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Report No. P-5826-MOZ

MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

OF SDR 34.1 MILLION

TO THE

REPUBLIC OF MOZAMBIQUE

FOR A

CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

OCTOBER 29, 1992

CURRENCY EQUIVALENTS
(July 23, 1992)

Currency Unit	=	Metical (pl. Meticais)
1000 Meticais	=	One Conto
USD 1.00	=	MZM 2,809 (Secondary Market Exchange Rate)

FISCAL YEAR

Government Fiscal Year:	January 1 - December 31
School Year:	February 1 - December 31
University Year:	August 1 - June 30

ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
BOM	Bank of Mozambique
CFA	Center for Agricultural Training
CFI	Center for Industrial Training
CG	Consultative Group
CIUEM	University Center for Information Science
DAF	Department of Administration and Finance
DANIDA	Danish International/*/ Development Agency
EEC	European Economic Community
EPU	Pre-University Education/Pre-University School
ESRP	Economic and Social Rehabilitation Program
FUNDAP	Foundation for the Development of Public Administration
GEPE	Educational Projects Management Unit
GIU	University Buildings Office
IC	Inter-Ministerial Committee
ISP	Pedagogical Training Institute
MAE	Ministry of State Administration
MINED	Ministry of Education
MINFIN	Ministry of Finance
MOJ	Ministry of Justice
NDSE	National Directorate of Secondary Education
NORAD	Norwegian Agency for International Development
PTG	Project Technical Group, Ministry of Education
SAREC	Swedish Agency for Research Cooperation with Developing Countries
SIDA	Swedish Agency for International Development
UEM	Eduardo Mondlane University
UNDP	United Nations Development Project
UNICEF	United Nations Children's Fund

REPUBLIC OF MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

CREDIT AND PROJECT SUMMARY

Borrower:	Republic of Mozambique	
Beneficiaries:	Eduardo Mondlane University, Ministry of Education	
Amount:	SDR 34.1 million (US$48.6 million equivalent)	
Terms:	Standard, with 40 years maturity	
Financing Plan:1/2/	Government	US$10.1 million
	Beneficiaries	US$1.6 million
	IDA	US$48.6 million
	TOTAL	US$60.3 million
Economic Rate of Return:	Not applicable	
Staff Appraisal Report:	Report no. 10731-MOZ	
Map:	IBRD No. 23687	

1/ Includes taxes and duties of US$6.3 million.

2/ Contributions from the local community, mainly of users fees for building operation and maintenance.

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT TO MOZAMBIQUE FOR A CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

1. The following memorandum and recommendation of a proposed credit to Mozambique for SDR 34.1 million, the equivalent of US$48.6 million, is submitted for approval. The proposed credit would be on standard IDA terms with a maturity of 40 years and would help finance a capacity building: human resources development project. Part I of the document gives the country policies and the Bank Group's assistance strategy for Mozambique. Part II of the document describes the proposed credit.

PART I: COUNTRY POLICIES AND BANK GROUP ASSISTANCE STRATEGY

A. Recent Economic Performance

2. Background. Despite good economic potential, Mozambique is one of the poorest countries in the world, with an annual per capita income of only US$80. Literacy rates, infant mortality rates, levels of malnutrition and life expectancy are among the worst in Sub-Saharan Africa. The main reasons for Mozambique's failure to realize its potential relate to structural weakness inherited from the colonial period, severe shortages of high-level manpower to plan and manage policies and programs, the civil war, and over a decade of economic mismanagement since Independence in 1975. Perhaps most debilitating has been the civil war which, since the early 1980s, has devastated much of Mozambique's countryside. In order to overcome its extreme poverty and aid dependency, Mozambique needs to continue the process of economic adjustment and resolve its internal conflict.

3. In response to the serious economic and financial difficulties, the Government launched a comprehensive adjustment program in 1987, the Economic Rehabilitation Program (ERP)--subsequently renamed, the Economic and Social Rehabilitation Program (ESRP), to higlight the importance given to poverty issues. The ESRP is currently being supported by a fourth IDA adjustment credit, the Economic Recovery Credit (ERC), an Enhanced Structural Adjustment Facility (ESAF) from the IMF, and assistance from multilateral and bilateral donors. The sixth Policy Framework paper (PFP) for the 1992-94 period has been recently negotiated together with the third year ESAF program.

4. A major achievement of the ERP has been to restore economic growth, averaging over 5 percent per annum during the 1987-89 period, despite the security situation. Much of this growth came from light industrial activity which responded to the increased availability of foreign donor financing to import raw materials. A significant recovery was also apparent in the agricultural sector, reflecting the adjustment in prices and the increased availability of incentive goods in rural areas. In 1990-91, growth slowed down to less than 2 percent on average, mainly as a consequence of bad weather, renewed attacks by RENAMO, and lower levels of external financing. Furthermore, because of the severe drought affecting the Southern Africa region, and a significant decline in non-emergency external assistance, GDP growth is expected to be negative in 1992: As a result of the drought, food aid requirements are estimated at 1.2 million tons, more than double the amount received the previous year.

5. Fiscal policy. Significant institutional changes have been implemented to transform the government budget into a key policy instrument for prioritizing public expenditures. In 1990, off-budget expenditures amounting to about 10 percent of GDP were included in the budget and an accounting system for monitoring budgetary expenditures was put in place with technical assistance. These improvements were accompanied by the introduction of rolling three-year investment and financial plans, and substantial revisions to the investment program. Large white elephant projects in irrigation were cut, and the investment program was redesigned to better reflect poverty reduction priorities. In particular, support to smallholder production in agriculture and social expenditures were increased substantially.3/

TABLE 1: KEY MACROECONOMIC INDICATORS, 1986-91 1/

	1986	1987	1988	1989	1990	1991
Real Growth (% p.a.)						
GDP Growth Rate	2.3	4.6	5.5	5.4	1.3	2.7
Consumption per Capita	-3.3	-0.7	2.0	3.7	-4.1	-2.0
Gross Investment/GDP 2/	9.2	24.0	33.4	35.5	38.1	42.1
Domestic Savings/GDP	-1.1	-12.0	-16.5	-16.6	-11.7	-11.6
Budgetary Data (% of GDP)						
Budgetary Revenues	12.9	16.2	19.9	23.4	22.3	23.5
Government Expenditures	30.9	37.5	45.2	49.0	51.7	50.3
Overall Deficit before Grants	17.6	21.1	25.3	25.5	29.5	26.9
Overall Deficit after Grants	15.3	11.8	11.3	8.9	12.6	6.1
Shares of GDP (%)						
Exports (G&NFS)/GDP	3.5	12.1	15.1	15.4	15.9	24.3
Export Growth Rate (G&NFS) 3/	-1.4	8.3	4.4	8.4	10.6	31.3
Current Account Deficit/(X&S)						
Before Grants	314	289	253	281	263	214
After Grants	207	159	108	138	114	78
Real Effect. Exch Rate (depre.=-)	22.7	-77.3	-18.3	0.8	1.2	-17.7
Inflation (average, % p.a.)	38.7	163.3	50.1	42.1	49.2	33.3

1/ Due to difficulties in measuring national accounts, estimates on investment and savings are distorted. The increase in ratios to GDP reflects the effects of major exchange rate adjustment on the external components of investment relative to a less faster increase in domestic inflation, and therefore, GDP.

2/ Investment expenditures include some recurrent expenditures (about 20 percent of investment).

3/ In real terms.

6. Monetary Policies have aimed at reducing excess liquidity and improving the efficiency of credit utilization. Monetary expansion has been restrained by eliminating domestic bank financing of the budgetary deficit from a level of about 12 percent of GDP in 1986, and in 1991, the budget made repayments to the banking sector equivalent to 1.7 percent of GDP. Overall, the ratio of money to GDP fell from 63 percent in 1986 to 36.5 percent in 1991, and inflation declined from 163 percent in 1987 to 33 percent in 1991. In 1992, however, inflation is expected to increase, partly as a result of

3/ In constant 1980 prices, per capita budgetary expenditures on education fell from MZM 409 in 1980 to MZM 128 in 1987, and rose to MZM 215 by 1990; per capita budgetary expenditures on health declined from MZM 132 in 1980 to MZM 53 in 1987, and increased to MZM 61 by 1990.

drought related food shortages and faster than programmed monetary expansion during the first half of the year. The Government is taking corrective measures to control monetary expansion and therefore to contain inflationary pressures.

7. Since Independence the banking sector was dominated by the Bank of Mozambique (BM), which acted both as the central bank and as a commercial bank. In December 1991, a new central banking law and a general banking law were enacted by Government. In early 1992, the BM Mozambique (BM) was separated into Banco Comercial de Mozambique (BCM) and BM, the central bank. Presently, emphasis is being given to strengthening the central bank- in the areas of monetary control, supervision and foreign exchange management- and to increasing competition facilitating the entry of new financial institutions. Interest rates are positive in real terms and the differentiation in lending rates among sectors has been eliminated.

8. Significant progress has been made in reforming prices and restoring financial incentives at the producer level. Price controls are now limited to essential products, including food aid, sold through the ration system in urban areas, utility and transport services. These prices are being adjusted to reflect international parity levels. In the agricultural sector, prices have been freed and minimum (floor) prices apply to nine crops. Fixed prices for manufactured products were replaced by a system of ex post review ("conditioned prices"), which gave enterprises flexibility in increasing prices. Overall, the share of products subject to price control fell to about 17 percent of total production in 1991, a substantial decline from the pre-ESRP level of 69 percent (Table 2).

TABLE 2: PRODUCTS WITH FIXED PRICES

	1986	1988	1989	1990	1991
Share of production (beginning of period)	69%	39%	30%	24%	17%

9. In order to improve the foreign exchange allocation system, the Government introduced in 1990 the secondary market for foreign exchange. The objective was to establish a market in which economic agents could trade foreign exchange without administrative restrictions. Although initially limited in scope, it helped to determine a market-related exchange rate, which was used as the basis to adjust the official rate. The gap between these two rates has been narrowed to less than 10 percent, and that between the secondary and parallel rate to about 20 percent.

10. Following the significant reduction in the overvaluation of the official exchange rate, the Government announced in April 1992 a substantial expansion of the market-based foreign exchange system. This has involved the unification of the foreign exchange windows applying to untied aid and to traditional exports within the secondary market. To develop that market, commercial banks are now allowed to access foreign exchange, including untied aid, and to open letters of credit. A "special" exchange rate at an 8 percent discount applies to tied aid funds to reflect their higher financial cost. Because Mozambique's tied aid is large relative to export earnings, the unification of exchange rates requires the effective support of donors in untying external aid both in terms of the countries from which goods can be procured and in terms of the use of funds.

11. Current Account Deficit. With an external debt of US$4.9 billion in 1991, and a debt service ratio (before debt rescheduling) amounting to 146.5 percent of exports of goods and services in 1991, Mozambique is one of the world's most indebted countries. In response to the reform

program, notably exchange rate adjustments, the rate of growth of exports of goods and non-factor services accelerated to 31.3 percent in 1991 in real terms with the result that the share of exports in GDP has doubled since 1987 (Table 1) Nevertheless, external imbalances remained substantial, reflecting Mozambique's low levels of production. Large volumes of imports would be required, at least in the medium-term, to provide incentive goods for the agricultural and industrial sectors as well as the capital goods for the rehabilitation of key economic and social infrastructure. This strategy was reflected in the widening of the current account deficit before grants from 47.8 percent of GDP in 1987 to 61.2 percent in 1991. Because of strong donor support for the ESRP (see below), the current account deficit after grants fell from 26.8 percent of GDP in 1987 to 22.1 percent of GDP in 1991.

12. Following two traditional debt rescheduling with the Paris Club in 1984 and 1987, Mozambique concluded a new rescheduling on Toronto terms in June 1990 covering the period 1990-92. A number of donors have already converted their outstanding loans into grants or have canceled their loans, thus bringing closer the prospect for balance of payments viability. In addition, about 64 percent of Mozambique's commercial debt was retired at a discount in December 1991, utilizing funds from the IDA Special Debt Reduction Facility and donor financial support. The overall effect was to reduce the debt service ratio (before debt relief) to 42 percent in 1991.

B. Medium-Term Macroeconomic and Structural Policies

13. Despite the progress made so far, Mozambique continues to face severe constraints to realize it economic potential including (i) the security situation; (ii) continuing institutional deficiencies and management capacity; (iii) severely underdeveloped human resources; (iv) widespread poverty and food insecurity; (v) poorly developed economic and financial infrastructure. The magnitude of these problems is so great that adjustment will be a long term process that will continue to necessitate substantial levels of external assistance, including debt relief.

14. The Government's medium-term macroeconomic framework and structural policies are contained in a series of PFPs prepared jointly by the Government, the Bank and the IMF. The negotiations for the sixth PFP, which was recently completed, were carried out under very difficult conditions for Mozambique. The adverse impact of the drought and a substantial short-fall in non-drought external assistance, contributed to a slippage in the macroeconomic program during the first half of 1992. Nevertheless, the Government is taking the necessary measures to put the program back on track and is committed to meet the fiscal and monetary targets, excluding the impact of the drought, as programmed. In addition, the policy dialogue on structural reform has moved forward notably in the following areas:

(a) Foreign Exchange System. Emphasis is being given to establishing appropriate institutional mechanisms for the effective operation of the recently created market-based system, which since April 1992 includes untied aid funds and traditional exports. In particular, measures will be taken to enhance the efficiency of the banking system, including adequate reserve management and aid monitoring by the central bank.

(b) Enterprise Sector. It is expected that in 1992-93 some ten large enterprises will be privatized and an action plan to improve the performance and accountability of public parastatals will be prepared in the course of 1993. In terms of economic incentives

for private sector development particular attention will be given to export promotion. To this end a study will be carried out by IDA in 1993.

(c) Financial Sector. Priority is being given to strengthening the central bank– in the areas of supervision, monetary control and foreign exchange management– and to increasing competition. In addition, a plan to deal with the non-performing loans of the banking system will be prepared by mid-1993, including further assumption of enterprise debt by Government. Interest rates will be liberalized subject to maximum and minimum rates before the end of 1993, and full liberalization will be implemented if market conditions permit.

(d) Agricultural Sector. A sector review will be started in 1993 with the objective of reassessing sectoral policies and the investment program for the post-war period. This would include defining a strategy for land use and tenure to protect family farms.

(e) Poverty Alleviation. In addition to increasing recurrent expenditures in the social sectors, the Government is taking steps to improve the targeting of the "safety net" in the urban areas. These include (i) increasing the coverage of cash transfers and (ii) re-orienting price subsidies to a single commodity mostly consumed by the poor. In the rural areas, the need to expand emergency aid distribution as a result of the drought, is being addressed through the increased participation of NGOs.

15. The success of the Government's policies, will depend to a large extent on the effective implementation of the peace accord signed on October 4, 1992. Under a peace scenario, the Government will need to meet the costs of reconstruction, including demobilization, elections and resettlement of millions of refugees. In the short term, this will raise budgetary pressures that would require additional external financing. Some of these requirements, have been included in the 1993 projections, as "extraordinary expenditures", but further work will be needed in coming months to establish the magnitude of the additional financing. Such a framework will be presented to donors at the next Consultative Group (CG) meeting scheduled for early December, 1992.

16. Macroeconomic Prospects and External Financing Requirements. Mozambique is well placed for attaining economic growth rates of about 5-6 percent during the second-half of the 1990s. A major source of growth would be the agricultural sector which is projected to grow at around 5-6 percent per annum, as millions of currently displaced persons are gradually reintegrated into the rural economy following improvement in the security situation. A major boost to industrial growth would come from an enlarged role for the private sector coupled with the privatization of most state enterprises,4/ improvement in Mozambique's bilateral relations with South Africa, and strong foreign investors' interest in the on-going privatization of the Mozambican economy.

4/ Contracts signed with foreign firms reached US$135 million in 1990 compared to US$58 million in 1989 and US$17 million in 1987.

TABLE 3: SUMMARY OF KEY MACROECONOMIC INDICATORS

	1992	1993	1994
Percent in real terms p.a.			
GDP Growth	-1.4	3.0	5.9
Percent of GDP			
Central Government Deficit/GDP1/			
Before Grants	33.7	34.4	28.0
After Grants	7.2	5.2	1.5
Current Account Deficit/XGS2/			
Before Grants	192.9	206.6	179.6
After Grants	58.6	73.6	62.6

1/ Includes the impact of special factors; drought in 1992 and elections/demobilization in 1993.
2/ As a percentage of exports of goods and services.

17. The sustainability of the Mozambican reform agenda is critically dependent on adequate external financing, including debt cancellation. The program envisages rapid increases in non-traditional exports and transport services receipts, nevertheless by 1994 they will still account for less than 40 percent of imports of goods and services. Thus, Mozambique will require substantial external assistance to maintain import levels compatible with a growth target of 5.0 percent per annum in the medium term. 5/ Without such imports, per capita consumption would fall below its already low level with severe consequences on poverty.

18. Taking into account scheduled debt service, reduction of arrears, and reserve build-up, total external financing requirements are projected to remain at about US$1.2 billion per year. It is assumed that disbursements from grants and loans, including emergency aid for the drought, would amount to US$720 million in 1992, lower than the pledges made by donors at the last Consultative Group Meeting for Mozambique held in December 1991. Financing gaps (before debt rescheduling) would average US$390 million per year in 1992-94. However, assuming that Mozambique's external debt would be rescheduled on Trinidad terms after 1992, the financing gaps would be covered.

19. While favorable debt rescheduling on Trinidad terms represents a potential source for financing the gaps, a long-term solution to Mozambique's external debt problem will require actions on a number of fronts. As about 42 percent of Mozambique's debt are due to OECD bilaterals and 30 percent to Eastern European countries, the Government has initiated a debt restructuring strategy aimed at reducing the external debt. Debt cancellation agreements have been reached with several of Mozambique's OECD creditors. Regarding the debt owed to the former Soviet Union, agreement had been reached that it would be reduced through a debt-equity swap. The Government has requested IDA assistance in developing such a strategy, as well as with other Eastern European creditors.

5/ As exports amount to 18 percent of imports, exports would have to grow at least 5.5 times faster than imports to achieve a balanced trade account. In the short-term, this would imply a growth rate of about 40-50 percent for exports. Over the medium-term, imports could grow slower than GDP following the reintegration of the displaced and "directly affected" population (about one-third of total population) in rural areas, which would lead to rapid agricultural growth and reduced food imports.

C. Bank Country Assistance Strategy

Objectives and Strategy

20. The objectives of the Bank's assistance strategy for Mozambique are to support the rehabilitation of key economic and social infrastructure and establish an economic environment conducive to sustained economic growth and poverty alleviation. The overall approach is to strengthen key institutions, policies and functions so as to promote increased productivity of public resources, enhanced private sector growth and poverty reduction.

21. The principal elements of the Bank's strategy are to support efforts to:

- Prioritize public expenditures, in particular towards the social sectors, agriculture and infrastructure, while maintaining macroeconomic stability through credit restraint and repayment of government debt to the banking sector;
- Reduce poverty and food insecurity, in particular by increasing agricultural output, expanding employment and income-generating opportunities, and improving delivery of basic social services;
- Enhance private sector-based growth through deregulation, privatization and restructuring of state enterprises, re-establishment of basic banking services, and rehabilitation of the country's basic infrastructure;
- Strengthen Government's capacity to plan and manage policies and program;
- Improve external aid mobilization, coordination and utilization.

Lending Program and Economic and Sector Work

22. Bank Group Operations. Since Mozambique joined the Bank in 1984, 17 projects involving IDA Credits of about US$870 million have been approved. About 46 percent of Bank assistance has been provided through four adjustment operations in support of the Government's ERP/ESRP (Table 4). The main focus of Bank investment projects has been on rehabilitation of essential economic and social infrastructure, principally in urban areas due to the insecurity in the countryside. In response to an increase in investor interest in Mozambique, IFC plans to expand its activities in Mozambique. IFC activities continue to be limited to foreign exchange earnings operations with offshore accounts to ensure foreign exchange is available for debt service. In FY87, IFC approved a loan for the rehabilitation and privatization of a major agricultural company, LOMACO, and in FY88, an investment for an oil exploration project. In FY91, IFC approved a loan for a hotel project, which included the first public share issue in Mozambique since independence. IFC is considering investments in an agricultural project and a hotel project. Schedule D contains a summary statement of IDA credits and IFC investments.

23. Improvement in Project Implementation. As our project portfolio has increased in size and complexity, a number of generic institutional bottlenecks have emerged, including delays in hiring project staff/consultants and in processing disbursements applications. Many of these problems stem from the rapid growth in our portfolio, with the result that many local staff are not yet conversant with Bank procedures and requirements. Other problems stem from capacity deficiencies in the implementing institutions. In addition, poor compensation adversely affects the motivation and

performance of civil servants. Our proposed country strategy is to address these problems through a variety of means, including increasing resources allocated to project supervision and improving implementation capacity.

24. Supervision. During FY91, we placed a Senior Operations Officer in the Resident Mission whose principal task is to improve project implementation, and we are proposing to recruit a local staff person to strengthen implementation support in the field. A Project Cycle Seminar (covering Bank procedures for procurement, disbursements, accounting and auditing) and a Country Implementation Review (CIR) were held in Mozambique in FY91. A second CIR took place on October 1992. In addition, mid-term reviews were carried out for the Urban Rehabilitation and the Economic and financial Technical Assistance Project. The reviews, which dealt mainly with implementation issues, were found to be very useful by Government and Bank staff.

25. Institutional Capacity. Problems in implementation, resulting from weak institutions and very few qualified individuals, were aggravated by the fact that many officials have left Government to pursue more lucrative careers in the private sector. It is expected, however, that the salary fund to be established under the proposed Capacity Building project and supported by donors to increase salaries of civil servants, will improve prospects for recruitment and retention of government employees in the short run.

26. Disbursements. Project disbursements have been slower than expected. Two main causes have been identified: the fact that the Bank of Mozambique centrally manages the accounts of the projects implemented by various ministries; and the cumbersome clearance procedures for contracts and payments by the Ministry of Finance. During negotiations of the ERC, a Financial Management Action Plan was agreed with the objective of decentralizing the financial management of the sectoral project accounts and streamlining contract and payment approvals by the Ministry of Finance. These agreements were followed up by a disbursement mission that reviewed the situation of each and every one of the project accounts to determine which could be decentralized and when.

TABLE 4: IDA LENDING OPERATIONS: FY85-92

Sector	Board Approval Date	Credit Amount (US$million)	% of Total
Adjustment Operations			
First Import Rehabilitation	10/85	45.0	5.2
Second Import Rehabilitation	08/87	70.0	8.0
Second Imp. Rehab (Afric. Fac.)	08/87	18.6	2.1
Third Import Rehabilitation	05/89	90.0	10.3
Economic Recovery Credit	05/92	180.0	20.7
Energy			
Energy TA/Rehabilitation	05/87	20.0	2.3
Urban Household Energy	06/89	22.0	2.5
Urban			
Urban Rehabilitation	08/88	60.0	6.9
Social Sector			
Education & Manpower Dev.	05/88	15.9	1.8
Health and Nutrition	03/89	27.0	3.1
Education II	12/90	53.7	6.2
Transport			
Beira Corridor Transport	09/89	40.0	4.6
Roads & Coastal Shipping	06/92	74.3	8.5
Industry and Finance			
Industrial Ent. Restructuring	12/89	50.1	5.8
Small/Medium Scale Ent. Dev.	12/89	32.0	3.7
Public Sector Management			
Economic/Financial Mgmt. TA	10/89	21.0	2.4
Agriculture			
Agric. Rehab./Development	09/90	15.4	1.8
Agric. Serv. Rehab./Devel.	01/92	35.0	4.0
Total		870.0	100.0

27. Macroeconomic Management and Public Expenditure. Over the next three years, the Bank's lending operations will be used to implement the strategy articulated above. The first objective, incorporated in the ERC (FY92), is to support further improvements in public expenditure management, poverty alleviation, reform of the foreign exchange and trade regime, financial sector reform, and privatization of large state enterprises. In view of the need to deepen further the policy

and institutional reforms in the financial and enterprise sectors, the ERC will be followed by sector adjustment operations in FY93 and FY94.

28. Poverty Alleviation. As part of our ESW we have worked closely with Government and donors to develop a multi-faceted strategy for poverty reduction reflected in the Poverty Reduction Framework Paper, which was presented at the 1990 Consultative Group Meeting. The main message of the Poverty Reduction Framework Paper is that while economic growth is crucial for poverty reduction, the focus must be on implementing a growth strategy which enhances the income of the poor. Therefore, the Bank strategy is focused on ways to increase the productivity of the poor and expand their employment and income-generating opportunities, and on improving the delivery of basic social services in order to build up their human capital. A "safety-net" is also in place to assist those households with especially low incomes or large number of dependents.

29. As the bulk of the population derives its livelihood from small farms, increasing the productivity of family farmers who make up the majority of the poor is central to the reduction of the poverty at the household level. Therefore, our operations in the agricultural sector would aim to support increased production and incomes in the family sector through provision of basic services and rehabilitation of agricultural marketing and rural infrastructure. Following upon the FY91 Agriculture Rehabilitation and Development Credit focused on the rehabilitation of the cashew subsector, the development of agricultural services and recovery of food crop and cotton production would be supported through the FY92 Agricultural Services Rehabilitation and Development Project. The FY93 Rural Rehabilitation Project will support, on pilot basis, decentralized rural economic development in two selected provinces. Development of agricultural research and extension activities would be further supported through a FY95 Research and Extension Project.

30. Expanding access to basic social services is a critical element in Mozambique's poverty reduction strategy. Our lending program includes projects geared towards rehabilitating, improving quality, and eventually expanding the coverage of primary health and education services and water and sanitation facilities. Health II (FY94) will continue efforts to strengthen basic health services, including pre-maternal health care; Education III will provide support for expanding the coverage of education into the rural areas; and Urban Rehabilitation II (FY95) will support infrastructure rehabilitation of small and medium towns.

31. In the short-term, many households, including labor-scarce households (female or disabled-headed households with large number of dependents), will remain beyond the scope of growth strategies. For those households, "safety-net" measures supported under the ERC include the provision of indirect income transfers through a subsidy on a nutritionally valuable but less-preferred commodity such as maize; and provision of limited income transfers targeted to poor households, which would replace the existing system of food rations. In rural areas, the Emergency Program is the main "safety-net" to protect the war-affected poor. To date, its primary concern has been to help ensure the survival of those displaced or affected by the war through the free distribution of food aid. A Food Security Project (FY93) will assist Government in the development of national institutional capacity for the formulation and implementation of food security policies and programs.

32. Private Sector-Based Growth. Establishing a dynamic source of growth is essential for Mozambique's long-term growth. Our operations would therefore support the rehabilitation of key infrastructure, restructuring and privatization of state enterprises, and developing basic commercial banking services and exports. The FY92 First Roads and Coastal Shipping (ROCS) Project would support the development of government institutional capacity to maintain the roads and small coastal ports, and the implementation of policy reforms in the trucking and coastal shipping sub-sectors to

support agricultural development. Where feasible, the project construction and rehabilitation activities will utilize labor intensive activities to reduce rural poverty. Improved management of the Maputo Railway would be achieved through the Maputo Corridor Revitalization Project. Rehabilitation of the energy sector would be supported through a FY94 Energy Project. Building on the policy reforms supported under the ERC, the FY93 Financial Sector Adjustment Credit would provide technical assistance to improve the efficiency and solvency of financial institutions, and support policy reforms to improve credit and monetary policy. The FY94 Enterprise Restructuring and Privatization Credit would deepen the implementation of the parastatal reform initiated under the ERC, provide technical assistance for privatization and support policy reforms for promoting an enabling business environment. Expansion of the country's exports would be supported through a FY96 Natural Gas Exports Project.

33. Capacity Building. Even among low income countries, Mozambique stands out as suffering from an especially acute shortage of skilled manpower, with only a few thousand university-trained persons. Capacity creation through education and training is clearly an essential element in the overall strategy for capacity building. Through a FY89 Economic and Financial Management Technical Assistance Project, IDA is strengthening the administrative and institutional capacity of the key ministries responsible for implementing the rehabilitation program. In addition to the technical assistance included in investment projects to develop project management capacity, the proposed Capacity Building project would strengthen management capacity by increasing the quantity and quality of university graduates, improving learning achievements in upper secondary education; strengthening legal institutions and professional capability; and developing public administration and management skills and enhancing civil service personnel systems.

34. Women in Development. Women in Mozambique play vital roles as farmers, managers, decision makers and farm laborers. It is estimated that more than 60 percent of family farmers are women. Under the FY92 Agricultural Services Rehabilitation and Development Project, women farmers will have equal access to extension, training and credit. Steps will also be taken to increase the number of female extension staff and women's participation in farmers' groups. Women's access to credit in urban areas is being improved through the FY89 Urban Rehabilitation Project, which includes a small credit line targeted to micro-enterprises (80 percent of the beneficiaries are women) and technical assistance provided through the Office for the Promotion of Employment of the Ministry of Labor. While the FY89 Health and Nutrition Project is helping rehabilitate health facilities, the FY94 Health II Project will include specific components targeted to pre-maternal health care.

35. Finally, environmental issues have been covered as part of our ESW and in connection to agricultural and urban development projects. The FY92 Agricultural Services Rehabilitation and Development Project contains components specifically targeted to soil conservation, and the FY88 Urban Rehabilitation includes a component to improve solid waste management. The next step is to assist in the preparation of a National Environmental Management Plan (NEMP) which will provide the basis for the design of an environmental project by FY95.

FY92-95 Support

36. For the four-year period FY92-95, planned IDA lending would average around US$160 million per annum, with approximately 40 percent in the form of adjustment lending. In the event of serious policy slippage, lending for adjustment and for directly productive activities would be reduced sharply and operations with significant policy contents would be put on hold. However, lending for basic social services and capacity building would be maintained as long as adequate implementation capacity exists. Likely indicators of policy slippage would include:

- failure to meet fiscal and monetary targets under the macroeconomic program;
- deterioration in the composition of expenditures, manifested in expenditures on "white elephants" and underfunding of priority sectors such as health and education.
- inadequate adjustment of fixed prices, leading to an erosion of incentives for production and marketing;
- inappropriate auditing and accounting procedures for existing credits;

37. If security improves as a result of the peace agreement signed on October 4, 1992, an increase in lending would be considered, assuming overall economic management remains satisfactory. This would permit expansion of the size and coverage of several projects to reach more of the rural population. In addition, it would allow the Bank to assist the Government in the massive task of resettling several million of displaced persons and returning refugees, and providing them with essential social services and factors of production to enable them to begin productive lives again.

38. Economic and Sector Work. Our ESW activities over the last few years have assisted the Government in developing specific policy and institutional reform measures at both the macroeconomic and sectoral levels. ESW has also provided the analytical basis for preparation of Bank projects and has contributed significantly to aid coordination by establishing a framework for other donors. We intend to continue this process in the future, focusing our efforts on areas where further policy and institutional reforms are necessary to support financially viable and equitable growth. In line with the need to deepen the reform program so as to maintain an appropriate economic policy environment, three main sets of activities included in our ESW program are: (a) improvement in the system of incentives for exports through a FY93 Review of Export Incentives and Trade Restrictions; (b) development of a strategy for restructuring and privatization of state enterprises; and (c) agricultural sector review. We also propose to begin a number of studies under the ESW program to assist Government in planning for the post-war period, including devising strategies for expanding the provision of basic health/nutrition, education, water supply and housing services, preparing an environmental plan, and carrying out a review of the development potential of the mining sector.

Aid Coordination

39. Since 1987, the Bank has successfully assisted the Government in mobilizing the necessary external assistance through annual CG meetings. The CG meetings have become an effective mechanism for donor coordination and consultation on a number of substantive issues. Major progress has been achieved in untying foreign aid, providing aid in the form of grants rather than loans, simplifying and harmonizing donor procedures for procurement, developing common donor procedures with respect to management of food aid counterpart funds, and developing a strategy for reduction of poverty and food security. Further improvements will be necessary in a number of areas, including improving the composition of external aid to increase investment productivity and develop a common counterpart fund for the proceeds of all commodity aid. The Resident Mission plays a central role in aid coordination and in setting up joint Government/donor working groups to develop strategies and core expenditure programs in the key sectors.

Relations with the IMF

40. IDA and the IMF have worked closely with Government in the design and monitoring of Mozambique's adjustment program. Since 1987, the Bank and IMF have carried out joint missions annually to develop with Government the three-year PFPs. The ESRP is being supported by a fourth adjustment IDA credit, the ERC, approved in June 1992. The IMF has also provided assistance in the form of a SAF covering the period 1987-89 followed by an three-year ESAF. The third year ESAF for the 1992/93 program will be presented to the IMF Board in early December 1992. Bank and Fund staff have been in permanent consultation with the macroeconomic program which provides the underpinning for structural reforms.

D. Summary Assessment

41. Since 1987, the Bank has assisted the Government in designing and implementing a major economic reform program, providing both adjustment and investment credits and coordinating overall external aid in support of the program. In general, performance in carrying out the reforms has been satisfactory, reflecting the Government's high level of political commitment to the program and the broad agreement between the Government and ourselves on the policy agenda. The main achievements were to reduce financial distortions (prices, custom tariffs, and exchange rate), strengthen the role of the budget in the prioritization of government resources and address the most important causes of external and internal imbalances (decline in output, high rate of credit expansion and inadequate tax revenue system).

42. Despite the gains achieved since the initiation of the ESRP, Mozambique faces major challenges. The inflationary pressures need to be reduced further. Structural reforms in the financial and enterprise sectors are required to consolidate stabilization. Further progress in public expenditure management is needed for improving the productivity of government expenditures and reducing poverty while strengthened mobilization of counterpart funds is needed to provide budgetary resources for critical economic and social services. At the same time, civil service reform is required to stem the drain of skilled civil servants and increase government's ability to attract new graduates. These challenges are reflected in the Government's recent PFPs as well as in the Bank's assistance strategy. However, the magnitude of the challenges faced by Mozambique is so great that economic adjustment and achievement of Mozambique's full potential will be a long-term process. Substantial foreign assistance, including debt relief, will continue to be required to provide essential inputs and consumer goods that cannot be competitively produced domestically, develop the nation's human resources and restore the basic infrastructure.

43. The main risks to continued successful implementation of the programs stem from two factors—the extremely weak local capacity and the uncertain political situation in the country. Capacity building will be a major focus of our ESW and lending activities. However, conclusion of a peace agreement is a fundamental step towards bringing about sustainable growth and poverty reduction in Mozambique. The country is currently in a period of political transition that is both very complex and fragile. For so long as a peace agreement seems to have a reasonable chance of success and Mozambique continues to carry out reforms in both the economic and political spheres, we should see our support as an important component of the process. As the security situation improves, IDA will consider increased assistance for the resettlement of displaced population, returning refugees and ex-military personnel. Conversely, if security conditions do not improve, Mozambique could enter a difficult period whereby the capacity of the Government to make policy choices and to carry them out may become even more limited. If the pace of adjustment becomes significantly slower and more uneven, coupled with continued or intensified insecurity in the rural areas, we would consider scaling

down our operations, focusing our assistance on enhancing the provision of basic social services and on developing the professional and technical skills which will be needed in the future.

PART II: THE PROJECT

44. Background. Economic and social development in Mozambique are impeded by severe shortages of high-level manpower to plan and manage policies and programs. These shortages result from a combination of weaknesses in education and training and in the public sector institutions that seek to recruit, retain, and utilize middle and higher-level personnel. There are only 3,000 university-level graduates in the entire country of 16 million persons, and less than half of these graduates possess the required skills (e.g., in finance, economics, law, business management, public administration, etc.) to oversee the ongoing Economic and Social Rehabilitation Program. At Eduardo Mondlane University (UEM), both quality and efficiency of learning are being seriously hampered by attrition and demoralization of the local teaching staff, lack of textbooks and library materials, poor study and living conditions for students, and deficiencies in university management. Because of these factors, the drop-out rate is unacceptably high (half the entering students never finish their degree), and many graduates lack the skills needed by employers. Due to poor working conditions and staff attrition, the University is unable to realize its potential as a fulcrum for policy research and analysis. In upper secondary education, weaknesses in teaching and availability of textbooks and learning materials are resulting in poor student learning achievements; repetition rates are high (25-30 percent annually), and graduates are unprepared for university study or to enter the labor force as productive workers.

45. Many top civil servants are fleeing the public sector to join the private sector and international agencies, because of low pay and poor conditions of service in government. Nearly 4,000 foreign technical assistance personnel have been recruited to cover this critical manpower shortage: such expatriate personnel is costly (about US$200 million annually), is often badly-managed, and fails to transfer knowledge and skills to local counterparts. A large share of Mozambicans who remain in the Government have inadequate educational qualifications and skills. Less than a fifth of the top 3,000 officials have a university degree, a surprising 16 percent have no formal schooling at all, and few senior civil servants have received pre-service or in-service training in public administration, financial or personnel management, etc. In both public and private sectors, the situation of the legal profession is especially critical: there are only 90 lawyers in Mozambique, and shortages of judges, law clerks, and other legal workers are equally severe. The basic court system is barely functioning, and many important legal institutions (e.g., Bar Association, Administrative Tribunal) are either embryonic or non-existent.

46. The proposed project is based on the analysis and recommendations contained in the Bank's 1991 Capacity Building Framework Paper and Sector Report. It also utilizes the findings of recent studies on public pay and employment and local government; work done by the Government (under the auspices of the UNDP NatCAP Program) on improving the utilization of technical assistance; and the UEM's 1991 institutional stabilization plan. The project has been designed to complement and reinforce a companion IDA project, focussing on Public Sector and Legal Institutions Development designed to strengthen legal institutions, develop public administration and management skills, and enhance civil service personnel systems, and a number of other donor-financed initiatives, including SIDA support for public administration and a salary incentive fund for top-level civil servants.

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

48. Project Description. The proposed project will contribute to building capacity in Mozambique through the following two components: (a) University Stabilization - systems development and training in university administration, financial management, and maintenance; provision of textbooks, computers, and library materials; construction and upgrading of staff housing, libraries, student dormitories, and other campus facilities; and staff development scholarships (63 percent of project costs); (b) Quality Improvements in Upper Secondary Education - development of a new teacher training program; support to curriculum and examination reform; provision of textbooks and learning materials; training for school managers and administrative staff; rehabilitation of pre-university schools and construction of dormitories and staff housing in the provinces; and special measures to increase female enrollment (37 percent of project costs). The Project costs and financing plan are presented in Schedule A. Schedule B provides the procurement methods and disbursements, as well as the estimated disbursements by fiscal year for the Project. A timetable of key project processing events and the status of bank group operations are given in Schedule C and D respectively.

49. Project Implementation. Managers have been identified for each of the main components, and are located within the University Rectorate and Directorate of Secondary Education, respectively. These managers will assign direct implementation responsibility to existing administrative units (e.g., UEM faculties, individual secondary schools, training facilities) and will assist with day-to-day activities and monitor results. An inter-ministerial committee, presided over by the Minister of State Administration, with the Vice-Minister of Planning and the Minister of Finance acting as co-presidents, will be responsible for ensuring consistency and strengthening linkages among the two components of the project and for reinforcing ties with the companion Capacity Building: Public Sector and Legal Institutions Development Project.

50. Project Sustainability. Within the project, virtually no new Government posts will be created, and most civil works will entail renovation of existing facilities rather than new construction, in order to minimize incremental recurrent costs. Where recurrent spending is expected to increase (especially for the operation and maintenance of teachers' housing and student dormitories), there is provision for cost recovery from users in the form of boarding charges and rental and maintenance fees. In addition to being internally sustainable, the goal of the project itself is to improve the institutional and financial sustainability of other development activities in Mozambique. The thousands of trained Mozambicans who will benefit from the project, and the more effective public and private institutions that will emerge, will help to sustain future development.

51. Lessons Learned from Previous IDA Involvement. While no PCR/PPAR has been carried out on IDA assistance to education or public administration in Mozambique, a joint IDA-Country Implementation Review held in February 1991 revealed a number of generic lessons for the future. Some of the most important are that: (a) dynamic local involvement is fundamental to achieving project objectives; (b) strong donor coordination during project preparation helps to avoid duplication/gaps in effort and reduces the management and reporting burden on local institutions; (c) streamlining Government procedures for contracting TA and civil works can facilitate project implementation, as can the use of standard bidding documents; and (d) project coordination and

management systems need to be firmly established at the outset and strengthened continuously through appropriate staffing, in-service training, and use of local consultants. These lessons and others have been fully incorporated in the design of the proposed project, which was formulated by the Mozambican institutions which will be responsible for implementation. Standard contracts for civil works, goods, and serves have all been prepared in advance of project effectiveness.

52. Rationale for IDA Involvement. The proposed project springs from the core of our Mozambique country strategy, which emphasizes the development of institutions and skills for sustained growth. The continued restructuring and liberalization of the economy, the achievement of durable peace and internal security, and implementation of effective resettlement/rural development and poverty alleviation programs will all require greatly enhanced indigenous capacity. The seriousness of the current "crisis of capacity" demands bold and imaginative solutions backed by substantial resources from the donor community. Given IDA's current position in Mozambique as the major lender for structural reforms, and its heavy involvement in economic and sector analyses of capacity issues, IDA is well-placed to take the lead in this area.

53. Agreed Actions. During negotiations, the Government has given assurances that: (a) the Government's budget allocation for UEM maintenance will be increased from 0.5 percent of estimated buildings' replacement value in 1993 to 2 percent in 1997; (b) by June 30, 1993, the Government will present a detailed action plan for the operation and maintenance of UEM housing to IDA for review and comments and a detailed action plan and timetable for privatization of the management of EPU dormitories and decentralization of the collection and utilization of school fees; (c) carry out the resettlement plan of tenants of apartment buildings selected for rehabilitation, as agreed with IDA; (d) by November 30 of each year of project implementation, together with IDA, conduct an annual Project implementation review, with annual progress reports furnished to IDA by October 31 of each year; (e) by no later than November 30 of 1995 carry out with IDA a mid-term Project implementation review to update the Capacity Building Strategy and Capacity Building Action Plan and review the Project objectives taking into account the updated Strategy and Action Plan. There are two conditions of effectiveness: (i) Key project implementation staff are employed and (ii) that Government furnishes documentary evidence satisfactory to the Association, certifying Government's formal approval of its Capacity Building Action Plan. Conditions of disbursements are (a) for training will be the completion and approval by IDA of training programs for the first year of the Project, which shall include, inter alia, the following: (i) type and number of trainees; (ii) location and institution where training will be received; (iii) objectives and length of training activity; and (iv) estimated budget; (b) for the book fund, to satisfactorily complete the study on UEM's bookstore; (c) for civil works, certification of ownership of selected sites.

54. Environmental Rating. The project is rated Category C.

55. Program Objectives. Capacity building in Mozambique will expand significantly the supply of higher level human resources, which is a necessary condition for the achievement of all IDA program objectives. The proposed project also contains special measures to further the process of public sector reform, and to increase women's educational opportunities.

56. Benefits. The proposed project will make a substantial contribution to social and economic development in Mozambique, by enhancing critical skills, systems, and local institutions. The immediate beneficiaries will be pre-university and university students (about 10,000 persons in total) and mid and top-level public and private sector employees (roughly 5,000 persons) who will acquire additional skills and increase their earnings potential. Development policy analysis by local

institutions, including the University and government policy units, will improve substantially. In a larger sense, the country as a whole will benefit from stronger public and private sector performance.

57. **Risks**. The main risk facing the project is that the capacity to plan and manage implementation of the various project components will not materialize or will deteriorate over time. This risk will be mitigated through project design that emphasizes the same capacity building and sustaining measures that the project aims to spread throughout the economy: namely, creating an effective work environment (through appropriate staffing, availability of office technology, etc.) and offering stimulating and relevant training (pre-service, in-service, on-the-job) to key project personnel. Swift adoption of measures to improve incentives for senior officials will help to bolster implementation capacity. The capacity of local training institutions will also be increased through the use of "link" arrangements with external training programs.

58. **Recommendation**. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed loan.

Lewis T. Preston
President

Attachments

Washington, D.C.
October 29, 1992

SCHEDULE A

MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

KEY MACROECONOMIC INDICATORS, 1986-1994

	1986	1987	1988	1989	1990	1991	Projected 1992	1993	1994
Real Growth Rates:									
GDP	2.3	5.3	5.5	5.4	1.3	0.9	3.0	5.0	5.5
GDP per capita	-0.8	2.0	2.9	2.7	-1.1	-0.7	0.4	2.4	2.4
Consumption per capita	-3.3	-0.7	0.9	3.2	-2.8	-4.8	-1.9	2.4	1.5
Debt & Debt Service									
Total DOD (US$M) 1/	3156.7	3998.0	4200.0	4401.0	4317.5	4995.0	5236.0	5465.0	5648.0
DOD / GDP	76.4	275.9	337.7	339.3	299.7	392.0	420.9	399.7	377.7
Debt Service (US$M)	490.2	532.2	494.9	484.4	509.0	534.7	510.1	520.2	474.4
Debt Service/Exports 2/	247.5	227.5	190.8	178.9	170.1	146.5	125.4	110.7	88.7
Debt Service / GDP	11.7	36.7	39.8	37.3	35.3	42.0	41.0	38.1	31.7
Ratios to GDP 3/									
Gross Investment	9.2	24.0	33.4	35.5	38.1	42.7	41.9	39.9	38.6
Private Investment	4.1	8.0	10.8	12.0	14.0	17.9	15.5	14.8	13.6
Public Investment	5.1	16.0	22.6	23.5	24.1	24.8	26.4	25.1	25.0
National Savings	-5.9	-23.8	-19.5	-23.4	-16.6	-18.5	-18.4	-20.2	-18.7
Public Savings	-12.1	-5.2	-2.7	-2.0	-3.4	-0.6	-3.6	-5.5	-2.6
Private Savings	6.2	-18.6	-16.7	-21.4	-13.2	-17.9	-14.8	-14.7	-16.1
BOP Current Account									
Exports (GNFS) / GDP	3.6	12.1	15.1	15.4	15.9	24.3	28.2	30.3	32.0
Export (GNFS) (% p.a)	-1.4	8.3	4.4	8.4	10.6	31.3	10.3	13.8	11.7
Imports (GNFS) / GDP	14.3	48.2	65.0	67.5	65.7	78.6	81.7	83.4	83.9
Imports (GNFS) (% p.a)	32.9	9.5	6.2	8.3	2.3	5.3	-1.3	7.3	5.7
Deficit (US$ million) 4/	622.0	676.0	657.0	763.0	788.0	783.0	750.0	822.0	855.0
Deficit Before Grants/GDP	15.1	47.8	52.9	58.9	54.7	61.2	60.3	60.1	57.3
Deficit after Grants/GDP	9.9	26.8	22.6	29.0	23.6	21.8	17.6	20.1	19.6
Budget									
Government Revenues	12.9	16.2	19.9	23.4	22.2	23.9	25.9	26.0	25.0
Government Expenditures	22.4	37.5	45.2	49.0	51.7	51.2	57.2	56.6	53.0
Deficit before Grants	17.6	21.3	-25.3	-25.5	-29.5	-27.3	-31.3	-30.6	-28.0
Deficit after Grants	15.3	11.8	11.4	9.0	12.6	6.1	4.8	4.3	4.0
Miscellaneous									
CPI (% growth)	32.5	163.3	50.1	42.1	49.2	35.0	25.0	14.0	10.0
Real Exchange Rate 3/	438.5	100.0	99.0	95.0	94.0	72.4	..	..	..
Gross Reserves (months imports)	1.2	2.9	3.1	3.0	3.0	3.7	3.7	4.3	4.2

1. Debt outstanding and disbursed.
2. Debt service before rescheduling.
3. Due to inadequacies in the national accounts data, estimates on investment and savings are distorted. The increase in ratios to GDP reflects the impact of major exchange rate adjustments on the external component of investment relative to a less faster increase in domestic inflation and therefore GDP. In addition, investment figures include a significant proportion of recurrent expenditures.
4. Before Grants.
3. End of period (1987=100).

SCHEDULE B

MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

Estimated Costs and Financing Plan

Estimated Costs a/

Project Components	Local	Foreign	Total
	(US$ million)		
I. University Stabilization and Expansion			
A. Educational Quality Improvements	1.25	4.01	5.26
B. Staff Housing	2.17	4.37	6.54
C. Staff Development	0.18	3.42	3.60
D. Management Development	0.60	1.60	2.20
E. Student Residences	1.25	2.64	3.89
F. Building Rehabilitation	2.88	5.95	8.83
Subtotal	8.33	21.98	30.31
II. Upper Secondary Education			
A. Educational Quality Improvements	0.86	2.51	3.37
B. Facilities Upgrading	3.70	8.79	12.49
C. Management Development	0.34	1.08	1.42
D. Female Education	0.68	0.17	0.86
Subtotal	5.57	12.55	18.12
Total Base Cost	13.90	34.53	48.44
Contingencies	3.33	8.52	11.84
Total Project Cost	17.23	43.05	60.28

a/ Includes about US$6.3 million equivalent in taxes and duties.

Financing Plan

	Local	Foreign	Total
	(US$ million)		
Government a/	8.49	1.58	10.07
Beneficiaries b/	1.04	0.48	1.52
IDA	7.70	40.89	48.59
Total	10.93	43.05	60.28

a/ Government's contribution includes about US$6.3 million equivalent in taxes and duties.

b/ Contributions from local communities, mainly users fees for building operation and maintenance.

MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

Procurement Method and Disbursements

Procurement Method a/
(US$ million)

Project Element	ICB	LCB	Other	Total Cost
1. Civil Works	26.7 (23.9)	1.2 (1.1)	0.0 (0.0)	27.9 (25.0)
2. Vehicles, Furniture, Equipment, and Supplies	4.0 (3.8)	0.0 (0.0)	1.4 (1.3)	5.2 (5.1)
3. Consultant Services			12.5 (9.9)	12.5 (9.9)
4. Training			7.8 (7.8)	7.8 (7.8)
5. Incremental Operating Costs			5.9 (0.0)	5.9 (0.0)
6. Miscellaneous b/			0.8 (0.8)	0.8 (0.8)
TOTAL	34.7 (27.7)	1.2 (1.1)	28.5 (19.8)	60.3 (48.6)

a/ Figures in parentheses indicate the amounts to be financed by IDA.
b/ Project Preparation Facility

Allocation and Disbursement of IDA Credit

Disbursement Category	IDA Allocation (US$ million)	% of Expenditure to Be Financed
Part A: University Stabilization		
1. Civil Works		80% of total expenditures;
(a) BRU, Campus Rehab. & Student Residences	8.5	
(b) Rehabilitation/Resettlement	2.5	
2. Technical Assistance, Studies, and Audits	5.6	100% of total expenditures;
3. Vehicles, Equipment, Supplies, and Materials	1.3	100% of foreign expenditures;
4. University Book Fund	0.9	100% of total expenditures;
5. Training	4.5	100% of total expenditures;
Part B: Improvement of Upper Secondary Education		
6. Civil Works	6.7	80% of total expenditures;
7. Technical Assistance, Studies, and Audits	3.8	100% of total expenditures;
8. Vehicles, Equipment, Supplies, and Materials	2.0	100% of total expenditures;
9. Training	2.5	100% of total expenditures;
10. Refunding of Project Preparation Advance	0.8	
11. Unallocated	9.5	
TOTAL	48.6	

Estimated Disbursements

IDA Fiscal Year	93	94	95	96	97	98	99
IDA							
Annual	2.1	5.3	10.7	11.4	8.8	6.0	4.4
Cumulative	2.1	7.4	18.1	29.5	38.3	44.2	48.6

SCHEDULE D

MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

Timetable and Key Processing Events

(a)	Time taken to prepare:	12 months
(b)	Prepared by:	IDA (AF6PH) a/
(c)	First IDA mission:	April 1991
(d)	Appraisal Mission	April 1992
(e)	Negotiations:	July 1992
(f)	Planned Date of Effectiveness	February 1993
(g)	List of Relevant PCRs and PPARs:	None

a/ Jacomina de Regt and Robert M. Hecht, Task Managers; Ruthanne Deutsch, Economist; William Saint, Educator

SCHEDULE E
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MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

Status of Bank Group Operations in Mozambique
A. Statement of IDA Credits
(as of July 30, 1992)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US$ million (less cancellations) Bank	IDA	Undis-bursed	Closing Date
Credits							
2 Credits(s) closed					114.55		
C18060-MOZ	1987	MOZAMBIQUE	ENERGY TA & REHAB.		20.00	9.37	12/31/92
CA0330-MOZ(S)	1988	MOZAMBIQUE	REHAB.II		18.60	.17	06/30/91(R)
C19070-MOZ	1988	MOZAMBIQUE	EDUC. I		15.90	7.95	12/31/95
C19490-MOZ	1989	MOZAMBIQUE	URBAN REHAB		60.00	30.50	12/31/95
C19890-MOZ	1989	MOZAMBIQUE	HEALTH & NUTRITION		27.00	25.52	12/31/94
C20210-MOZ(S)	1989	MOZAMBIQUE	REHAB.III		90.00	3.18	04/30/93(R)
C20330-MOZ	1989	MOZAMBIQUE	HSEHOLD EGY CREDIT		22.00	19.05	12/31/96
C20650-MOZ	1990	MOZAMBIQUE	TRNS.REH.(BEIRA CORR		40.00	33.67	06/30/96
C20660-MOZ	1990	MOZAMBIQUE	ECON. & FIN. MGMT.		21.00	20.96	12/31/97
C20810-MOZ	1990	MOZAMBIQUE	INDUSTRIAL ENTERPRIS		50.10	54.06	12/31/97
C20820-MOZ	1990	MOZAMBIQUE	SMALL AND MEDIUM-SCA		32.00	32.37	12/31/96
C21750-MOZ	1991	MOZAMBIQUE	AGRI.REHAB.&DEV		15.40	15.16	06/30/99
C22000-MOZ	1991	MOZAMBIQUE	EDUCATION II		53.70	53.52	04/30/97
C23370-MOZ	1992	MOZAMBIQUE	AGR.SER. REHAB.		35.00	37.46	
* C23740-MOZ	1992	MOZAMBIQUE	FIRST ROAD & COASTAL		74.30	78.24	06/30/98
* C23840-MOZ(S)	1992	MOZAMBIQUE	ECON. RECOVERY CR.		180.00	190.90	06/30/95
TOTAL number Credits =		16			755.00	61[illegible].07	
	TOTAL***				869.55		
	of which repaid						
	TOTAL held by Bank & IDA				869.55		
	Amount sold						
	of which repaid						
	TOTAL undisbursed					612.07	

Notes:

* Not yet effective
** Not yet signed
*** Total Approved, Repayments, and Outstanding balance represent both active and inactive Loans and Credits.
(R) indicates formally revised Closing Date.
(S) indicates SAL/SECAL Loans and Credits.

The Net Approved and Bank Repayments are historical value, all others are market value.

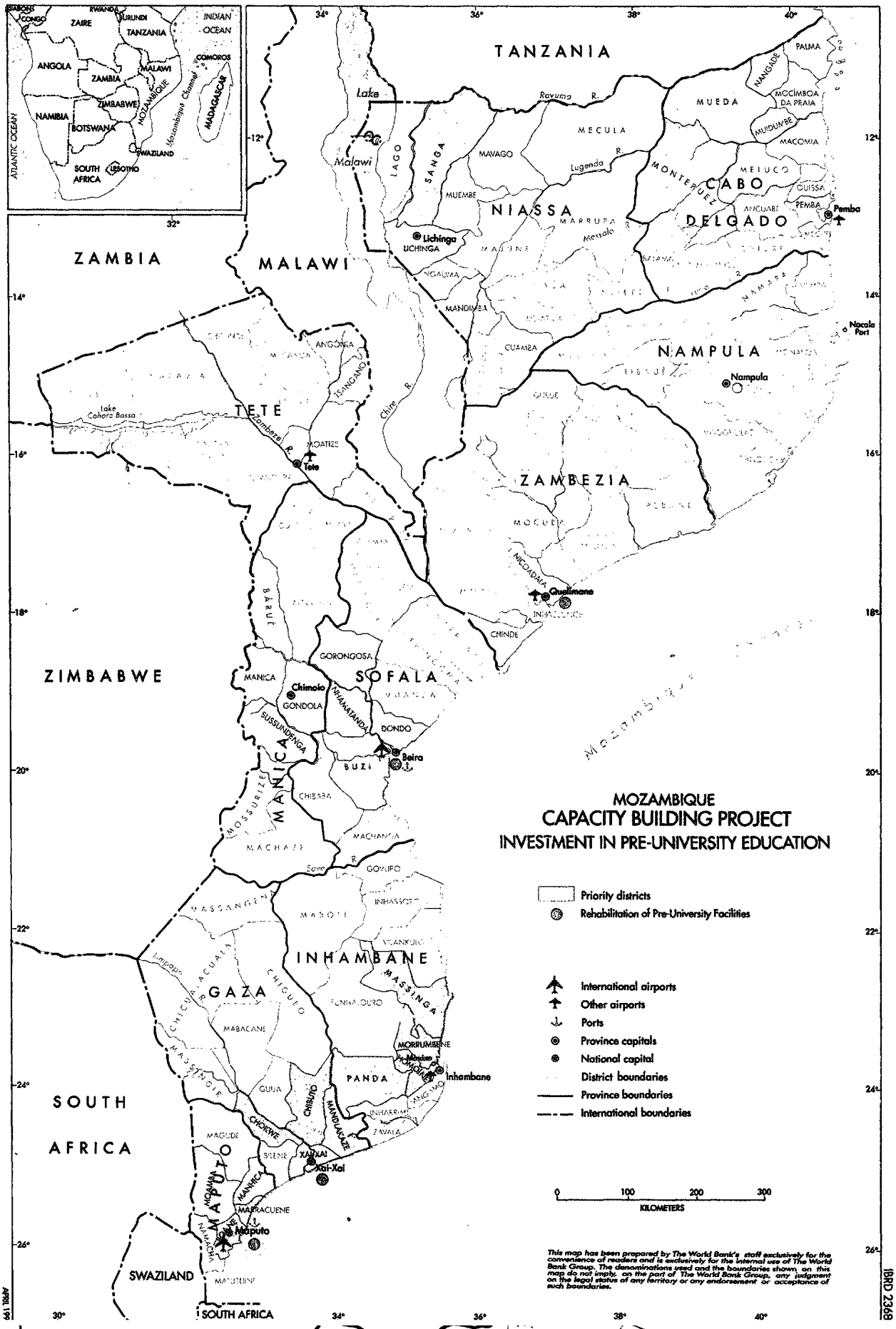
Remarks on Disbursements

The disbursement lags being experienced are the result of the Bank of Mozambique centrally managing the accounts for projects implemented by various ministries, and the Ministry of Finance's cumbersome clearance procedures. Cross sectoral actions were taken in FY92 with an agreement by the Government to decentralize financial management of sectoral project accounts and streamline Ministry of Finance procedures. These two aspects also formed the main focus of the Country Implementation Review which was held in October 1992. Workshops will be held during FY93 covering project accounts, audit reporting, procurement, and disbursements.

MOZAMBIQUE
CAPACITY BUILDING: HUMAN RESOURCES DEVELOPMENT PROJECT

B. Statement of IFC Investments
(as of July 31, 1992)

Investment Number	Fiscal Year	Obligor	Type of Business	Loan	Equity	Total
				(US$ million		)
864-MOZ	1987	LOMACO	Food/Food Processing	2.5		2.5
978-MOZ	1988	Xai Xai Oil	Chemical/Petrochemical		7.8	7.8
	Total Gross Commitments			2.5	7.8	10.3
	Less: Cancellations, terminations, exchange adjustments, repayments, write-offs and sales			1.5	7.8	9.3
	Total Commitments held by IFC			1.0	0.0	1.0
	Total Undisbursed			0.0	0.0	0.0
	Total Disbursed			1.0	0.0	1.0


MOZAMBIQUE
CAPACITY BUILDING PROJECT
INVESTMENT IN PRE-UNIVERSITY EDUCATION
Priority districts
Rehabilitation of Pre-University Facilities
International airports
Other airports
Ports
Province capitals
National capital
District boundaries
Province boundaries
International boundaries
0 100 200 300
KILOMETERS
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TANZANIA
ZAMBIA
MALAWI
ZIMBABWE
SOUTH AFRICA
SWAZILAND
NIASSA
CABO DELGADO
NAMPULA
TETE
ZAMBEZIA
SOFALA
MANICA
INHAMBANE
GAZA
MAPUTO
Lichinga
Pemba
Nacala Port
Nampula
Tete
Quelimane
Chimoio
Beira
Inhambane
Xai-Xai
Maputo
Lake Malawi
Lake Cahora Bassa
Zambeze R.
Chire R.
Rovuma R.
Lugenda R.
Messalo R.
Limpopo R.
Save R.
Mozambique Channel
INDIAN OCEAN
ATLANTIC OCEAN
ZAIRE
TANZANIA
ZAMBIA
ANGOLA
MALAWI
ZIMBABWE
NAMIBIA
BOTSWANA
SWAZILAND
SOUTH AFRICA
LESOTHO
COMOROS
MADAGASCAR
MOZAMBIQUE
PALMA
NANGADE
MOCIMBOA DA PRAIA
MUEDA
MUIDUMBE
MACOMIA
MECULA
MAVAGO
MUEMBE
LAGO
SANGA
MONTEPUEZ
MELUCO
QUISSA
ANCUABE
PEMBA
MARRUPA
MANDIMBA
CUAMBA
ANGONIA
TSANGANO
MOATIZE
MOCUBA
NICOADALA
CHINDE
BÁRUE
GORONGOSA
MANICA
GONDOLA
SUSSUNDENGA
MUANAMATANDA
DONDO
BUZI
CHIBABA
MACHANGA
MOSSURIZE
MACHAZE
GOVUFO
INHASSORO
MASSANGENA
MABOTE
VILANKULO
INHAMBANE
MASSINGA
CHICUQUE
FUNHALOURO
MABACANE
MORRUMBENE
PANDA
GUUA
CHIBUTO
MANDLAKAZE
INHARRIME
ZAVALA
CHOKWE
MAGUDE
BILENE
XAI-XAI
MANHICA
MATRACUENE
MOAMBA
NAMACHA
MANHIÇA
SOUTH AFRICA
SWAZILAND
ZAMBIA
TANZANIA
MALAWI
ZIMBABWE
SOUTH AFRICA
SWAZILAND
APRIL 199
IBRD 2368