| <b>Lisa Bhansali</b>          | Sr. Public Sector Specialist          | AFTPR |       | x     | x     |
| <b>Gert van Der Linde</b>     | Lead Financial Management Specialist  | AFTFM |       | x     | x     |
| <b>Jonathan Nyamukapa</b>     | Financial Sector Analyst              | AFTFM |       | x     | x     |
| <b>Modupe Adebowale</b>       | Sr. Financial Management Specialist   | AFTFM |       | x     | x     |
| <b>Renaud Seligmann</b>       | Sr. Financial Management Specialist   | AFTFM |       | x     | x     |

| Name                         | Title                                  | Unit  | PRSC3 | PRSC4 | PRSC5 |
|------------------------------|--|-------|-------|-------|-------|
| Suzanne F. Morris            | Senior Finance Officer                 | LOAFC |       | x     | x     |
| Cecile Ramsay                | Operations Adviser                     | AFTQK |       | x     | x     |
| Lourdes Pagaran              | Sr. Operations Officer                 | AFTRL |       | x     | x     |
| Andrew Osei Asibey           | Sr. Monitoring & Evaluation Specialist | AFTRL |       | x     | x     |
| Irina Luca                   | Lead Procurement Specialist            | AFTPC |       | x     | x     |
| Antonio Chamuco              | Procurement Specialist                 | AFTPC |       | x     | x     |
| Eduardo Brito                | Sr. Counsel                            | LEGAF |       | x     |       |
| Edgardo Favaro               | Lead Economist                         | PRMED |       | x     |       |
| Jose Domingos Diogo Chembeze | Transport Specialist                   | AFTTR |       | x     | x     |
| Nathalie Munzberg            | Sr. Counselor                          | LEGAF |       |       | x     |
| Wolfgang Fengler             | Lead Economist                         | EASPR |       |       | x     |
| Sebastian Dessus             | Lead Economist                         | DECVP |       |       | x     |
| Susan Hume                   | Sr. Operations Officer                 | AFCS2 |       | x     | x     |

(b) Staff Time and Cost (from SAP) (the system pulls data available for all fields)

**A. PRSC3**

| Stage                  | Staff Time and Cost (Bank Budget Only) |   |
|------------------------|--|---|
|                        | No. of Staff Weeks                     | US\$ Thousands<br>(including travel and consultant costs) |
| <b>Lending</b>         |  |   |
| FY07                   | 54.05                                  | 207.6   |
| FY08                   | --                                     | --  |
| <b>TOTAL:</b>          |  |   |
| <b>Supervision/ICR</b> |  |   |
| FY07                   | --                                     | --  |
| FY08                   | --                                     | --  |
| <b>TOTAL</b>           | <b>54.05</b>                           | <b>207.6</b>  |

**B. PRSC4**

| Stage                  | Staff Time and Cost (Bank Budget Only) |   |
|------------------------|--|---|
|                        | No. of Staff Weeks                     | US\$ Thousands<br>(including travel and consultant costs) |
| <b>Lending</b>         |  |   |
| FY07                   | 5.48                                   | 68.63   |
| FY08                   | 53.48                                  | 206.22  |
| <b>TOTAL:</b>          | <b>58.96</b>                           | <b>275.26</b>   |
| <b>Supervision/ICR</b> |  |   |
| FY07                   | --                                     | --  |
| FY08                   | --                                     | --  |
| <b>TOTAL</b>           |  |   |

**C. PRSC5**

| Stage                  | Staff Time and Cost (Bank Budget Only) |   |
|------------------------|--|---|
|                        | No. of Staff Weeks                     | US\$ Thousands<br>(including travel and consultant costs) |
| <b>Lending</b>         |  |   |
| FY08                   |  |   |
| FY09                   | 23.36                                  | 118.45  |
| <b>TOTAL:</b>          | <b>23.36</b>                           | <b>118.45</b>   |
| <b>Supervision/ICR</b> |  |   |
| FY08                   | --                                     | --  |
| FY09                   | --                                     | --  |
| <b>TOTAL</b>           |  |   |

**Annex 2. Beneficiary Survey Results (if any)**

None undertaken

**Annex 3. Stakeholder Workshop Report and Results (if any)**

None



## Annex 4. Borrower's Comments on Draft ICR



REPÚBLICA DE MOÇAMBIQUE  
MINISTÉRIO DA PLANIFICAÇÃO E DESENVOLVIMENTO  
GABINETE DO MINISTRO

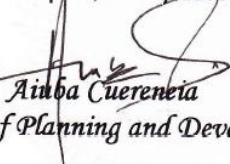
Ofício n.º 162/GM/MPD/2010

Re: **Republic of Mozambique – PRSC 3-5 Implementation Completion and Results Report**

1. We want to acknowledge the *PRSC 3-5 Implementation Completion and Result Report*, dated 29 April 2010. This is an important instrument that allows the Government of Mozambique and the World Bank Group to assess the impact of the interventions in Mozambique with the budget support mechanism.
2. We take note of the fact that the Report recognizes that overall the results are positive. There are various examples of the strong role the Government of Mozambique is putting forward in adopting reforms for economic growth and poverty reduction.
3. It is mentioned throughout the text that the delay on the completion the National Program for Decentralized Financial Planning and the Decentralization Strategy. I want to reiterate that the decentralization process has been a top priority of the Government, as seen by the improvements in the district governments, the establishment of the provincial assemblies, the decentralizations of financial resources for the districts, the greater role played of the District Councils and the expansion of the number of municipalities shows the commitment from the Government of Mozambique in this matter.
4. The Report reinforces the merit of the budget support mechanism as process aligned with the Government priorities in terms of policy reforms consistent with the promotion of broad based growth for poverty reduction.

Accept Mr. Da Silva the assurances of my highest consideration.

Maputo, 21 May 2010

  
Aida Cuereña  
Ministry of Planning and Development

To:  
Mr. Luiz Pereira Da Silva  
Country Director  
World Bank  
Maputo

Cc: H.E. Manuel Chang, Minister of Finance  
H.E. Ernesto Gove, Governor of Bank of Mozambique





## Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

### JOINT COMMENTS FROM THE ECONOMISTS OF THE G19 PROGRAMME AID PARTNERS (PAPs) \*

#### Implementation Completion and Results Report on the Poverty Reduction Support Credits 3-5

1. We appreciate the opportunity to share the results analysis of the three PRSC operations, which by and large has been a common budget support operation with all G19 partners in Mozambique. When possible, the time given for partners to participate and consolidate comments to these types of assessments should for future processes be extended. Nevertheless, we agree with the overall assessment made by the Bank that the overall performance of the PRSC series has been satisfactory. We further note in the Banks' PRSC VI document where it is cited:

*"The positive results of the PRSC series can be attributed to two main factors. Firstly, the strong Government ownership of the program supported by the PRSC, which is directly drawn from the PRSP. Secondly the positive impact of the highly harmonized policy dialogue across donors providing budget support to the Government of Mozambique, which has streamlined the donor dialogue with Government."*

2. We welcome the continued engagement of the Bank within the harmonised framework of the G19. Reflecting this, the Bank has been a key partner within the system since 2004 and signed the new MOU on GBS in 2009, clearly agreeing and endorsing the common approach to GBS. Throughout the PRSC series the Bank has held a permanent seat in the Troika+ helping to coordinate the G19 structure and in a prime/unique position to influence the process from within and propose any reforms to it.
3. We would like to underline that the PAF as much as the triggers selected for the PRSC series have been a flexible tool to monitor the implementation of the Poverty reduction Strategy. Our own analysis shows that in 2006-2008 over 43 changes were introduced. We would also like to note that there are no restrictions on the use policy actions within the PAF and it is not restricted to output and outcome indicators.
4. We are therefore concerned that the Bank chooses to focus on the inflexibility of the PAF. The Bank may in some instances have failed, as in other countries, to engage early enough in the indicator setting process and an active participation in sector working groups which would have allowed for high quality indicators reflecting emerging concerns together with stronger government ownership in a harmonized approach.
5. There has been a positive tendency over the series of PRSC operations to further delink the PAF/PRSC targets from specific on-going bank or other partner's operations with recognition that the PRSC series is more of a process than outcomes from specific Bank operations. This tendency has also enhanced the space for coordinated approaches within sectors. We also note that many of the successful reform programmes identified (e.g. SISTAFE reform and Tribunal Administrativo) have been supported by joint capacity building programmes with a high degree

of ownership and flexibility and less of rigid operations.

6. We agree with the observation that efficiency of the working groups can be further improved, which is why the G19 has put together a series of proposals not only to reduce the number of working groups but also to streamline and prioritise the dialogue with government. It is our wish that the Bank will continue to participate actively in that endeavour.
7. Donors feel that progress in key areas of political and economic governance is not simply due to a lack of understanding of the political context. Donors have been well aware of the ongoing trends in the area of political and economic governance. In fact, lack of tangible progress in the broader governance area, in particular, the legal and judiciary reform, the fight against corruption and slowness in reforming the business environment have been in the last three to four annual reviews, as issues for special attention and focus.
8. The conclusion that certain reforms need deeper understanding of the political economy for change is certainly true and investments in further analytical work by the Bank and other partners jointly should be done to achieve results in some of the less successful reform areas.
9. This is also why we previously have expressed some concerns, that leaving some of the less successful (public sector) reform areas from the PRSC 3-5 behind in the new PRSC operation may neglect the fact that progress in the broader governance area remain one of the most critical challenges for the country and risks the sustainability of any progress on economic development. PFM reform is one area where we welcome the Bank to become an even more visible partner within PFM-reforms, while recognizing the valuable contributions made by systematically sharing analytical studies and mission reports with the wider donor group.

Maputo, 16 April 2010

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\* Note: These comments have been elaborated jointly at technical level and do not necessarily represent the views of all individual agencies.

*G-19 is the group of donors providing General Budget Support to the Government of Mozambique through a common framework agreement. Donors are: African Development Bank, Austria, Belgium, Canada, Denmark, European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and World Bank. Associate Members are: United Nations and United States.*

## **Annex 6. List of Supporting Documents**

1. PRSC3 Program Document, Report No. 37970-MZ, December 19, 2006
2. PRSC4 Program Document, Report No. 41465-MZ, December 20, 2007
3. PRSC5 Program Document, Report No. 44846-MZ, October 30, 2008
4. PRSC 6 Program Document, Report No. 50921-MZ ,October 14, 2009
5. Mozambique Poverty Gender and Social Assessment Report, World Bank 2008.
6. IMF Staff Reports, 2007-2009
7. Donor Joint Reviews Aide-Memoires, 2006-2010
8. Bank internal documents (ROC minutes, etc) for PRSCs 3-4-5



## Annex 7. Policy measures and outcomes achieved by the end of PRSC5

| Sector/Policy Area   | PRSC 3<br>Measures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05 | PRSC 4<br>Measures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06 | PRSC 5<br>Measures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07 | Expected Outcome for end 2009<br>As set forth in PRSC3 PD (paras 77-81)  | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010  |
|--|---|---|---|--|---|
| <b>Macroeconomic Management</b>  |   |   |   |  |   |
| Maintenance of adequate macroframework                                     | PSI reviews concluded for 2007, with two waivers at end December (Net Credit to Government and Reserve Monday. See IMF rpt 08/220                               | PSI review of 2008 performance concluded (IMF report 09/227)  | 5 <sup>th</sup> review of PSI performance through end-June concluded – one waiver requested on Net Credit to Government at end June                               | Not specified, but presumption is that IMF programs will be “on track” as measured by conclusion of PRGF/PSI reviews   | <b>Achieved.</b> Growth rate of 6-8% in 2006-08; 6.3% in 2009. Inflation down to 3.9% in 2009. Currency reserves 5.5 months in 2009. Fiscal deficit financed w/o monetary financing.  |
| <b>Performance with respect to Performance Assessment Framework</b>        |   |   |   |  |   |
| Satisfactory conclusion of Joint Donor Reviews                             | JR of CY2007 performance satisfactorily concluded in April 2008, with 24 of 41 triggers met (59%), 12 not met but with progress, and 5 not met.                 | JR of CY2008 performance satisfactorily concluded in April 2009, with 20 of 40 triggers met (59%), 15 not met but with progress, and 5 not met.                   | JR for CY2009 will be undertaken in April 2010  | All JRs for 2007-2009 would be satisfactorily met (PRSC PD, para xx)   | <b>Achieved</b> with respect to PAF for 2008 and 2008:<br>- 44 of 81 (54%) triggers met<br>- 27 not met (33%) but with progress<br>- 10 not met (13%)<br>- JR assessment: Performance mixed, but adequate for continuation of GBS |
| <b>Improve Efficiency and effectiveness of Public Financial Management</b> |   |   |   |  |   |
| Structure of Priority Expenditures   | Actual expenditures on priority sectors were 62 percent in 2007.<br>Minor shortcoming<br><u>Rating: Satisfactory</u>  | Actual expenditures on priority sectors were 64.5% in 2008.<br>Minor shortfall, relative to target of 65%<br><u>Rating: Satisfactory</u>                          | Actual expenditures on priority sectors were 61.6% in 2009.<br>Minor shortfall, relative to target of 65%<br><u>Rating: Satisfactory</u>                          | The composition of actual public spending is in accordance with the objectives of PARPA 2, namely that 65% of primary expenditures are allocated and effectively spent on priority sectors | <b>On track</b> , minor shortcoming in 2007, 2008 and 2009<br><b>Rating: Satisfactory</b>   |
| Allocation to priority sectors aligned with MTEF                           | No info available   | Total allocation to priority sectors in 2009 budget in line with MTEF:<br><u>Rating: Satisfactory</u>   | Total allocation to priority sectors in 2010 budget in line with MTEF.<br><u>Rating: Satisfactory</u>   | Not specified, but assumed to be that “The composition of the budget in accordance with the objectives of PARPA 2, as regards priority sectors and poverty reduction.”                     | <b>Targets achieved</b> , but with minor shortcomings.<br><b>Rating: Satisfactory</b>   |

| Sector/Policy Area   | PRSC 3<br>Mesures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05                            | PRSC 4<br>Mesures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06                                 | PRSC 5<br>Measures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07  | Expected Outcome for end 2009<br>As set forth in PRSC3 PD (Paras 77-81)                            | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010 |
|--|---|--|--|--|--|
| <b>Improve Efficiency and effectiveness of Public Financial Management (continued)</b> |   |  |  |  |  |
| Roll out of e-SISTAFE at national and sub-national level                               | Roll out to 25 Ministries, 7 ministries & 544 UGEs: Target exceeded.<br><u>Rating: Highly satisfactory</u>  | Roll-out to 25 ministries and 50 districts<br><u>Rating: Highly satisfactory</u>   | No information available   | Budget Execution less time consuming transparency improved   | <b>Achieved.</b> e-SISTAFE roll out targets exceeded for 2007 & 08<br><u>Rating: Highly Satisfactory</u>   |
| Use of direct budget execution through e-SISTAFE                                       |   | 95% of UGE budget execution done directly thru e-SISTAFE<br>Target of 90 % exceeded.<br><u>Rating: Highly satisfactory</u>   | Actual= 97%  | Budget Execution is less time consuming and transparency has improved                              | <b>Achieved.</b> Direct Budget Execution Targets exceeded for 2008 and 2009<br><u>Rating: Highly Satisfactory</u>  |
| Create Central Revenue Authority to help raise revenue to GDP ratio. t                 | Revenue to GDP ratio exceeded target by 0.4%<br>No shortcomings<br><u>Rating: Highly satisfactory</u>   | Revenue to GDP ratio exceeded target by 0.8% according to JR of 2008 performance.<br><u>Rating: Highly Satisfactory</u>  | Target specified as follows:<br>2007: 15.8%<br>2008: 16.3%<br>2009: 16.8%<br>Actual 2009: 17.8%<br><u>Rating: Highly Satisfactory</u>  | Better revenue generation capacity and increased revenue to GDP ratio                              | <b>Achieved through end 2009</b><br><u>Rating: Highly Satisfactory</u>   |
| Make State procurement system for goods and services more efficient and transparent    | During PRSC 3 implementation (2007), UFSA was staffed and its website became operational.<br>No shortcomings<br><u>Rating: Highly satisfactory</u>  | Phase III implemented, with monitoring system, which permits performance, measurement, is operational.<br><u>Rating: Highly Satisfactory</u>   | Target (PRSC6 trigger)<br>(i) 88% of contracts subject to public tender;<br>(ii) Information on other tender modalities communicated to UFSA in at least 90% of cases;<br>(iii) Complaints process operational in line with current Mozambique law<br><u>Rating: Highly satisfactory</u> | Public procurement systems are functioning more effectively and transparently up to district level | <b>Achieved,</b> with minor shortcomings, although no targets were set. These have been introduced under PRSC6.<br><u>Rating: Satisfactory</u>   |
| Increase coverage and efficiency of internal audit units                               | Audit of districts and municipalities by IGF. No target set. <u>Rating: Not rated</u>   | No target set, monitoring stopped.<br><u>Not Rated.</u>  | No target set, monitoring stopped.<br>Not Rated  | Coverage and quality of internal audits has improved   | <b>Achieved for 2006.</b> The target for 2006 (year prior to PRSC3) was more than achieved<br><b>Not Rated</b>   |
|  | Share of central and provincial bodies with operational internal control units: Target 30 percent, actual 25 percent.<br>Moderate shortcoming :<br><u>Rating: Moderately satisfactory</u> | Share of central and provincial bodies with operational internal control units to exceed 65 % (prior action for PRSC5).<br><u>Actual: 65%, (shortfall of 9%.)</u><br><u>Rating: Satisfactory</u> | Share of central and provincial bodies with operational internal control units to exceed 75 percent, reduced from 100%.<br><u>Actual: 75%</u>  |  | Coverage and quality of internal audits has improved   |

| Sector/Policy Area   | PRSC 3<br>Mesures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05   | PRSC 4<br>Mesures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06  | PRSC 5<br>Measures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07   | Expected Outcome for end 2009<br>As set forth in PRSC3 PD (paras 77-81)   | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010   |
|--|--|---|---|---|--|
| <b>Improve Efficiency and effectiveness of Public Financial Management (continued)</b> |  |   |   |   |  |
| Increase coverage of external audit bodies   | Court of Accounts approved 291 financial audits in 2007, compared to a target of 90. No shortcoming<br><u>Rating: Highly satisfactory</u>  | Target : 118<br>Actual: 350<br><u>Rating: Highly satisfactory.</u>  | Target: 144<br>Actual: 491<br><u>Rating: Highly satisfactory</u>  | Coverage and quality of external audits has improved, as per targets set in PRSC3   | On track. Targets exceeded for 2007, 2008, & 2009<br><b>Rating: <u>Highly Satisfactory</u></b>   |
|  |  | Target was 30%.<br>Actual: 32-33 percent of state budget audited in 2008 by the CA according to INTOSAI standards.<br><u>Rating: Highly Satisfactory</u>  | Target :35%,<br>Actual: 34.8%<br><u>Rating: Satisfactory</u>  | Coverage and quality of external audits has improved (but no target was set in PRSC3)   | <b>On track.</b><br>No shortcomings as of end 2009<br><b>Rating <u>Highly Satisfactory</u></b>   |
| <b>Governance</b>  |  |   |   |   |  |
| Strengthen institutional capacity of local governments                                 | Transfer funds to Provinces, Disticts and Municipalities<br>Target exceeded<br>National Program for Decentralized Planning (NPDP) to be approved (Trigger for PRSC 4). Not realized, delay of one year expected. Mod. Shortcoming.<br><u>Rating Mod. Satisfactory (MS)</u><br>Decentralization strategy to be completed (Trigger for PRSC 4). Deferred to 2010. Major shortcoming<br><u>Rating: Unsatisfactory</u> | Transfer funds to Provinces, Disticts and Municipalities<br>Target exceeded<br><br>The National Program for Decentralized Planning (NPDP) was approved.<br><u>Rating: Highly Satisfactory</u><br><br>The Decentralization strategy was deferred until Series III<br><u>Rating: Unsatisfactory</u> | Transfer funds to Provinces, Disticts and Municipalities<br>Target exceeded<br><br>IDA and other PAPs have now agreed on a common fund to support the implementation of the NPDP to deliver capacity building and oversight more effectively. | (iv) Districts have more capacity to decide on investment programs;<br>(v) More resources are transferred to them;<br>(vi) Decentralization strategy approved | <b>Partially achieved.</b><br>Tranfer targets exceeded through 2008.<br><b>Rating: Highly satisfactory</b><br><br>NPDP approved with one year delay:<br><b>Rating: Satisfactory</b><br><br>But decentralization strategy seriously delayed – a <u>major shortcoming</u><br><b>Rating: Unsatisfactory</b> |
| Improve HR management in public sector   | (i) Census of civil servants completed; integrated payroll database created;<br>(ii) National Authority for Public Service Created<br><u>Rating: Highly Satisfactory</u>   | (i) Unified Personnel Information System (PPIS) operational<br>(ii) Ministry of Civil Service created<br><u>Rating: Highly Satisfactory</u>   | No target specified, new wage policy in place   | Capacity to monitor the wage bill is in place   | <b>On track.</b><br><b>Highly satisfactory</b>   |
| Make justice services more effieicnt & faster  | Number of cases tried per judge to exceed 150.<br>Not Rated.   | No evidence available<br>Not Rated  | No evidence available<br>Not Rated  | Productivity of judges increased, due to more cases tried per judge per yr.   | <b>Not achieved.</b> Program was dropped<br><b>Not Rated</b>   |

| Sector/Policy Area   | PRSC 3<br>Mesures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05   | PRSC 4<br>Mesures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06                                 | PRSC 5<br>Measures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07 | Expected Outcome for end 2009<br>As set forth in PRSC3 PD (paras 77-81)  | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010                                  |
|--|--|--|---|--|---|
| <b>Economic Development</b>  |  |  |   |  |   |
| Improve business environment   | The number of days to open a business in 2007 was effectively reduced to 29 compared to a target of 60<br><u>Rating:</u> Highly Satisfactory   | Reforms continued with delay reduced to 26 days, compared to a target of 40.<br><u>Rating:</u> Highly Satisfactory   | Target is 30, actual is unknown But presumed ≤26 days<br><u>Rating:</u> Highly satisfactory   | Reduction of number of days to open a business from 153 in 2005 to 30 in 2009.   | <b>Achieved.</b> Results for 2009 not available, BUT targets for 2006-2008 exceeded.<br>No shortcomings<br><u>Rating:</u> <b>Highly Satisfactory</b>  |
| Improve the insurance and social protection sector                   | PRSC3 Target: Completion of actuarial study and elaboration of its investment strategy<br><u>Actual:</u> Deferred one year<br>Moderate shortcoming:<br><u>Rating:</u> Moderately Satisfactory                            | PRSC 3 target: Implementation of recommendations and investment strategy. Deferred to 2008.<br><u>Rating:</u> Studies completed w/o further delay.<br><u>Rating:</u> Highly Satisfactory         | Target: Implementation of recommendations and investment strategy for PRSC5. Delayed.<br><u>Rating:</u> Unsatisfactory .  | Pension system on sounder footing. INSS investment study so contributing to the development of the financial sector.                                 | <b>Not achieved.</b> Annual ratings satisfactory, but it seems that the objective has not been attained, since according to PRSC 6, pension systems still not on sound footing.<br><u>Rating:</u> <b>Unsatisfactory</b> |
| Improve conditions for road traffic                                  | % of roads in good or reasonable condition was 69% in 2007 compared to target of 67%. (new classification) .<br>No shortcomings;<br><u>Rating:</u> <b>Highly Satisfactory</b>  | Number of roads in good or reasonable condition was 67% in 2008 compared to target of 70% (new classification).<br><u>Rating:</u> Satisfactory   | Target is 73%<br>Actual Not yet known   | Number of roads in good or reasonable condition increases from 71% in 2006 to 78% in 2009 (old classification) – 64% & 73% under new classification  | <b>On track.</b> there was a minor shortfall of 1 percentage point in 2007 and 2008.<br><u>Rating:</u> <b>Satisfactory</b>  |
| Promote construction and rehabilitation of irrigation infrastructure | <u>Target:</u> Construction and rehabilitation of 4000 ha of irrigated area and put under the mgt of the beneficiaries.<br><u>Actual:</u> 3500.<br>Moderate shortcoming (13%)<br><u>Rating :</u> Moderately Satisfactory | Construction and rehabilitation of 1788 ha of irrigated area and put under the mgt of the beneficiaries in 2008, i.e. 1612 ha, i.e. 40 percent less than target<br><u>Rating:</u> Unsatisfactory | Target: 3000,<br>Actual: 2061, 31 percent less than target.<br><u>Rating</u> Moderately Unsatisfactory  | Ag. productivity is increased through improved irrigation systems, with 13,600 hectares being rehabilitated and brought under beneficiary management | <b>Not achieved.</b> Very poor performance in 2008. Overall shortfall 29 percent relative to target<br><u>Rating:</u> <b>Moderately Unsatisfactory</b>  |



| Sector/Policy Area  | PRSC 3<br>Mesures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05 | PRSC 4<br>Mesures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06 | PRSC 5<br>Measures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07          | Expected Outcome for end 2009<br>As set forth in PRSC3 PD (paras 77-81)  | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010 |
|---|--|--|--|--|--|
| <b>Economic Development (continued)</b>                     |  |  |  |  |  |
| Increase farmer access to, and use of improved technologies | 285,000 peasants by public extension services, including sub-contracting, in 2007 -- 62,700 more than target<br><u>Rating:</u> Highly Satisfactory             | 354,000 were assisted (o.w 203,755 men & 150,315 women) –131, 700 more than target.<br><u>Rating:</u> Highly Satisfactory  | Target: 411, 000, Actual: 365,752, a shortfall of 11 percent.<br><u>Rating:</u> Moderately Satisfactory  | Ag. productivity is increased through improved access to and use of improved technologies disseminated by extension services | <b>On track.</b> Annual targets for 2007 and 8 exceeded. Moderate shortfall for 2009. However, no shortfall for the period as a whole.<br><b><u>Rating: Highly satisfactory</u></b>    |
| Response to higher food prices                              |  | Budget allocation to agriculture in 2009 MTEF up from 4.7 in 2008 to 6% for 2009   | Budget allocation to agriculture in 2009 MTEF up from 4.7% in 2008 to 7% in 2010.<br><u>Rating:</u> Highly satisfactory  | Not specified, because introduced only in PRSC5  | <b>Targets achieved.</b><br><b>Rating: Highly Satisfactory</b>   |
|   |  |  | <u>Targets</u> for Production of certified seeds increases as follows:<br>- Maize: + 1250 tonnes<br>- Rice: +2200 tonnes<br><u>Actual:</u> Unknown<br><b>Not yet Rated</b> | Not specified, because introduced only in PRSC5  | <b>Overall outcome not available</b><br><b>NOT RATED</b>   |
|   |  |  | <u>Targets</u> for increase in area under intensive production:<br>- Maize: 50,000 Ha; and<br>- Rice: 22,000 Ha<br><u>Actual:</u> Unknown<br><b>Not yet rated</b>          | Not specified, because introduced only in PRSC5  | <b>NOT RATED</b>   |

| Sector/Policy Area                           | PRSC 3<br>Mesaures implemented during PRSC3 (2007)<br>Board approval January 07<br>Closing date: 09/30/07<br>Operation approved on basis of performance in CY05 | PRSC 4<br>Mesures implemented during PRSC 4 (2008)<br>Board approval :January 08<br>Closing date: 08/31/08<br>Operation approved on basis of performance in CY06 | PRSC 5<br>Mesures implemented during PRSC5 (2009)<br>Board approval :November 08<br>Closing date: 10/31/09<br>Operation approved on basis of performance in CY07 | Expected Outcome for end 2009<br>As set forth in PRSC3 PD | Outcome and results, basis of information in -March 2010<br>Information available from ISRs as of closing dates, PD for PRSC6, and JRs for CY07, CY08<br>JR for 2009 in April out 2010 |
|--|---|--|--|---|--|
| <b>Assessments</b>                           |   |  |  |   |  |
| Outcomes<br>Relevance of Objectives          | <b>PFM</b> Highly relevant<br><b>Governance:</b> Highly relevant<br><b>Econ Development:</b> Highly relevant  | <b>PFM</b> Highly relevant<br><b>Governance:</b> Highly relevant<br><b>Econ Development:</b> Highly relevant   | <b>PFM</b> Highly relevant<br><b>Governance:</b> Highly relevant<br><b>Econ Development:</b> Highly Relevant,  |   |  |
| Design                                       | Satisfactory  | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Performance with respect to PAs and triggers | Highly satisfactory   | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Annual Outcome achievements                  | Satisfactory<br>HS 8, S 2, MS 4; U 1;<br><u>Overall score:</u> 5.1  | Satisfactory<br>HS 11; S 6; U 2;<br><u>Overall score:</u> 5.3  | Satisfactory<br>HS 11, S: 3; U: 2<br><u>Overall score:</u> 5.2   |   | <b>Satisfactory</b><br><b>Basis: Annual performance (2007 and 2008)</b><br>HS: 10; S: 6; MU: 1; U: 2;<br><u>Average: Overall score:</u> 5.2  |
| End of series Outcomes                       |   |  |  |   | <b>Satisfactory</b><br><b>Basis: End of Series outcomes</b><br>HS: 10; S: 6; MS: 0; MU: 1; U:2.<br><u>Average score:</u> 5.1   |
| Outcome Overall                              | Satisfactory  | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Risks to Outcomes                            | Moderate  | Moderate   | Moderate   |   | <b>Moderate</b>  |
| Bank Performance,o.w.                        |   |  |  |   |  |
| Quality at entry                             | Satisfactory  | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Supervision                                  | Satisfactory  | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Overall                                      | Satisfactory  | Satisfactory   | Satisfactory   |   | <b>Satisfactory</b>  |
| Borrower Performance                         | Satisfactory.   | Satisfactory.  | Satisfactory   |   | <b>Satisfactory.</b>   |

**Annex 8. Extended Results Framework**

(contains additional information compared to the one in the Data Sheet)

**(a) PDO Indicator(s) – from Program Document**

|  | <b>Baseline Value (from approval documents)</b>   | <b>Original Target Values (from approval documents)</b> | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b> |
|--|---|---|---------------------------------------|---|
| <b>1. Support the consolidation of and deepening of the institutional reforms in the area of macroeconomic management</b>  | As the PRSC consists of a series of annual operations, no specific value was defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below)   |   |                                       |   |
| Date achieved  |   |   |                                       |   |
| Comments (incl. % achievement)   | Progress to date has been satisfactory, as evidenced by the satisfactory completion of (i) all IMF PRGF (2007) and PSI (2008, 2009) reviews; and (ii) Joint Donor Reviews for 2007 and 2008, completed in April 2008 and April 2009 respectively. All 16 prior actions were met on time, but one of them – pertaining to the share of the budget being audited by the Court of Accounts was modified downwards. There have been notable improvements in revenue generation and administration, expenditure management, procurement, internal controls and external audits. Performance with respect to intermediate outcome indicators has generally been highly satisfactory (only satisfactory for internal control units). Overall performance in this component has been highly satisfactory  |   |                                       |   |
| <b>2. Strengthen reforms in governance by (a) supporting decentralization to enhance public investments and service delivery at the provincial and district level; and (b) supporting public sector reform</b> | As the PRSC consists of a series of annual operations, no specific values were defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below)   |   |                                       |   |
| Date achieved  |   |   |                                       |   |
| Comments (incl. % achievement)   | Five out of seven triggers were met on time and without modification. Those missed pertained to the National Program of Decentralized Planning and Finance Program (NPDPF) and decentralization. Decentralization is gradually proceeding, districts were receiving increased revenues, above target, hence highly satisfactory performance. However, there was a one year delay in the preparation of the NPDPF which was finalized in September 2008, hence performance is rated satisfactory. The finalization of the decentralization strategy was delayed by three years to 2010, such that performance has been rated unsatisfactory. On balance, performance for the decentralization reforms can be considered moderately satisfactory. Civil Service reforms have progressed well. The Ministry of Civil Service was created in 2007, a Census was also done in 2007, and a single Personnel Registry in 2008. New medium term wage policy was designed and approved in 2008, implementation beginning |   |                                       |   |

|   |   |
|---|---|
|   | <p>in 2009. Performance satisfactory.</p> <p>Overall performance for this component is moderately satisfactory. It should be noted that the inclusion of justice sector reforms was considered as a possibility at the time of PRSC3 for later operations in the series and an indicative trigger on improving performance of the justice sector was envisaged for PRSC5 (in the PRSC3 Program Document); however justice reforms were not in fact included because it was later decided to narrow down the focus of the PRSC series, and the trigger was therefore dropped.</p>  |
| <p><b>3.</b> Support economic development by improving the investment climate, removing constraints to growth, such as infrastructure, and promoting agricultural growth.</p> | <p>As the PRSC consists of a series of annual operations, no specific values were defined at this level. Only intermediate indicators in the form of prior actions and triggers were defined (see below)</p>  |
| <p>Date achieved</p>  |   |
| <p>Comments<br/>(incl. % achievement)</p>   | <p>Slow progress in improving the business environment, although the time to register a business was reduced from 153 days to 29 days in 2007 (DB). Preparation of INSS actuarial studies and investment strategy was delayed. Road construction and rehabilitation on track. Rehabilitation of irrigation infrastructure proceeding with delays. Good performance in agriculture extension expanding but still small. Food price response is on track. Four out of seven triggers met on time w/o modification. Those delayed/missed pertained to INSS studies, and rehabilitation of irrigation infrastructure. Overall performance is rated moderately satisfactory.</p> |

**(b) Intermediate Outcome Indicator(s) - from Program Document**

|                                     | <b>Baseline Value (from approval documents)</b>   | <b>Original Target Values (from approval documents)</b>  | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b>  |
|-------------------------------------|---|--|---------------------------------------|--|
| <b>IO Indicator 1:</b>              | Share of indicators going to priority sectors to be at least 65 percent   |  |                                       |  |
| Value (quantitative or qualitative) | 64.6% in 2006   | 65 percent in 2007, 2008, 2009   |                                       | 62.0% in 2007<br>64.5% in 2008, 61.6% in 2009  |
| Date achieved                       | 12/31/06  | 12/31/2007   |                                       | 12/31/2009   |
| Comments (incl. % achievement)      | The baseline value for 2006 was initially set at 65% in the PRSC3 PD, but then revised down (PRSC4 ISR). In 2007, the actual was 62 percent, because delays in disbursements of donor funds led to under-pending on investment in priority sectors. Government has addressed issue with donors of how to avoid such issues in the future. The share rose to 64.5 percent in 2008, but then decreased back to 62% in 2009. On basis of available information, there have been minor shortfalls compared to target, so performance is satisfactory (S). |  |                                       |  |
| <b>IO indicator 2</b>               | Alignment of annual budget with first year of corresponding MTEF  |  |                                       |  |
| Value (quantitative or qualitative) | No alignment between MTEF and annual budget   | Aggregate allocation for priority sectors in the budget should be in line with the first year of the corresponding MTEF. |                                       | Aggregate budget envelope and total budget allocation to priority sectors aligned with MTEF in 2008 and 2009, but not in 2010 budget.                                      |
| Date achieved                       | 12/31/2007  | 12/31/2008   |                                       | 12/31/2009   |
| Comments (incl. % achievement)      | This measure was introduced as a trigger for PRSC5, according to which the aggregate budget allocation for priority sectors for the 2008 budget was in line with the corresponding MTEF, and same was done for the 2009 budget, but not for the 2010 budget, partly due to the impact of the financial crisis. However significant differences persist in the allocations by sector. Performance is satisfactory (S).   |  |                                       |  |
| <b>IO Indicator 3:</b>              | Roll out of e-SISTAFE   |  |                                       |  |
| Value (quantitative or qualitative) | e-SISTAFE had been introduced in 22 ministries at end of 2006.  | All 25 ministries and main institutions of the State by end-2007.  |                                       | e-SISTAFE was operational in all 25 ministries and main institutions of the State by end-2007. Further, by end 2008 e-SISTAFE was successfully rolled out to 50 districts. |
| Date achieved                       | 12/31/06  | 12/31/2007   |                                       | 12/31/2009   |
| Comments (incl. % achievement)      | Target was considerably exceeded by 2007. Performance is highly satisfactory (HS).  |  |                                       |  |
| <b>IO Indicator 4</b>               | Direct Budget Execution through e-SISTAFE   |  |                                       |  |
| Value (quantitative or qualitative) | e-SISTAFE not operational. PFM system based on ledgers.   | 90% of UGE expenditure for goods services investment to be executed directly through e-SISTAFE in 2008 and 2009          |                                       | Actual was 95% in 2008 and 97% in 2009   |

|                                     |  |   |                                       |  |
|-------------------------------------|--|---|---------------------------------------|--|
| Date achieved                       | 12/31/06   | 12/31/2008  |                                       | 12/31/2009   |
| Comments (incl. % achievement)      | Trigger was introduced in PRSC5, following the successful roll-out of e-SISTAFE. Target was exceeded. Performance highly satisfactory (HS).  |   |                                       |  |
|                                     | <b>Baseline Value (from approval documents)</b>  | <b>Original Target Values (from approval documents)</b>   | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b>  |
| <b>IO Indicator 5</b>               | Creation of the Central Revenue Authority (CRA) and increase revenue as a share of GDP   |   |                                       |  |
| Value (quantitative or qualitative) | In 2005, revenues were collected through the National Directorate of Taxes, and the General Directorate for Customs. Revenue to GDP ratio was 15.3 percent in 2006   | Creation of CRA by end 2006 and increase revenues by at least 0.5 percent of GDP per year through 2009;<br>2007: $\geq 15.8\%$ ;<br>2008: $\geq 16.3\%$ ;<br>2009: $\geq 16.8\%$ ;  |                                       | CRA created on time;<br>Revenue targets exceeded in 2007, and 2009.<br>2007: 16.4%<br>2008: 16.0%<br>2009: 17.8%   |
| Date achieved                       | 12/31/06   | 12/31/2007  |                                       | 12/31/2009   |
| Comments                            | CRA created on time, but revenue performance marginally under target in 2008 (shortfall of 0.3% as a result of a temporary removal of taxes on domestic fuel consumption introduced to cope with the sudden spike in global oil prices). Overall average for 2007-2009 however was substantially above target. Performance highly satisfactory (HS).   |   |                                       |  |
| <b>IO Indicator 6</b>               | Enhance procurement practices, implement new procurement system up to district level (phase 1—PRSC3 trigger; phase 2 PRSC4 trigger; and phase 3 PRSC5 trigger).  |   |                                       |  |
| Value (quantitative or qualitative) | Action plan for implementing new procurement system has been prepared ; 71% of contracts carried out through open bidding in 2006; justification for other modalities not recorded.  | On track with implementation of action plan (as reflected by information on public purchases showing that: (i) at least 90% of public contracts were subject to tender by end 2008, and 95% by end-2009; (ii) information on other modalities of contract has due justification in at least 90% of cases by end 2008, and 100% by end-2009. |                                       | Procurement system is operational. Capacity is being built in UFSA and the public administration.<br>(i) Share of contracts carried out through open bidding:<br>85% in 2007;<br>88% in 2008;<br>72% in 2009;<br>(ii) Justification for other modalities communicated to UFSA:<br>100% of cases in 2008 and 2009 . |
| Date achieved                       | 12/31/2006   | 12/31/2007  |                                       | 12/31/2009   |
| Comments                            | Evidence from Program Documents (including for PRSC6) indicates much progress was made: New system is operational and capacity is being built in UFSA and throughout the administration. However, more is needed to ensure the use of competitive procurement across the administration (as highlighted by the drop in % of contracts subject to public tender in 2009). Also UFSA data suffers from significant |   |                                       |  |

|                                     |   |  |                                       |   |
|-------------------------------------|---|--|---------------------------------------|---|
|                                     | shortcomings – a better monitoring system is needed. Performance is rated satisfactory (S)  |  |                                       |   |
| <b>Indicator 7</b>                  | Audits of districts and municipalities by IGF   |  |                                       |   |
| Value (quantitative or qualitative) | 32 percent  | Not defined  | Not defined                           | Not defined   |
| <b>Comment</b>                      | Not monitored, so not included in ratings   |  |                                       |   |
|                                     | <b>Baseline Value (from approval documents)</b>   | <b>Original Target Values (from approval documents)</b>                            | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b> |
| <b>IO Indicator 8</b>               | Increase coverage and efficiency of Internal Audit Bodies, measured by the share of central and provincial bodies with operational control units  |  |                                       |   |
| Value (quantitative or qualitative) | 16 percent  | Initial targets were:<br>2007: 30 percent<br>2008: 65 percent<br>2009: 100 percent | Target was lowered to 75 % for 2009   | Actual were:<br>2007: 25%<br>2008: 59%<br>2009: 75%         |
| Date achieved                       | 12/31/2006  | 12/31/2006   |                                       | 12/31/2009  |
|                                     | Following the failure to meet the 2007 and 2008 targets, the target for 2009 was lowered from 100 percent to 75 percent. The shortfalls relative to target were respectively 17 and 9 percent in 2007 and 2008, but the 2009 target was fully met. The average shortfall relative to targets was 6 percent, so performance is rated satisfactory (S). |  |                                       |   |
| <b>Indicator 9:</b>                 | Increase coverage and efficiency of external audit bodies, as measured by the number of financial audits approved by the Court of Accounts  |  |                                       |   |
| Value (quantitative or qualitative) | 2006: 115   | 2007: 90<br>2008: 118<br>2009: 144   |                                       | 2007: 357<br>2008: 350<br>2009: 491                         |
| Date achieved                       | 12/31/2006  | 12/31/2007   |                                       | 12/31/2007  |
| <b>Comments</b>                     | The original target for 2007 was set prior to the assessment of 2006 performance. In any event, the performance of the Court of Accounts in 2007 far exceeded the target. Performance highly satisfactory in all years (HS).  |  |                                       |   |
| <b>Indicator 10</b>                 | Increase coverage and efficiency of external audit bodies, using as an indicator the share of the State Budget audited by the Court of Accounts according to INTOSAI standards and Mozambican legislation   |  |                                       |   |
| Value (quantitative or qualitative) | Not determined (was 26% in 2007)  | 2008: 30%<br>2009: 35%   |                                       | 2008: 33.4%<br>2009: 34.8%                                  |
| Date achieved                       | 12/31/2006  | 12/31/2007   |                                       | 12/31/2009  |
| <b>Comments</b>                     | Performance exceeded the target for 2008 and was on target in 2009. Performance to date is highly satisfactory (HS)   |  |                                       |   |

|                                     | <b>Baseline Value (from approval documents)</b>   | <b>Original Target Values (from approval documents)</b>  | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b>   |
|-------------------------------------|---|--|---------------------------------------|---|
| <b>Indicator 11</b>                 | Transfer of budget to provinces, districts and municipalities, measured by the share of the budget transferred to them  |  |                                       |   |
| Value (quantitative or qualitative) | Provinces: 24%<br>Districts: 3%<br>Municipalities: 0.8%   | <u>2007 Targets:</u><br>P: 24%;<br>D: 3%;<br>M: 0.8%;<br><u>2008 Targets:</u><br>P: 23.3%;<br>D: 3.7%;<br>M: 0.9%;<br><u>2009 Targets</u><br>P: 27.8%;<br>D: 3.6%;<br>M: 1.0%; |                                       | <u>2007 Actuals:</u><br>P: 34%;<br>D: 3%;<br>M: 0.9%;<br><u>2008 Actuals:</u><br>P: 32%;<br>D: 4%;<br>M: 1%;<br><u>2009 Actuals:</u><br>P: 28.0%;<br>D: 5.5%;<br>M: 1.1%; |
| Date achieved                       | 12/31/06  |  |                                       | 12/31/2009  |
| <b>Comments</b>                     | Targets systematically met or exceeded. Performance highly satisfactory (HS)  |  |                                       |   |
|                                     | <b>Baseline Value (from approval documents)</b>   | <b>Original Target Values (from approval documents)</b>  | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b>   |
| <b>Indicator 12</b>                 | Decentralization - completion of National Program for Decentralized Financial Planning  |  |                                       |   |
| Value (quantitative or qualitative) | No program  | Approval by end 2007   | Approval by end 2008                  | Met in 2008   |
| Date achieved                       | 12/31/2006  | 12/31/2007   | 12/31/2008                            | 12/31/2009  |
| <b>Comment</b>                      | This was originally a trigger for PRSC4, but was deferred to PRSC5, and met. Given the delay of one year in meeting the target, performance is rated moderately satisfactory (MS)                         |  |                                       |   |
| <b>Indicator 13</b>                 | Decentralization -- finalization of decentralization strategy   |  |                                       |   |
| Value (quantitative or qualitative) | No strategy   | Approval by end 2007   | Deferred to 2010                      | Original target not met   |
| Date achieved                       | 12/31/06  |  |                                       | 12/31/09  |
| <b>Comments</b>                     | This was originally a target for PRSC4, but could not be met. It was decided to defer it to the third PRSC series. Because of the three year delay in completion, performance is rated unsatisfactory (U) |  |                                       |   |



|                                     | <b>Baseline Value (from approval documents)</b>  | <b>Original Target Values (from approval documents)</b>   | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b> |
|-------------------------------------|--|---|---------------------------------------|---|
| <b>Indicator 14</b>                 | Completion of civil service census and single personnel registry created   |   |                                       |   |
| Value (quantitative or qualitative) | No precise knowledge on number and characteristics of civil servants; and three separate databases on civil servants exist, none of which is complete  | Census by end 2007 and single personnel registry by end 2008. Approval of new wage policy in 2009 |                                       | All targets met.  |
| Date achieved                       | 12/31/2006   | 12/31/2007  |                                       | 12/31/09  |
| Comment                             | All targets met on time, without shortcomings. Performance is highly satisfactory (HS).  |   |                                       |   |
| <b>Indicator 15</b>                 | Improve efficiency and celerity of justice services, using as an indicator the number of cases tried per judge per year.   |   |                                       |   |
| Value (quantitative or qualitative) | Not indicated.   | 150 cases per judge per year beginning in 2007  |                                       |   |
| Date achieved                       | 12/31/2006   | 12/31/2007  |                                       |   |
| <b>Comment</b>                      | This indicator was initially included as part of the results framework (in PRSC3) as the program envisaged an indicative trigger in the justice sector for PRSC5. The latter was dropped, and this indicator was not monitored. Hence not included in rating calculations.   |   |                                       |   |
| <b>Indicator 16</b>                 | Improve the business environment by reducing the number of days to open a business   |   |                                       |   |
| Value (quantitative or qualitative) | 113 days in 2006   | Targets:<br>2007: 60<br>2008: 40<br>2009: 30  |                                       | Actuals:<br>2007: 29<br>2008: 26<br>2009: 26                |
| Date achieved                       | 12/31/2006   | 12/31/2007  |                                       | 12/31/09  |
|                                     | Targets exceeded in 2007, 2008 and 2009. Given that targets were exceeded, rating is highly satisfactory (HS). In the PAF, this indicator has since been replaced by one pertaining to number of days to complete export and import transactions.  |   |                                       |   |
| <b>Indicator 17</b>                 | Improve the insurance and social insurance sector by (i) an actuarial study of INSS; and (ii) preparation of an investment strategy.   |   |                                       |   |
| Value (quantitative or qualitative) | Financial situation of INSS, lynchpin of the pension system, is unknown  | Original Targets: Audit and strategy prepared by end 2007   | Same targets revised to end 2008      | Met during 2008 with a delay of one year                    |
| Date achieved                       | 12/31/2006   | 12/31/2007  | 12/31/2008                            | 12/31/09  |
| <b>Comments</b>                     | These were both originally triggers for PRSC4, which were deferred to PRSC5. In the event, it turns out that the situation is worse than originally thought, so further work is required to put INSS on a sound financial footing. On basis of annual performance, implementation is moderately satisfactory (MS), but performance relative to expected outcome is unsatisfactory (U). |   |                                       |   |

|                                     | <b>Baseline Value (from approval documents)</b>  | <b>Original Target Values (from approval documents)</b>              | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved at Completion or Target Years</b> |
|-------------------------------------|--|--|---------------------------------------|---|
| <b>Indicator 18</b>                 | Improve Conditions for Road Traffic, by increasing the % of roads in good and fair condition   |  |                                       |   |
| Value (quantitative or qualitative) | 2006: 64%  | Targets:<br>2007: 67%<br>2008: 70%<br>2009: 73%                      |                                       | Actuals:<br>2007: 69%<br>2008: 67%<br>2009: 71%.            |
| Date achieved                       | 12/31/2006   | 12/31/2007   |                                       | 12/31/2009  |
| <b>Comments</b>                     | Target exceeded by 2 percent in 2007, missed by 3 percent in 2008, and missed by 2% in 2009 – implying a 1.5% average shortfall for the three years combined, a minor shortcoming. Thus, performance is satisfactory (S).  |  |                                       |   |
| <b>Indicator 19</b>                 | Promote construction and rehabilitation of rural infrastructure by increasing number of irrigated hectares irrigated and put under the management of beneficiaries.  |  |                                       |   |
| Value (quantitative or qualitative) | 2006: 2546 Ha were rehabilitated   | Original Targets:<br>2007: 4000 Ha<br>2008: 3400 Ha<br>2009: 3000 Ha |                                       | Actuals:<br>2007: 3500 Ha<br>2008: 1788 Ha<br>2009: 2062 Ha |
| Date achieved                       | 12/31/2006   | 12/31/2007   |                                       | 12/31/2008  |
| <b>Comments</b>                     | The shortfalls relative to targets for 2007, 2008 and 2009 were 13% , 46% and 31% respectively, making for a 29% shortfall in all, a significant shortcoming given the importance of reducing rural poverty. Performance is rated moderately unsatisfactory (MU).  |  |                                       |   |
| <b>Indicator 20</b>                 | Increase Farmer Access to improved technologies and extension services, as measured by the number of farming households assisted by public extension services  |  |                                       |   |
| Value (quantitative or qualitative) | 2006 actual:<br>192,000  | Original Targets:<br>2007: 222,300<br>2008: 222,300<br>2009: 411,000 |                                       | Actuals<br>2007: 285,000<br>2008: 354,000<br>2009: 364,752  |
| Date achieved                       | 12/31/2006   | 12/31/2007   |                                       | 12/31/2009  |
| <b>Comments</b>                     | Very good performance in 2007 and 2008, with targets being largely exceeded. Performance is thus highly satisfactory (HS). Performance in 2009 was moderately satisfactory (shortfall of 11 percent). Overall performance however was highly satisfactory, since overall target was exceeded.<br>Note also that there had been a PRSC4 trigger which called for 30 percent of farmers, assisted by extension services, to adopt one new technology in 2006. The actual was 21 percent, and the trigger modified accordingly without deferral. No targets were set for 2007-2009 so the indicator was not modified. Hence it is not included in the Results Framework Analysis. |  |                                       |   |
|                                     | <b>Baseline Value (from approval documents)</b>  | <b>Original Target Values</b>  | <b>Formally Revised Target Values</b> | <b>Actual Values Achieved</b>                               |

|                                     | documents)  | (from approval documents)   | Values | at Completion or Target Years   |
|-------------------------------------|---|---|--------|---|
| <b>Indicator 21</b>                 | Increase response to the food crisis by increasing the share of budget to agriculture   |   |        |   |
| Value (quantitative or qualitative) | 4.7% of the budget (excluding projects) in 2008   | Targets (% of budget, excluding projects):<br>2009: 6%<br>2010: 7%  |        | <u>Actuals:</u><br>Targets met in both years  |
| Date achieved                       | 12/31/2008  | 12/31/2008  |        | 12/31/2009  |
| <b>Comments</b>                     | This action was a prior action for PRSC5. It is not part of the PAF but is in the PARPA. Performance is highly satisfactory (HS). |   |        |   |
| <b>Indicator 22</b>                 | Increase response to the food crisis by increasing production of certified seeds (maize and rice) in 2008 and 2009                |   |        |   |
| Value (quantitative or qualitative) | Benchmark is level of production as in 2007/08 campaign   | <u>2008/09:</u><br>Maize: +1250 MT<br>Rice: +2200 MT<br><br><u>2009/10:</u><br>Maize: +2000 MT<br>Rice: +11500 MT |        | <u>2008/09:</u><br>N.A.<br><br><u>2009/10:</u><br>N.A.  |
| Date achieved                       | 12/31/2008  | 12/31/2008  |        | 12/31/09  |
| <b>Comments</b>                     | Data not available at this time.  |   |        |   |
| <b>Indicator 23</b>                 | Increase response to the food crisis by increasing areas put into intensive production of these crops                             |   |        |   |
| Value (quantitative or qualitative) | Benchmark is the level of production in 2007  | <u>2008:</u><br>Maize: + 50000 ha<br>Rice: + 22000 ha<br><br><u>2009:</u><br>Maize: +80000 ha<br>Rice: +115000 ha |        | Actuals 2008:<br>Maize: + 46017 ha<br>Rice: + 13130 ha<br><br>Actuals 2009:<br>Maize: +88460 ha<br>Rice: +115327 ha |
| Date achieved                       | 12/31/2008  | 12/31/2008  |        | 12/31/09  |
| <b>Comments</b>                     | Data are preliminary.   |   |        |   |

