

Mozambique: Structural Aid VI

Ex-post evaluation

OECD sector	51010 / Structural Adjustment	
BMZ project ID	2000 65 953	
Project-executing agency	n.a.	
Consultant	n.a.	
Year of ex-post evaluation	2004	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	2001	2nd quarter 2002
Period of implementation	2001	2 nd half of 2002
Investment costs	EUR 4.09 million	EUR 3.72 million
Counterpart contribution	no	no
Financing, of which Financial Cooperation (FC) funds	EUR 4.09 million	EUR 3.72 million
Other institutions/donors involved	IBRD/IDA	IBRD/IDA
Performance rating	2	
• Significance / relevance	2	
• Effectiveness	2	
• Efficiency	2	

Brief Description, Overall Objective and Programme Objectives with Indicators

The programme Structural Aid VI in the amount of EUR 4.09 million was designed to support the Mozambican government's reform programme in the framework of the "Economic Management Reform Operation" (EMRO), for which the World Bank (IDA) had made available a parallel financing of USD 150 million in 1999. The IBRD (IDA) provided a further USD 120 million for the follow-up programme "Economic Management and Private Sector Operation" (EMPSO) in 2002/03.

The EMRO programme focused on measures to simplify and liberalise foreign trade, to reform the public finance sector, to improve its efficiency and to increase state revenues, as well as to ensure the long-term availability of public services. The EMPSO programme comprised measures to further improve the budget management and the overall environment for the private sector, to restructure and raise the efficiency of the financial sector, as well as preparatory steps for the privatisation of further state-owned enterprises.

The programme appraisal report formulated the objective of Structural Aid VI in a general way as that of supporting the further reform process in Mozambique. It made specific reference to the reform measures conducted in the framework of the EMRO programme which had already

been implemented to the satisfaction of the World Bank at the time the structural aid was committed, and to the subsequent EMPSO programme, the approval of which by the World Bank management in its financial year 2001/2002 was intended as an indicator of the achievement of the programme objectives.

The overall objective of Structural Aid VI was to contribute to a sustained positive economic and socio-economic development. The achievement of the overall objective was to be rated by the degree to which the forecast values of selected economic indicators were achieved (Annex 2).

Programme Design / Major Deviations from the original Project Planning and their main Causes

The FC Structural Aid VI and the IDA adjustment programmes mentioned above are part of a number of economic and sector adjustment programmes which Mozambique has implemented and is still implementing with intensive donor support in the framework of its transition and development process since it turned to a market economy system in the late 1980s.

The funds of Structural Aid VI were intended to contribute towards covering Mozambique's need for external financing primarily in 2001, to be released in one tranche and disbursed in partial amounts in accordance with the short-term funding needs. It was intended to finance the imports of civilian goods and services on the basis of a list of goods agreed upon with the competent federal ministries unless they were already financed by other donors and only for supply contracts concluded after the signing of the government agreement. As in the preceding structural aid programmes IV and V, specific evidence documenting the use of funds was dispensed with. Instead the proper utilisation of the funds was to be confirmed by an auditor approved by KfW.

On the basis of the financing agreement dated November 7, 2001 the funds were released as planned in a single tranche and disbursed in two partial amounts during the second half of 2002 save for a balance of EUR 371,339.53. The approximately one-year delay in the disbursement of funds was due to the late signing of the financing agreement towards the end of 2001 and the relatively long time it took to create the conditions precedent for disbursement. The need for financing persisted in 2002 as well. The proper utilisation of the funds was confirmed by the International auditors Ernst and Young, who had also confirmed the propriety of fund utilisation under Structural Aid IV and V. The balance was reprogrammed in the third quarter of 2004 in favour of the FC programme Electricity Supply Marromeu (2001 66 470) in agreement with the Mozambican government.

Key Results of the Impact Analysis and Performance Rating

The reform covenants associated with Structural Aid VI were already fulfilled to the satisfaction of KfW and the World Bank at the time of programme appraisal. Since then they have not been withdrawn but continued and implemented with further measures. The indicator for the achievement of the programme objective, the approval of the EMPSO Programme by the World Bank management, was fulfilled in August 2002 after a slight delay against the original expectations. The first tranche of the funds of this programme (USD 60 million) was disbursed in 2002. In the meantime three of the reform requirements have been fully met (preparation of a strategic plan for the reform of the justice system, a status analysis of the central bank as preparation for its restructuring, and advisory services to prepare the privatisation of the state owned airline), while the remaining five requirements (of which: inclusion of extra-budgetary revenues and expenditure into the budget, review and analysis of the state banking sector and the state-owned insurance company as well as social security) have been largely fulfilled. The World Bank expected the second tranche of the programme funds to be disbursed before the end of the year 2004.

The reforms in the public budget management, which were among the priorities of the EMRO programme supported by Structural Aid VI and the subsequent EMPSO programme, have led to significant improvements in this area. On the basis of the "Public Financial Management Law" adopted in autumn of 2002, an action plan was prepared for an improved budget management (SISTAFE). Its main purpose is to implement all phases of the budget in a congruent system and to introduce a new accounting system and double accounting, to improve the classification of expenditures and to shorten the period of time between budget preparation and implementation. The implementation of the plan is now under way: The new budget management is to be introduced in the Ministry for Planning and Finance by the end of 2004 and in all ministries by the end of 2005. In addition, the first steps have been taken to improve the efficiency of public services and public procurement and to decentralise public administration. Thanks to various tax reforms (for instance, introduction of value added tax, introduction or increase of consumer taxes) and the improved tax administration, public revenues could be increased considerably. The establishment of a Central Revenue Authority, which is to be completed by the end of 2005, is expected to yield further improvements and, thus, lead to higher revenues. The progress made in the area of public budget management was the basis for participating in budget finance within the framework of the FC programme "Programme-based Approach for Macro-economic Support" (EUR 7 million - 2003 65 874; appraisal report of Dec. 30, 2003), in which 15 donors are participating (G 15).

Important steps towards improvements were taken in other areas of the public sector as well to dismantle the obstacles which the weaknesses in public governance, the justice system and the cumbersome administration pose to Mozambique's development. These include mainly the partial decentralisation of public administration in pilot projects, surveys on the restructuring of ministries and their equipment with modern communications technology, training measures and simplifications in various administrative areas, as well as the establishment of an anti-corruption unit.

With respect to the overall environment for private enterprise and the privatisation of state-owned enterprises and services, progress was also made in the course of the structural adjustment programmes, although not always to the extent hoped for. Activities of the past years that deserve to be mentioned include, above all, the strengthening of the central bank (recapitalisation, among others) and banking supervision, the consolidation of the state-owned banking sector following the crisis in 2001/2002 and its opening to private investors, the more rational design of customs tariffs and the simplification of the customs procedures as well as steps towards opening important subsectors of public infrastructure (seaports, railway, telecommunications, drinking water supply) to private investment and competition with resulting efficiency gains.

Overall, it can be observed that Mozambique has made great progress since the end of the 1980s both in the process of democratisation and political stabilisation and in its transition to a market economy. In this regard it is one of the most successful countries in sub-Saharan Africa. What enabled these laudable achievements was the unrelentingly high readiness of the government to implement reforms as well as the economic and sector-related structural aid and adjustment programmes that were initiated and implemented by the donor community in close co-operation with the government. Despite the progress achieved, however, serious reform deficits still remain that hamper development. While important reforms have been initiated, some of them are still far from being implemented successfully. This is especially true of the reforms in the justice system and land ownership legislation, the dismantling of excessive regulation in the labour market, the fight against corruption, the decentralisation of public administration and the increase of its performance level, the further privatisation of public enterprises and services, as well as the continued strengthening of the financial sector and its orientation to competition.

The successful efforts for political stabilisation and democratisation as well as the transformation to a market economy permitted remarkable improvements in the economic and socio-economic development indicators in favour of the Mozambican population of nearly 19 million people. On the basis of a very low initial level, the positive development trends of the 1990s have prevailed in the ensuing years as well, despite some setbacks from natural disasters. These trends are expected to continue in the foreseeable future. The majority of the indicators selected to measure the achievement of the overall objective of Structural Aid VI were reached or even surpassed (see Annex 2; what is relevant is the comparison of targets and actual levels in 2000 to 2002). Particularly in the public budgets, which were the main focus of the reforms intended under Structural Aid VI, the improvements achieved exceeded the expectations. Comments on some of the developments observed:

- Economic growth as measured by the increase of gross domestic product in real terms (GDP) was 7.9% per annum on average for the years 2000 to 2002, slightly higher than expected despite the drop registered in 2000 as a result of the floods. A GDP increase by over 8% per annum is expected for 2004; in the coming years growth is expected to drop slightly to 6.5% to 7% per annum. The impressive economic growth was and is due in large part to various large-scale projects that were and are being realised by foreign investors (such as the Mozal aluminium smelter and the gas pipeline to South Africa). However, considerable growth could also be achieved in the output and added value of the farming and services sector (transport, tourism and others).
- Against this background, and given the clearly falling poverty incidence (see below), the decline in per-capita consumption (see Annex 2) is hard to explain; statistical inaccuracies aside, they may be an expression of the effects of the lost harvests caused by flooding and drought in the past years. Nevertheless, they may also show that progress in economic growth so far has failed to sufficiently translate into prosperity gains for the population at large.
- The persistently very high investment quotas also are mostly a result of the large-scale projects, as are the high increases in the exports of goods and services, some of which, however, were achieved by agricultural exports like cotton and timber, as well as tourism. On the other hand, the large-scale projects gave rise to higher than expected imports and capital services, the financing of which could be ensured to a very great extent under these programmes.
- The target inflation rates were hardly missed in the past years, at around 13% per annum in 2000 to 2002, caused mainly by the rise in the rate of the South African rand, which determines Mozambican prices as well, against the US dollar, and by harvest losses from flooding and drought in 2000. Thanks to a restrictive monetary policy, the inflation rate is expected to drop to single digit values by 2005.
- The development of the public budget showed significant improvements: On the revenues side the ratio between tax revenues and GDP (tax quota) increased from 13.2% in 2000 to 14.2% in 2002, and further rises are being expected. On the expenditures side the main improvement was that the increase in current spending was limited by a restrictive fiscal policy. Happily, education and health expenditure was considerably increased nevertheless. The goal of using around two-thirds of total public spending for particularly poverty-relevant objectives was generally reached. Since then the budget deficits before external contributions, which were still relatively high in the years 2000 to 2002, have been falling. This decline is also being accompanied by a decrease in foreign funds to finance the budget deficit.
- Mozambique was one of the first countries to reach the "completion point" under the expanded HIPC initiative in September 2001. Thanks to the debt relief associated with the initiative (around USD 2 billion according to the present value method), the external

debt (end of 2002: around USD 4.8 billion) and the debt service (2003: 4.5% of exports) are on a well manageable level.¹

For the year 2003 as well, preliminary results have shown the economic indicators to be on a continuing positive trend (see Annex 2). In the past years progress in poverty reduction has exceeded target expectations. On the basis of a poverty reduction strategy agreed upon with the donor community (PARPA) the Mozambican government is seeking to reduce the share of the population living below the poverty level (poverty incidence) of nearly 70% in 1997 to 60% in 2005 and 50% in 2010. According to a budget survey conducted in 2002/2003, the share was already at 54%, clearly below the target value set for 2005. Noteworthy improvements were also achieved in other social indicators over the past years.² This is especially true of the education sector (for instance, increase in primary school enrolment rates) and to a lesser extent of the health sector, where the increased efforts being made in immunisation programmes and in the fight against HIV/AIDS, for instance, are only gradually translating into improved indicators (life expectancy is currently 41 years). Mozambique's current Human Development Index ranking is 171 of 177 countries (2004), which shows how very difficult the country's socio-economic conditions still are despite the improvements it has made.

Substantial advances in reducing poverty and improving the living conditions which continue to be precarious for vast portions of the population are necessary in order to achieve the very ambitious Millennium Development Goals. In particular, this will require increased efforts to develop the populous rural areas that are mainly stricken by poverty, the promotion of the labour-intensive and hitherto neglected small and medium-sized enterprise sector, and further improvements in the area of education and health. The poverty reduction strategy provides for corresponding initiatives and measures, and the external assistance is strongly oriented in this way.

The following developmentally relevant categories were assigned on the occasion of the ex-post evaluation:

- The reforms in the public finance sector and the public services as well as in the overall conditions for the private sector have produced improvements in these areas, enabled positive economic results and increased spending in favour of the social sectors both in absolute and in relative terms. It is plausible that this will have indirect pro-poor impacts in the short to medium term. Such impacts were part of the programme objectives (such as the overall objective of EMRO), so that we finally assign the programme the poverty relevance MSA.
- The protection of the environment and natural resources is not a programme goal (URO).
- Major gender-specific programme impacts and objectives are not apparent (category G0).
- The improvement of governance was a central element of the programme (category PD/GG2).

With respect to the sustainability of the EMRO reforms and the continuance of the adjustment process, a medium risk with medium influenceability was assumed at the time of programme appraisal. Regardless of the Mozambican government's continuing strong willingness to implement reforms, this assessment should be maintained. It is based not least on the imminent parliamentary elections and the leadership change this will entail, with the resultant uncertainty on the further course of reforms.

¹ World Bank, Mozambique: Country Assistance Strategy, July 2004, p. 10 and Annex 7. The data on external debt in the SPA Key Selected Economic Indicators (see Annex 2) appear to be obsolete or contain private debt without public guarantee as well.

² World Bank, Mozambique: Poverty Reduction Strategy Paper Progress Report, May 2004, p. 51.

We generally rate the developmental effectiveness of the programme Structural Aid VI as satisfactory (rating 2). This performance rating is based on the sub-criteria effectiveness, significance/relevance and efficiency:

- Together with the parallel World Bank (IDA) adjustment programme, Structural Aid VI has achieved the programme objective of contributing to sustainable reforms in the public finance sector. However, the reforms have been implemented only in part, and considerable weaknesses persist in governance and in the overall conditions for the private sector. We therefore judge the effectiveness as satisfactory (rating 2).
- The overall objective of the structural aid, which was to contribute to sustainable positive economic and socio-economic development, can also be deemed achieved given the good results of the past years, particularly in the management of the public budget, economic growth and other economic indicators as well as poverty reduction. However, the development of the overall economy harbours some problematic aspects, the poverty situation continues to be precarious for vast portions of the population, and the socio-economic data continues to be relatively unfavourable despite the improvements achieved. Besides, the positive results cannot be credited solely to the use of the funds of Structural Aid VI and the parallel IDA financing but rather are the result of far-reaching reform efforts. Moreover, the German side had relatively little influence on the design and implementation of the programme measures. Under these aspects we rated the significance and relevance of Structural Aid VI as satisfactory (rating 2).
- The utilisation of the funds under Structural Aid VI and the parallel IDA financing was reasonable for the achievement of the programme objectives. Given the delays in the utilisation of the German funds we rate the efficiency of their utilisation as satisfactory (rating 2). However, given the character of structural aid the efficiency aspect is of lesser importance for the overall assessment.

General Conclusions

Adjustment programmes that address specific reform tasks, as was the case of Structural Aid VI, pose coordination problems that are difficult to manage within a comprehensive transition process and thereby overburden weak administrations, which are typical of countries with a development level as that of Mozambique. The programme-based budget financing agreed with the country in 2003, which provides for a comprehensive reform approach, the coordination of various important donors and an intensive monitoring of the implementation of agreed reforms, the use of the funds and important development trends, is a method for addressing these problems and further improving the effectiveness and efficiency of the adjustment aid.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient significant **developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organizational and/or technical support has come to an end.