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INDEPENDENT EVALUATION GROUP

FAST TRACK BRIEF

May 10, 2010

The IEG report "Mozambique Country Program Evaluation, 2001-08," will be discussed by CODE on May 10, 2010

Mozambique Country Program Evaluation, 2001-08

- **During the period FY01-08, the World Bank was Mozambique's largest development partner, providing over $1.3 billion in International Development Association (IDA) funds. The Bank's strategy, which was aligned with and sought to support the government's poverty reduction strategy, focused on three pillars: economic growth, including macroeconomic management, financial and private sector development, rural development, and infrastructure; poverty reduction and human development; and governance.**

- **The evaluation finds that the Bank's strategy for Mozambique and its program were relevant to the country's development needs. The Bank's program was generally aligned with those of other development partners that provide general budget support, especially after FY05. Harmonization of procedures with other development partners also progressed, although there is scope for further improvement. The Bank's program was substantially effective in supporting macroeconomic management, infrastructure development, access to education and health care, urban water, and some areas of governance (such as budget management and execution). However, the program fell short of its intended results with respect to the inclusiveness of growth, stimulating private sector development, improving agricultural productivity, achieving better quality of social services, countering the perception of increasing corruption, improvements in the judiciary system, and stemming the spread of HIV/AIDS.**

- **Going forward, IEG recommends that the Bank help Mozambique sustain high growth and reshape its pattern to make additional gains in poverty reduction; give priority in analytic work to infrastructure, agricultural productivity, education quality, and HIV/AIDS; and support improvements in the efficiency of public expenditures.**

Mozambique is a country of over 20 million people, has a per capita income of $370 (GNI, Atlas method), and occupies an area of 800 thousand square kilometers in southeast Africa. About 70 percent of the population live and work in rural areas. Following years of conflict, the economy was in shambles by the mid-1980s when the country, in the midst of civil war, joined the World Bank. The civil war ended in 1992, and the first democratic elections were held in 1994. Since then elections have been held regularly. After the cessation of conflict, Mozambique achieved impressive economic growth (albeit from a low base) and has become an example of successful post-conflict reconstruction and development. Mozambique's development has been strongly supported by official development assistance (ODA) with average annual disbursements amounting to $1 billion (12 percent of GDP).

World Bank Assistance

Bank strategy. The reduction of poverty and improvements in social services has been, and still is, the most important objective for Mozambique's development strategy. The Bank has supported the government's Action Plan for the Reduction of Absolute Poverty (PARPA—the Portuguese acronym for PRSP), and the FY01 and FY04 Country Assistance Strategies (CASs) shared the same strategic objectives and pillars and covered the same policy areas. The overall intent was to help Mozambique promote growth to improve the country's standard of living and to reduce poverty, primarily through maintaining macroeconomic stability and promoting private sector initiative, particularly for small and medium-sized domestic enterprises (SMEs) as well as in agriculture and infrastructure. To this end, human resources needed to be developed through the provision of improved education, water, and health services; and public sector performance needed to be improved through capacity-building measures and better governance. Close coordination among the government and the development partners, including the Bank, was to help mobilize the needed assistance and increase the chances of its efficient use.

Relevance of strategy. Overall, the Bank's assistance strategy during the review period was relevant and closely aligned with the government's plan outlined in the PARPA. The strategic alignment with the PARPA enabled the Bank to be selective and to capitalize on its comparative advantage under each of the three pillars—growth, social services, and governance. Harmonization and alignment were advanced as the Bank agreed with the government and other development partners to support a common reform agenda and select triggers for Poverty Reduction Support Credits (PRSCs) from a commonly agreed-upon set.

Bank program. Support as delivered was broadly in line with the strategy. Most of the proposed lending program was implemented, and the credits that were not foreseen were consistent with the areas of Bank focus and within lending targets. The Bank also participated in Sectorwide Approaches (SWAps) in agriculture and health, but moved away from them to PRSCs as the core of its assistance program. However, the primary focus of prior actions in PRSCs during the evaluation period was on public financial management (PFM) and macroeconomic policy, while at the sector level several of the prior actions for agriculture were not met and there were no prior actions in health.

Analytical work. Overall, the analytical work delivered by the Bank was relevant, of high quality, and connected with the lending program. Some of the Bank's analytical pieces were essential inputs to establishing the reform agenda. The candor and technical expertise in the analytical work were appreciated by the client and development partners, who would like to see the Bank prepare more of such work. There were, however, important knowledge gaps in certain areas, which the Bank could have addressed in its analytical and advisory work. These areas include improving the yields of smallholder agriculture, improving the quality of basic education, constraints in the battle against the spread of HIV infections, priority actions to improve rural water supply, and problems with electricity reform and railway concessions. Similarly, no public expenditure review (PER) was conducted after 2003.

Findings

Pillar I: Stabilization, Reform, and Growth

Macroeconomic stability. Mozambique's macroeconomic performance has been generally good or improving when measured by aggregate indicators like growth, inflation, balance of payments, external debt, and the budget. Transfers under the PRSC series helped fund the budget, in turn stabilizing the real economy. Prior actions ensured some increased domestic revenue mobilization, and those aimed at public expenditure management helped improve government capacity in this area. In addition, the PRSCs allowed the Bank to participate in the dialogue on macroeconomic-management, even though the IMF took the lead. The external debt position of the country also improved appreciably, largely due to the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) arrangements. The economy also responded positively to reforms. Maintaining annual growth that averaged 7-8 percent for almost 15 years was a commendable achievement.

Nevertheless, despite the positive performance of growth and overall macroeconomic performance, a number of concerns have remained. First, although inflation was reduced significantly from the early days after independence, it fluctuated during the period reviewed and averaged 11.5 percent. The risk of macroeconomic instability lingers, especially in view of swings in the global food prices and the uncertainty surrounding global developments in petroleum and other primary commodities markets. Second, the pace of growth has been fueled to a large extent by ODA, but the sustainability of this support is unclear given recent global financial developments. In addition, growth has been driven by agricultural catch-up (until about 2003), and private investment in physical capital (for example, through mega-projects) that has not yet substantially addressed the challenge of creating more jobs and making growth more evenly distributed.

Financial sector development. The main objectives of financial sector development (FSD) reforms were met. The Bank's technical assistance followed up on the findings of the Financial Sector Assessment Program and helped to strengthen the central bank's balance sheet, as well as its supervision of the banking system. These Bank efforts contributed to a steady improvement in the overall soundness of the banking system as reflected in improvements in a number of indicators, such as the proportion of nonperforming loans, capital adequacy ratios, and increased competition among banks. In contrast, progress in financial intermediation, access to finance (particularly by SMEs), and the development of the non-bank financial sector remains a challenge.

Private sector development. The results achieved in PSD fell below expectations. Progress in the development of the SME sector was slow. The Bank program successfully provided some business extension services to SMEs and some technical assistance (TA) to strengthen a couple of government agencies, but the Bank-supported line of credit faltered and had to be altered to allow larger firms to borrow. While the enclave mega-projects may have done well because of their special circumstances, the performance of smaller domestic businesses remained sluggish. Hence, the contribution of PSD to generating employment and spreading the benefits of growth was limited.

Rural development and sustainable management of natural resources. Results of the Bank's interventions in agriculture, rural development, and natural resource management were also below expectations. Bank assistance through the Agricultural Sector Public Expenditure Program (PROAGRI), a SWAp supported by many bilateral development partners, achieved a number of its objectives, including decentralization of the Ministry of Agriculture; improvements in the financial, procurement, and audit management systems; and some improvement in agricultural research planning. However, the program did not have a significant impact on the productivity of smallholders. While eight development partners continued their support to the second phase of PROAGRI, the Bank withdrew. Instead, the Bank's broad sector objectives were subsumed under the PRSC series. However, the PRSCs have so far not provided an effective platform for dialogue on the agricultural sector, and PRSC triggers have made only very modest contributions to progress on either policies or technical issues in the sector. In addition, the Bank completed but did not publish the Agricultural Development Strategy. The Bank resumed support to agriculture in 2006, and financed the Market-Led Smallholder Development project, but it has so far experienced delays. In natural resource management, the Coastal and Marine Biodiversity Management yielded some positive achievements, such as biological monitoring of marine ecosystems and strengthened capacity for environmental management by communities. However, several prominent project objectives, notably the protection of coastal habitats and private sector tourist development, were not achieved.

Energy. The Bank's initial strategy of improving the energy sector through the unbundling of generation, transmission, and distribution into separate companies to facilitate bringing in private operators proved inappropriate for conditions in Mozambique and was replaced by a strategy to strengthen existing institutions. With Bank support, access to electricity was expanded through cost-effective grid intensification. Solar electric panels for some 300 schools and health centers were introduced, but Bank-supported pilot expansion of electricity service by creating independent, private electrical grids in isolated rural areas did not succeed. With World Bank (WB)/International Finance Corporation (IFC)/ Multilateral Investment Guarantee Agency (MIGA) support, a new 865-kilometer pipeline was constructed and is operational, exporting natural gas from Mozambique to South Africa, representing a major demonstration of the potential for integrating energy markets in the region.

Transport. With Bank and other development partners' support, the conditions of the roads have improved. An independent Road Board, with majority representation from the private sector, was established to guide allocation and monitor use of funds. However, more needs to be done to further improve access for the rural population, by improving or building feeder roads. Bank-supported concessioning of Mozambique's three main port-railway systems achieved partial progress toward increasing traffic on the country's railways and through its ports. While international port traffic had by 2008 reached 11.1 million tons, surpassing the target; traffic on the railways reached 3.5 million tons, half the target level. An Infrastructure Assessment planned for FY07 was dropped, which meant that no formal analytical work was carried out during the evaluation period.

Based on the elements presented above, the overall outcome of the first pillar of Bank assistance is rated *moderately satisfactory*

Pillar II: Poverty Reduction and Human Development

Poverty reduction. The incidence of poverty declined impressively from 69 percent in 1997 to 54 percent in 2003, while poverty remained higher in rural areas (55 percent) than in urban areas (52 percent). The results of the 2009 household income and expenditure survey were not available to this evaluation. There is, however, concern that the rate of decline in absolute poverty may be slowing down. Although overall growth was impressive during the review period and the underlying macroeconomic performance was satisfactory, it was not evenly distributed with the benefits of growth not reaching the majority of the population, particularly those in rural areas. Average growth rates in the agricultural sector were lower than the rapidly growing industrial sector dominated by capital-intensive mega-projects. Furthermore, agricultural growth was driven by catch-up (compensatory) gains and expansion into new areas rather than productivity improvements.

All PRSCs carried a government commitment to maintain budget allocations to six PARPA priority sectors (health, education, rural development, basic infrastructure, good governance, and sound macroeconomic and financial management) at 65 percent of the total, which was met. However, the budget could have better focused the allocation of expenditures on activities that would translate directly into a strong positive impact on poor households or at the smallholder farm level.

Education. The Bank and 14 other development partners contributed to the formulation and implementation of the government's 1999 Education Sector Strategy Program (ESSP) to improve access to and the quality of education. A large number of schools and related infrastructure was rehabilitated or constructed, enrollment increased substantially, and access for the poor and in rural areas improved markedly. However, there were concerns about the program's lack of progress in enhancing the quality of education. In 2003, the Bank decided not to engage in the second phase of this program. The Bank subsequently agreed in FY09 to contribute $79 million from the Fast Track Initiative for the improvement of basic education. Bank support to higher education assisted in the achievement of key performance indicators related to internal efficiency rates, annual number of graduates, increased regional distribution of enrollments, and the introduction of new degrees. The Bank is now moving most of its attention to supporting vocational and tertiary education and outcomes so far are encouraging.

Health. The health system was in disarray at the end of the civil war. As in the education sector, the Bank chose to follow the government's strategy for the development of the health sector and started its support with a SWAp—the Health Sector Recovery Program. Together with other development partners, the Bank successfully supported the construction of numerous health facilities, improved a number of institutions, trained many health professionals, and contributed to increased health service access. This contributed to improvements in key health indicators, including infant and maternal mortality rates. In contrast, the HIV/AIDS program has not progressed well due to government capacity constraints, design limitation, and weak coordination. This raises a serious concern as HIV/AIDS poses one of Mozambique's most daunting challenges.

Access to safe water and sanitation. With the agreement of development partners, Bank support to increase access to water and sanitation was directed at developing sustainable institutions in urban areas. Through these, the Bank supported the privatization of water service delivery in five cities under the umbrella of a government parastatal responsible for managing Mozambique's water resources. Bank assistance was successful, but its urban focus meant that Bank projects had negligible impact on access to potable water in rural areas. There was also little evidence of significant improvement in average access to sanitation in rural towns.

On the above basis, the outcome of the second pillar of Bank assistance is rated *moderately satisfactory*.

Pillar III: Governance

Budget allocation and execution. The main objectives in this area were achieved. With Bank and other development partners' support, the government introduced reforms that have changed the face of the budget system in Mozambique. While in 2001 the country did not have the elements of a budget system, today it has: almost complete budget coverage, improved budget classification, a consolidated single treasury account (for most goods and services), adequate budget controls, and fiscal transparency. Although the system has substantially improved, the government is still working on including all wage and salary expenditures in its newly introduced financial management information system, e-SISTAFE. On the other hand, the Bank's assistance paid insufficient attention to significantly improving the efficiency of public expenditures that the analytical work identified as problematic.

Monitoring and evaluation capacity. The objectives in M&E capacity building were partially achieved. Two important tools have helped create the conditions for a better monitoring and evaluation (M&E) system: the PARPA and the overhauling of the PFM system. With Bank support, the government's ability to *monitor* programs and plans were enhanced, although there is room for improvement. However, the advances in managing and monitoring the budget have not yet translated into better government *evaluation* capacity.

Reducing corruption. This objective was not achieved. The Bank expected that as a result of the assistance the government would carry out governance surveys. A survey for

2004/05 was conducted, but no other survey has been carried out after 2005. Dealing with corruption requires better tools and creativity than the Bank displayed in its assistance. International indicators show that the levels of perceived corruption changed little. The government prepared an anticorruption strategy for 2006-10 but has not advanced much in implementing it. Despite the fact that many corruption cases were brought to court in the last years of the evaluation period, the fight against corruption was not complemented by an increased number of high-profile judgments.

The justice system. Bank assistance intended to reinforce the capacity of the judiciary but had little influence. Judicial sections for commercial disputes were not established as scheduled under the Bank's strategy. Neither the legal framework nor the efficiency of courts in resolving business disputes improved. The government did not revise all the codes, but the number of cases sentenced increased. The evaluation could not ascertain whether access to justice has improved.

The overall outcome of the third pillar of Bank assistance—governance—is rated *moderately satisfactory*. In reaching this conclusion, the evaluation placed greater weight on the results for the objective of improved budget allocation and execution for two reasons: first, this pillar directly covers an important part of the Bank's assistance, provided as direct budget support, and second, the budget is relatively large, representing about 30 percent of GDP, substantially above the norm for developing countries. Therefore, improvements in budget management and allocation constitute an important step in strengthening accountability and capacity in the public sector. Eventually these improvements should also lead to a reduction in corruption through better control of the accounts and better tracking of where resources are spent.

IFC's Assistance

Between FY01 and FY08, IFC's objectives, as articulated in the CASs, were to enhance support to SMEs, including improving the enabling environment for private sector participation; promote tourism; develop infrastructure and mining; build and strengthen financial markets; and support health, education, and the agribusiness sectors. IFC invested $56 million in nine projects in four sectors: industrial, financial markets, agribusiness, and extractive industries. The active portfolio was dominated by two mega-projects: the Mozal aluminum smelter plant and development of the Pande and Temane gas fields that deliver natural gas to South Africa. IFC also implemented 20 advisory services projects for a total funding of $11 million. These projects supported privatizations, SME linkages, SME capacity building, access to finance for SMEs, and the tourism sector.

IFC promoted private sector development by helping improve foreign investors' perception of Mozambique through mega-projects that led to follow-on projects; improving capacity of some SME firms; advising on privatization efforts to support private ownership; helping improve the business enabling environment in the tourism sector; and supporting SME linkages with large projects (although on a limited scale). IFC's efforts to help develop the private sector were less successful in increasing access to finance for SMEs; improving corporate governance of some enterprises; expanding the positive investment climate that was created for mega-projects to the entire economy; helping improve overall business enabling environment; and supporting agribusiness, health, and education.

IFC's strategy remains relevant in the country context. Mozambique faces the challenge of broadening its growth base. IFC can play a role in this area through greater focus on improving the overall business environment, increasing its support to indigenous SMEs, and ensuring the sustainability of its SME linkages programs.

The evaluation of IFC activities addresses evaluation questions that are somewhat distinct from those underlying the evaluation of the Bank's program (see Annex B for an outline of the latter). Accordingly, there is imperfect integration between the two, and the outcome ratings refer exclusively to the Bank's program and not IFC's. IEG is, of course, well aware of the desirability of aligning the evaluation approaches, and is currently working on a test case—the Country Program Evaluation for Peru—that pilots an evaluation of the World Bank Group's consolidated program.

The Bank's Role in Partnership and Harmonization

The Bank's efforts to roll out the main provisions of the Paris Declaration in Mozambique have yielded several favorable results, as well as some notable limitations. On the favorable side, the main gains have included greater predictability of resource transfers in line with an agreed schedule, and a more structured dialogue with the Mozambican authorities through coordination and alignment of the general budget support partners with the government's PARPA. At the same time, the main efforts which centered on the Memorandum of Understanding (MOU) regarding coordinated budget support also restricted flexibility. For instance, the Bank was not always able to embrace relevant policy issues (and include these as prior actions in budget support operations) if these were not foreseen when the Performance Assessment Framework (PAF) indicators were agreed.

In addition, the Bank's participation in a high number of (sector) working groups involves significant transaction costs. A more streamlined and prioritized approach to these could improve efficiency of the policy dialogue. At the same time, some hold the view that a mechanism needs to be found to give voice to a broader range of development partners. However, any move to increase voice among non-budget support partners should be considered against the need for higher efficiency in the conduct of policy dialogue.

Overall Rating

This CPE rates the overall outcomes against the Bank's strategic objectives in Mozambique during the evaluation period as *moderately satisfactory*. This reflects results achieved under each of the three pillars that can plausibly be attributed, at least in part, to the Bank's program. This is consistent with the rating of moderately satisfactory that each pillar received, although results varied across subpillars. In particular, this CPE identifies macroeconomic management and budget allocation and execution as subpillars that stood out positively, and are rated satisfactory. On the other hand, in four subpillars the outcomes of Bank assistance were below expectations. Under the first pillar, these were private sector development and rural development including sustainable management of natural resources—both are rated moderately unsatisfactory. Under the third pillar, reducing corruption and improving the justice system are both rated unsatisfactory. In sum, although outcomes and the accompanying ratings on the level of pillars and the overall level were balanced and positive, this CPE does point to the indicated subpillars as areas of concern.

Recommendations

Based on the findings of this evaluation, IEG recommends that the Bank:

- **Help the country sustain high growth but modify its pattern to make significant gains in employment and poverty reduction**. Although Mozambique has experienced strong growth, poverty and inequality remain high. A key strategic objective of the country and its development partners is to promote more sustainable, employment-generating growth. However, growth stemming from the foreign-owned, capital intensive, export-oriented mega-projects, had limited impact on employment creation and productivity spillovers. At the other end are the vast majority of firms, primarily SMEs, which sell mostly to the local market, face severe resource constraints, and contribute only modestly to economic growth and exports. Sustained and broad-based growth in output requires diversification of production and exports, and the creation of a better business environment for a greater participation of these parts of the private sector in the country's economic activity. The evaluation recommends that the Bank give even higher priority to assisting the country's efforts to modify its growth pattern and make it more evenly distributed, employment-generating, and poverty-reducing. This suggests a need to focus on:

    - Making credit more accessible to SMEs and the agricultural/rural sector by developing financial intermediation in these areas, including through the promotion of nonbanking institutions and systems like the network of traders that had operated before independence.
    - Assisting improvements in business procedures and regulations to create a better business environment for the broader-based, smaller domestic businesses and to deal more creatively with the problem of collateral.
    - Ensuring a firm basis for increased productivity in the agriculture sector, as well as supporting services, and better market access to smallholders in poor rain-fed rural areas. Strategic options need to be explored on how to sustainably improve yields and markets for crops produced by small-scale farmers to improve production, incomes, and employment.

- **Strengthen the Bank's knowledge of the infrastructure and social sectors**. The fact that no formal economic and sector work on infrastructure was conducted over the past decade and that the proposed infrastructure review was dropped is worrisome, especially given that the Bank is one of the major lenders in this sector. The problems with electricity sector reform and with railway concessions illustrate the need for in-depth analysis. This CPE also found that for projects in the social sectors and water supply there was only a modest amount of analytical work by the Bank, including some on education conducted in collaboration with the government. There were knowledge gaps in crucial areas such as improving the quality of basic education, constraints in the battle against the spread of HIV infections, and priority actions to improve rural water supply. In collaboration with the government and other stakeholders, areas of focus would include:

- Reinstating the infrastructure review, covering sectors that are likely to continue receiving assistance from the Bank.
- Conducting analysis of constraints to improving the quality of basic education, including examining the training, incentives for and accountability of teachers and school administrators, reducing the waste of instruction time, and increasing availability of textbooks, particularly in rural areas.
- Designing improved technical and institutional strategies to reduce the incidence and spread of HIV infection as well as the treatment and mitigation of AIDS.
- Exploring technical solutions to find the most cost-effective improvements in the domestic water system for poor rural households and helping the government formulate a strategy that will create incentives for major private manufacturing, industrial, and service industries to invest in rural areas to reduce the pressure on urban water supplies and diversify the resource base for rural water supplies.

❖ **Help the government improve public expenditure efficiency**. The Bank's assistance strategy did not explicitly state the need to improve the efficiency of government expenditures as an objective, although the Bank's analytic work identified sectors (including education, health, roads, and water) where efficiency could be enhanced. Enhancing efficiency is critical because: government expenditure is high at about 30 percent of GDP. Despite the increase in domestic revenues supported by the Bank and other development partners, government revenues remained at half the level of public expenditures. In addition, grants from the development partner community finance about one-third of public expenditure, but the sustainability of the high level of grants is unclear, given recent global financial developments. Gains in the efficiency of public expenditure can help improve the quality of social services. These factors suggest a need to focus on:

- Helping to improve the efficiency of public expenditures through analytic work and follow-up lending. The government allocates a high share (65 percent) of its budget to PARPA priority sectors, but the high level of absolute poverty and low levels of social indicators necessitate further improvements in the efficiency of expenditures to make room for improved quality of social services, particularly in rural areas. Reinstating PERs alongside the PFM work would help serve the objective of rationalizing public expenditures.

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