ICR Review
Operations Evaluation Department

1. Project Data:
   - OEDID: C2082
   - Project ID: P001794
   - Project Name: Small and Medium Scale Enterprise Development Project
   - Country: Mozambique
   - Sector: Other Finance
   - L/C Number: C2082
   - Partners Involved: Caisse Francaise de Developpement and the European Development Bank
   - Prepared by: David Greene (Consultant), OEDCR
   - Reviewed by: Alice Galenson
   - Group Manager: Ruben Lamdany
   - Date Posted: 07/30/1998

2. Project Objectives, Financing, Costs and Components:
The US$ 32 million Small and Medium Enterprise Development Project of FY 90 was part of an effort to support the government’s ongoing Economic Recovery Program. The project provided US$ 28.5 million as a line for term credit for rehabilitation and development of SMEs and US$ 3.5 million for technical assistance to help strengthen the banking system and assist in the formation of industrial policy. An additional US$ 4.5 million was provided by Caisse Francaise de Developpement and the European Development Bank.

3. Achievement of Relevant Objectives:
The project was unsatisfactory in all respects. Project preparation and appraisal did not take into account the country’s chaotic macroeconomic situation and weaknesses in the legal and institutional framework of the financial sector. Economic and sector work was inadequate. As a result the project did not achieve any of its objectives. At the time of ICR preparation almost three fourths of the subloans were in default. Real interest rates were highly negative throughout implementation. Training for commercial banks was inadequate and their capacity for project appraisal and monitoring was not improved. Project supervision focused on improving the disbursement rate of the project not on its objectives. According to the ICR financing of viable projects, institution building, interest rate policy and industrial policy were all unsatisfactory.

4. Significant Achievements:
None

5. Significant Shortcomings:
The project did not take sufficient cognizance of the generic problems of term lending under highly inflationary circumstances, and by weak institutions highlighted by the report of the 1989 Task Force on Financial Sector Operations, or to distortions created by directed credit and targeted credit subsidies.

6. Ratings:

<table>
<thead>
<tr>
<th></th>
<th>ICR</th>
<th>OED Review</th>
<th>Reason for Disagreement / Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome</strong></td>
<td>Unsatisfactory</td>
<td>Highly Unsatisfactory</td>
<td>The project failed to achieve any of its major relevant objectives and is not expected to yield any worthwhile development results.</td>
</tr>
<tr>
<td><strong>Institutional Dev.</strong></td>
<td>Negligible</td>
<td>Negligible</td>
<td></td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td>Uncertain</td>
<td>Unlikely</td>
<td>ICR states that the project as designed is not sustainable under current conditions.</td>
</tr>
<tr>
<td><strong>Bank Performance</strong></td>
<td>Deficient</td>
<td>Highly Unsatisfactory</td>
<td>Project preparation and appraisal were unsatisfactory; supervision focused on improving the slow rate of disbursement rather than project impact.</td>
</tr>
</tbody>
</table>
diverged from Bank Operational Directives during implementation without adequate justification.

<table>
<thead>
<tr>
<th>Borrower Perf.</th>
<th>Deficient</th>
<th>Highly Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covenants followed in letter but not in spirit; poor performance on the part of participating banks.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of ICR</th>
<th>Satisfactory</th>
</tr>
</thead>
</table>

7. Lessons of Broad Applicability:
(1) This project confirmed the validity of OD 8.30 with respect to the risks of term lending under conditions of high inflation, weak lending institutions and credit subsidies. (2) Lines of credit are not appropriate instruments to address sectoral policies. They are most likely to be adversely affected by macro and sectoral distortions, which are best addressed in an overall macroeconomic policy framework.

8. Audit Recommended?  ☐ Yes ☐ No

9. Comments on Quality of ICR:
The ICR is satisfactory. However, it is overly lengthy and contains excessive detail. All the pertinent information is available in the five-page summary. The ICR has the virtue of being frank about the project's shortcomings and the lessons to be learned.