

1. Project Data:		Date Posted : 11/05/2007	
PROJ ID : P001806		Appraisal	Actual
Project Name : Municipal Development Project	Project Costs (US\$M):	41.21	45.01
Country: Mozambique	Loan/Credit (US\$M):	33.60	37.50
Sector Board : UD	Cofinancing (US\$M):	5.18	2.89
Sector(s): Sub-national government administration (89%) Central government administration (11%)			
Theme(s): Municipal finance (25% - P) Municipal governance and institution building (25% - P) Other financial and private sector development (24% - P) Law reform (13% - S) Decentralization (13% - S)			
L/C Number: C3549			
	Board Approval Date :		07/22/2001
Partners involved :	Closing Date :	03/07/2006	02/28/2007
Evaluator:	Panel Reviewer :	Group Manager :	Group:
Marcelo J. Bueno	Rene I. Vandendries	Jaime Jaramillo	IEGCR

2. Project Objectives and Components:

a. Objectives:

The primary(original) project development objective (PDO) was to strengthen the capacity of municipal governments in the areas of management, finance, and the provision of infrastructure and services, eventually to improve Mozambique's fiscal transfer system, municipal revenue mobilization and financial management, municipal control over staffing and capacity building, and effective mechanisms for providing municipal infrastructure and services with private sector participation.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

Yes

Date of Board Approval: 01/24/2004

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The original components of the project were :

Component 1 - Legal and Institutional Reform /LIR (The project cost for this component was US\$ 3.37 million at appraisal vs. actual of US\$2.97 million). The objective of this component was to undertake the institutional and legal reforms for municipalities to exercise fully, their powers and responsibilities under the Municipalities Law /ML (Pacote Autarquico of 1997) and complementary legislation. Broadly, activities under this component were to integrate and harmonize the on-going process of administrative deconcentration and decentralization to local authorities within the broader process of reform of the public sector then underway including the : (i) completion and refinement of the Law of Municipalities; (ii) development of new administrative models for improving the delivery of urban services; (iii) assistance to municipalities in securing appropriate staffing and training; (iv) development of revenue and expenditure management systems; (v) provision of technical assistance to municipal governments in financial management and municipal administration; and (vi) provision of institutional support to the central, provincial, and local governments in their relationship with municipalities, and to ministries in their oversight responsibilities .

Component 2 - Municipal Capacity Building /MCB (The project cost for this component was US\$ 4.77 million at appraisal vs. actual of US\$2.89 million). Financed by the Nordic Development Fund (NDF), this component was to: (i) improve the capacity among municipal government staff, and elected and appointed officials to perform their respective tasks in the 33 existing municipalities, and in any new municipalities that would have been created during the life of the project; and (ii) develop materials for pre-service training and provide technical assistance to develop and improve municipal systems and processes . A secondary objective was to build capacity, at the national level, to design and manage training and technical assistance programs for municipalities over the long -term.

Component 3 - Municipal Grants Program /MGP (The project cost for this component was US\$ 22.75 million at appraisal vs. actual of US\$30.09 million). The objective of the MGP was to establish an operating mechanism for providing grants to municipalities under an initial five -city pilot program during the first four-year phase of the project to finance capital investments for municipal capacity building and infrastructure . The MGP was to strengthen the technical, financial, and administrative capacities of the municipalities to manage infrastructure investments, and maintain operations and associated procurement . Designed on a modest scale to provide practical *learning -by-doing* capacity building to the municipal staff and personnel of the pilot municipalities, the MGP was largely supported by the capacity building activities under Component 2.

Component 4 - Project Management and Technical Assistance /PM&TA (The project cost for this component was US\$ 6.97 million at appraisal vs. actual of US\$9.06 million). Under this component, a Project Coordination Unit (PCU) was established within the Directorate for Municipal Development (DMD) to administer the project's finances, oversee procurement, manage contracts, supervise technical assistance, carry out monitoring, and produce agreed-upon progress reports . An ad-hoc grants unit within the PCU was also established to manage municipal grants for the duration of the project . Under Component 2, the PCU's role was limited to providing advice on administrative and procurement matters .

Revised Components and Other Significant Changes . The project components were maintained throughout project implementation. However, based on recommendations from the mid-term review (MTR) in 2004, the specific PDOs were formally restructured to make them more realistic, increase the number of municipalities in the pilot program to make the results more robust, and reflect training and capacity building activities in the project and less on infrastructure financing . The restructured PDOs was to assist the GOM :

(i) operationalize the legal and institutional framework for municipal governance in Component 1; (ii) develop a sustainable training and technical assistance system to the capacity of municipal officials and staff in Component 2; and (iii) establish an operating mechanism for providing grants to municipalities through a pilot program in eight cities through the MGP which was restructured post the MTR to finance capital investments for municipal capacity building and infrastructure in Component 3.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The DCA was amended on 10/19/2004 to reflect agreements reached during the MTR including the revision of the PDO and the provisions to finance studies to evaluate the project's results, particularly the MGP pilot program . In addition, the closing date was extended by one year to 02/28/2007 to provide additional time to evaluate the new procedures developed for the MGP pilot for its fourth and final investment cycle, and to re -allocate the proceeds of the Credit among existing categories to reflect actual disbursements . The result was an increase in total project financing from US\$42.06 million at appraisal to US\$45.81 million of which US\$37.50 million was the share of IDA.

3. Relevance of Objectives & Design:

The PDO was relevant to the GOM's development priorities and consistent with the Bank's country assistance strategy (CAS) to support the country's three strategic priorities of improving governance and empowerment, improving human capabilities, and increasing economic opportunities through private sector -led growth. The components were clear and aligned with project objectives, and the overall lessons of the project were drawn from Bank experience in urban development in the region and worldwide . In addition, the PDO was consistent with the GOM's second poverty reduction strategy (PARPA II) paper which was adopted in 04/2007 and the Bank's newly approved (in 05/30/2007) Mozambique Country Partnership Strategy (CPS) for 2008-2011 which focuses on improved economic governance and strong citizens' oversight mechanism to strengthen local governance and

capacity.

The design drew lessons from the First Roads and Coastal Shipping Project (ROCS) which were incorporated in the project and aimed at institutional responsibilities with the Ministry of State Administration (MAE), building trust between the Bank and the client, promoting "ownership" by the client agencies, and reinforcing linkages between institutional reforms and investments as a fundamental element to bring about policy reform. There was an apparent disconnect, however, between the Bank and GOM project teams regarding the focus of the project, the role of the municipalities in the design of the project components, the lack of readiness for implementation, and the unrealistic budget and procurement plans which should have been addressed early during the design and implementation stages. Output oriented, KPIs were not considered useful, and together with the latter above, negatively affected the project design and quality at entry, reflecting the "unsatisfactory" ratings by the Bank during the first year of implementation.

4. Achievement of Objectives (Efficacy):

Overall, the achievement of the PDO is rated as **Modest**. This is supported by the efficacy of the achievements of the four project components.

Component 1 - Legal and Institutional Reform. Rated as **Substantial**, this component operationalized the legal and institutional framework for municipal governance through the delivery of a series of decrees and draft policies and regulations, creating the enabling framework for municipalities to exercise their functions and responsibilities under the ML. Gaps in existing laws were thus strengthened supporting the "gradualist" approach to decentralization adopted by the GOM for the project. While some weaknesses and risks were identified which could affect the sustainability of some of the achievements under this component (e.g. the non-institutionalization of procedures and good practice in municipal operations, and the positioning of legal technicians in areas inappropriate with their acquired skills), the GOM, nevertheless, took the legal and institutional reform outcomes from the project as well as from other projects supported by donors in this sector to support the establishment and implementation of its 2006-2010 Strategic Plan for the Public Administration Sector (PAS). The KPIs under this component were achieved.

Component 2 - Municipal Capacity Building. Rated as **Modest**, as it only partially achieved its objective in developing a sustainable training and technical assistance program to increase the capacity of municipal officials and personnel. The component delivered training manuals and programs in the areas of finance, human resource and fixed asset management, and urban planning for the capacity building of staff and elected officials in 33 municipalities. However, the first two years of implementation were unsatisfactory but improved dramatically with significant inputs from the World Bank Institute and the partnership established with the School of Administration of the Brazilian Ministry of Finance by the same. The component also supported the Training Institutes in Public Administration and Local Governance (IFAPA) by adapting a didactic methodology for the design, preparation, and delivery of capacity building courses, and strengthened its institutional capacity by supporting the development and equipping new facilities in 2 municipalities together with the center in Maputo to provide a more cost-effective training to local staff. The KPI to develop a training system for elected municipal and administrative personnel was achieved.

Component 3 - Municipal Grants. This component partially achieved its objective and is rated as **Modest**. Despite the disconnect between the Bank and the GOM project teams on the nature of the project, the component, nevertheless, succeeded in piloting a municipal grant fund mechanism and provided a practical opportunity for the staff in the pilot municipalities to apply the training they had received. The pilot, nevertheless, was too complex and did not reflect the political environment, and the weak institutional and human resource capacity at the time. Design difficulties forced several changes to the grant funds mechanism to incorporate experiences from earlier cycles and other countries, resulting in the provision of practical application i.e. learning by doing, for the municipalities' staff who had participated in the pilot program. The KPI for improving the practices for investment planning, procurement, and financial management for the municipalities in the pilot was achieved.

Component 4 - Project Management and Technical Assistance. This component fully achieved its objective and is rated as **Substantial**, which was the establishment of: (i) a PCU within the DMD to administer the project's finances, oversee procurement, manage contracts, supervise technical assistance, carry out monitoring, and produce agree-upon progress reports; and (ii) an ad-hoc grants unit within the PCU to manage municipal grants for the duration of the project.

5. Efficiency (not applicable to DPLs):

Estimating directly the economic rates of return on Component 1, legal and institutional reform, and Component 2, municipal capacity building, was difficult to measure. Nevertheless, to measure the economic benefits, a cost-effectiveness analysis of investments made in the two components were measured indirectly. Given the expected positive impact of higher productivity rates resulting from Components 1 and 2, the time required (in days) to execute the various phases of the implementation process in Component 3 was expected to decline in successive years. Assuming the first two years of the project (2001-2003) was the base year, analysis of the actual data showed

that the number of days required to complete each phase of the implementation cycle was shorter than the base year, and that the hypothesis was true. With respect to the benefits of Component 3, MGF investments, the small size and composition of the investments made it difficult to carry out a vigorous cost-benefit analysis, considering the high cost of doing so. Nevertheless, given the above evidence of works satisfactorily completed and the time to complete shortened, the anticipated benefits of the project was considered to have largely been achieved. On the other hand, estimates on the economic and financial rate of return on the components' cost and benefits which could have been measured directly casts some doubt on the actual efficiency of the project.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The achievements of the project (see Section 4, Efficacy above) were consistent with PARPA II and CPS objectives. The outcomes resulting from the MDP along with key analytical work and studies that the Bank, the GOM, and other partners are starting to implement to examine the mechanisms for local government financing, accountability, and municipal development assessment, directly support these priorities and the GOM's decentralization reform program, while having a strong impact on the institutional development in the beneficiary municipalities. In the short-term, the project addressed a selected number of key priority issues which were critical to continuing and improving the process of making municipalities functional within the legal and regulatory framework with financial, technical, and institutional capacity building resources.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Although the risk-to-development-outcome has been reduced given the GOM's efforts to expand decentralization since the late 1990s, nevertheless, international experience has shown that decentralization programs are highly risky areas where progress is not always "linear". To maintain the momentum of sustainability, the GOM would need to be consistent with policy direction (e.g. PARPA II and CPS) and continue to increase institutional capacity and human resources at the municipal level, build on achievements gained in training, strengthen the IFAPAs, disseminate training materials, and deliver newly developed programs consistent with the reforms. A key mitigating factor to the risk is the GOM's commitment to move ahead with the municipal development reform program with support from the Bank and development partners.

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

Overall, the Bank's performance is rated **Moderately Satisfactory**. It played an important role in the development and implementation of the project and in assisting the GOM with the design of the decentralization program. The intensive supervision effort of the Bank team materially contributed to the achievement of the PDO. Additionally, the design and preparation of the Maputo operation and the work of donor coordination to support the decentralization efforts demonstrated the effectiveness of the project in increasing local capacity as well as the level of confidence in the GOM in the area of municipal development and reforms. At entry, the project, however, failed to carefully address the impact of the prolonged civil war (1975-1992) on the lack of financial and human resources and on the MGP relative to the other project components. Both the MGP pilot and the financial transfer mechanism were too complex and required a strong level of technical and managerial skills which were lacking. It also assumed a level of local revenue financing capacity which did not exist at the time. The most serious issue, however, was the low level of readiness for implementation on the part of the GOM which delayed implementation and shifted the focus of the project from capacity building to infrastructure financing. However, this was corrected during the MTR. Supervision was professional and pro-active, and the quality and availability of the team was high and frequent. The focus of the supervision was on effective implementation, close monitoring, immediate corrective actions on issues identified, speedy clearance of disbursement and procurement requests, financial management, and project safeguards.

a. Ensuring Quality -at-Entry:Moderately Unsatisfactory

b. Quality of Supervision :Moderately Satisfactory

c. Overall Bank Performance :Moderately Satisfactory

9. Assessment of Borrower Performance:

Borrower performance is **Moderately Satisfactory** . At entry, many of the problems that occurred during project design and preparation hampered the start-up of the project (e.g. securing well trained staff for the PCU and ensuring timely replenishment of municipal counterpart funds) which could have been mitigated had the GOM adopted a more pro-active role. The problems with counterpart funding at the central and municipal levels were still occurring through June, 2007 with late payment to contractors. The performance of the municipalities was mixed but generally positive. Formal and practical training significantly strengthened local capacity to plan, design, procure, and implement a wide range of infrastructure projects. The performance of the implementing agencies and their willingness to quickly address identified problems resulted in the increased capacity at the municipal level and compensated for the weak performance at the center .

a. Government Performance :Moderately Unsatisfactory

b. Implementing Agency Performance :Moderately Satisfactory

c. Overall Borrower Performance :Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

The project results framework spelled out the specific objectives, causal relationship, and the underlying assumptions about how the program actions would lead to the intended outcomes . However, the framework provided neither the essential baseline information nor the specific measurable KPIs at start -up. The KPIs were reviewed in 2002 and 2003 to make them more measurable and appropriate, and at the MTR, some other changes were made to address an apparent duplication . During implementation, the PCU was able to use the system to collect the necessary data and carry -out the M&E function, albeit limited. The quality of the data was reliable and the GOM has been using these data to inform and carry -out its policy.

a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The safeguard and fiduciary issues were fully complied with by the project . A detailed environmental assessment (EA) was carried out and an EMP was designed and included in the project implementation manual to address potential environmental impacts under the project . The EA was used as a model for 2 subsequent Bank projects in Mozambique (i.e. the Decentralized Planning and Finance Project and the Maputo Municipal Development Program). One positive outcome arising from the project is the increased awareness of households and businesses of municipal responsibilities and are now more likely to hold their officials accountable . Constituents also gain from the use of the sub-projects completed under the MGP funds pilot . In the broader sense, the project will have an impact on furthering democratization in Mozambique as it expands the basis for local /municipal empowerment.

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Significant	Significant	
Bank Performance :	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	

Quality of ICR :	Satisfactory
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NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

From the MDP, the key lessons learned in designing and implementing municipal development programs are : (i) the need for simplicity, flexibility, staff involvement in project management, and active support and involvement of local officials; (ii) the importance of securing client ownership, political leadership, and commitment as preconditions for design, management, responsibility, and accountability; and (iii) the need for effective communication, strong working relationship, and similar -goal focus between Bank and client project teams .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

Overall, the quality of the ICR is **Satisfactory** . The ICR is candid in its assessment of the different aspects of project performance both in terms of achievements and shortcomings, as well as the rationale for both . It is well-organized and presents considerable information on all important components of the Project . It highlights some of the key shortcomings in project design (e.g. the disconnect between the Bank and GOM project teams, the lack of readiness for project implementation, etc.), and deficiencies in implementation, and monitoring and evaluation resulting in a one year project extension and delays in the implementation of certain components . However, the ICR had two major shortcomings: (i) The ICR's discussion of M&E is weak . It could have been more specific in the discussion of M&E implementation and utilization; and (ii) The ICR provided insufficient information on the project's economic and financial rate of return on the components' cost and benefits which could have been measured directly .

a. Quality of ICR Rating : Satisfactory