



1. Project Data:		Date Posted : 03/24/2005	
PROJ ID: P049878		Appraisal	Actual
Project Name: Economic Management	Project Costs (US\$M)	120	134.17
Country: Mozambique	Loan/Credit (US\$M)	120	134.17
Sector(s): Board: EP - General public administration sector (35%), General transportation sector (25%), Banking (20%), Telecommunications (15%), Oil and gas (5%)	Cofinancing (US\$M)	0	0
L/C Number: C3709			
	Board Approval (FY)		03
Partners involved :	Closing Date	07/01/2004	07/01/2004

Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

Based on the loan agreement and the Report to the Executive Directors the objectives were :

1. Maintain a satisfactory macroeconomic policy framework;
2. Improve public sector management; and
3. Promote private sector development

b. Components

1. *Macroeconomic stability.* The government would keep inflation in a single digit and reduce the fiscal deficit through a more vigorous mobilization of domestic revenue .
2. *Public sector management* consisted of two elements. First, the government would: (i) produce quarterly budget execution reports that reflect spending of donor funds; and (ii) include ministries' own receipts ("receitas proprias") in its budget plan. Second, the borrower and the Judicial Coordinating Board would approve a final Strategic Plan for the Legal and Judicial Sector.
3. *Private sector development* consisted of actions in five areas : (a) financial sector; (b) energy; (c) telecoms; (d) air transport; and (e) coastal shipping and cabotage .

c. Comments on Project Cost, Financing and Dates

The loan for SDR 96.2 million (US\$120 million at Board presentation) was disbursed in two tranche of SDR48.1 million each. Exchange rate changes made the total loan amount equal to \$ 134.17 million. The loan was closed on July 1, 2004.

3. Achievement of Relevant Objectives:

Satisfactory macroeconomic policy framework. The government achieved its objective of reducing the fiscal deficit and increasing revenues. The outcome for this objective is rated as satisfactory.

Improve public sector management. The government has started to include some off-budget revenues in the budget and to report in the quarterly budget execution report some of the expenditures financed with donor funding . The government and the Judicial Coordinating Board approved an Integrated and Judicial Plan for the Legal and Judicial sector. This plan, however, is too expensive and has not been implemented .

The outcome for this objective is rated moderately unsatisfactory.

Promote private sector development.

- a. Finance. (i) The report assessing the status of the Banco Internacional de Mozambique (BIM) was completed; (ii) the Central Bank issued regulations aimed at strengthening the supervision of banks; (iii) the independent audit for the Empresa Mocambicana de Seguros (the national insurance company - EMOSE) was completed; (iv) the actuarial valuation of the national social security fund (INSS) was initiated.
- b. Energy. Not discussed by ICR in main text.
- c. Telecoms. Parliament approved a new telecommunications law authorizing the separation of Telecommunications

of Mozambique and the mobile phone company MCell and the entrance of a competitor to MCell .
 d. Air transport. The government appointed investment advisors for the privatization of Mozambique Air Lines (LAM) and a short-term restructuring plan was developed . More important, the government authorized two new airlines to operate in the country .
 e. Coastal shipping. Not discussed in ICR.
 The outcome for this objective is rated moderately satisfactory.

4. Significant Outcomes/Impacts:

Macro. Between 2002 and 2003 the fiscal deficit (after grants) fell from 7.9 to 4.9 percent of GDP, revenues increased from 14.2 to 14.3 percent of GDP, and total government expenditure declined from 33.8 to 29.8 percent of GDP.

Public sector. The government recorded revenues from own receipts ("receitas proprias") of US\$4.9 million, and the quarterly budget execution reports cover about 38 percent of total donor financed expenditures .

Although new judges and prosecutors have received some training, no significant outcomes can be associated yet with the Judicial Plan.

Private sector.

a. Financial. (i) The assessment of BIM showed that there was no need for further capital injection to BIM, and revealed areas that needed strengthening : internal controls, IT systems and operational risks . The report has not yielded any substantive outcome for the financial situation of BIM; (ii) no significant outcomes are reported on the supervision of banks, the national insurance company and the national social security fund .

b. Energy. Not discussed by ICR.

c. Telecoms. The ICR asserts that more services are available at affordable prices, but it does not present evidence and facts to support the assertion .

d. Air transport. Two new airlines are operating in the country, one of them operating to the same destinations as LAM.

e. Coastal shipping. Not discussed by ICR

5. Significant Shortcomings (including non-compliance with safeguard policies):

Macro. Inflation, measured by change in the consumer price index, increased from 9.1 percent in 2002 to 10.8 percent in 2003.

Public sector. The government did not achieve the objective of drawing a comprehensive budget nor did it report all donor-financed budget expenditures in its quarterly budget execution report . The government has yet to record in the budget about 60 percent of the planned own revenues ("receitas proprias") of US\$12 million, and about 62 percent of donor-funded expenditures .

The plan for the judicial sector involved high costs that make it impractical to implement .

Private sector.

a. Financial. (i) The report that assessed the financial situation of BIM failed to explain what actions led to the bank's financial problems; (ii) banks did not adopt the international accounting standards required by the regulations; (iii) the study for the actuarial valuation of the INSS was suspended .

b. Energy. Not discussed by ICR.

c. Telecom. None noted.

d. Air transport. None noted.

e. Coastal shipping. Not discussed by ICR.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	See sections 3, 4 and 5 above
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

When a project seeks to produce desired outcomes through changes in legislation, regulations, and processes, the project must also have well-defined, and achievable, results indicators for its ultimate objectives to be achieved .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR presents a candid review of the loan achievements discussed in it, but has the shortcomings noted below . The ICR is incomplete. First, it does not discuss the actions taken to disburse the first tranche of the loan, an integral part of the conditions for disbursement . Second, it does not discuss the actions taken to achieve macroeconomic stability; the table presented in page 3 says that there are no conditions for this objective, but the conditions are

spelled out in section 2.02 (d) (ii) of the development credit agreement and in the letter of development policy . Third, it does not discuss actions included in the policy and processing matrix (Annex 1 of the Report to the Board), like in energy and coastal shipping .

Most of the ICR discusses outputs rather than outcomes, especially in the section on private sector development . For example, the ICR could have: (a) indicated what was the financial situation of BIM before and after the report; (b) discussed what was the financial situation of the financial sector after the government issued regulations aimed at improving the supervision of banks; (c) presented evidence about how competition in telecommunications benefited consumers through lower prices .

The ICR does not present information to substantiate some of the assertions made . For example, it asserts that there is more competition in air transport because there is another airline operating, but does not support the assertion with facts (e.g., decreases in air fares or improved service levels as a result of the competition) .