

**AFRICAN DEVELOPMENT BANK GROUP**



**MOZAMBIQUE**

**ECONOMIC REHABILITATION PROGRAMMES I AND II**

**Project Performance Evaluation Report (PPER)**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

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## **ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
ADF	African Development Fund
AGRICOM	Agricultural Marketing Board
BOM	Bank of Mozambique
CIRE	Inter-Ministerial Committee for Enterprise Restructuring
CREE	Inter-Ministerial Commission for External Economic Relations
EAP	Economic Action Programme
ERL	Economic Rehabilitation Loan
EPCP	Economic Prospects and Country Programming
ERP	Economic Rehabilitation Programme
ESRP	Economic and Social Rehabilitation Programme
GCPI	Import Programme Coordination Unit
GOM	Government of Mozambique
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries Initiative
IDA	International Development Association
IMF	International Monetary Fund
MPDE	Method of Project Design and Evaluation
NEMP	National Environmental Management Programme
PCR	Programme Completion Report
PPER	Programme Performance Evaluation Report
SDA	Social Dimensions of Adjustment
SNAAD	System for the Non-Administrative Allocation of Foreign Exchange
TAF	Technical Assistance Fund
UTRE	Enterprise Restructuring Unit

## **PREFACE**

1. This Programme Performance Evaluation Report (PPER) reviews the Mozambique Economic Rehabilitation Programmes I & II, which covered the periods 1987-1990 and 1991-1993 respectively. An ADF loan (Loan No. F/MOZ/ECRP/88/13) was approved under the first programme in April 1988 and another (Loan No. F/MOZ/ECO-SRP/92/22) under the second programme in October 1992. In both cases, the Borrower was the Government of Mozambique and the Executing Agency was the Ministry of Finance. Both programmes were multi-donor supported under the leadership of the World Bank. The first programme was the Bank Group's first involvement in policy-based lending in Mozambique.

2. The approved and actual loan amounts under the first economic rehabilitation loan (ERL I) were UA 32.24 million and UA //31.90 million respectively, while the approved amount of UA 53.42 million under ERL II was fully disbursed. Both loans were disbursed in the number of tranches envisaged at appraisal. However, some implementation delays were experienced in both programmes as a result of the war situation in Mozambique and the inadequate familiarity of government officials with Bank Group rules and procedures.

3. The overall macroeconomic goals of the first rehabilitation programme were to halt and reverse the negative trend of economic activity and growth, and partially restore standards of living. The Government's primary policy instrument for pursuing these objectives was the liberalisation of the economy by dismantling its socialist machinery of central administrative controls and promoting a market-based economy. ERP II was targeted at broadening and deepening policy reforms already begun during ERP I but also emphasised private sector development, public enterprise reforms, and the social sector.

4. The Operations Department prepared a Programme Completion Report (PCR) on the first programme in 1994 (ADF/BD/IF/95/186) and on the second in 1999 (ADF/BD/IF/99/88). OPEV has reviewed both PCRs. The PCRs concluded that both programmes achieved most of their objectives. The present report examines in greater detail the response of the economy to the programme reform measures, including issues not addressed in the PCRs.

**BASIC PROGRAMME DATA****A. The Borrower**

Country	:	The Republic of Mozambique
Programmes	:	(i) Economic Rehabilitation Programme I (ii) Economic Rehabilitation Programme II
Loan Numbers	:	(i) F/MOZ/ECRP/88/13 (ii) F/MOZ/ECO-SRP/92/22
Beneficiary	:	Government of Mozambique
Executing Agency	:	Ministry of Finance/Bank of Mozambique Ministry of Finance/Bank of Mozambique

**B. The Loans**

	<u>Planned</u>	<u>Actual</u>
(i) Amount (UA millions)	32.24	31.90 (Loan balance of UA0.30 million cancelled)
Date Approved	April 1988	April 28, 1988
Date Signed	May 1988	November 22, 1988
Effective Date	June 1988	March 21, 1989
Date of First Disbursement	June 1988	May 4, 1989
Date of Final Disbursement	June 30, 1990	September 30, 1992
Completion Date	August 1990	September 30, 1992
(ii) Amount (UA millions)	53.42	53.42
Date Approved	October 1992	October 29, 1992
Date Signed	N/A	December 12, 1992
Effective Date	N/A	June 5, 1993
Date of First Disbursement	N/A	1993
Date of Final Disbursement	December 31, 1995	December 31, 1998
Completion Date	February 1994	April 1998

**C. Bank Missions to Mozambique**

	<u>Mission Type</u>	<u>Date</u>	<u>N° of Persons</u>
(i)	Appraisal	December 1987	4
	Mid-Term Review	January 1991	2
	PCR	June 1993	1
		February 1994	1
(ii)	Preparatory	March/April 1992	2
	Appraisal	June 1992	3
	Post-Appraisal	August 1992	2
	Mid-Term Review	February 1994	5
	2 <sup>nd</sup> Review Mission	July/August 1994	2
	3 <sup>rd</sup> Review Mission	July/August 1996	2
	PCR	April/May 1995	1

**D. The Programmes**

<u>Planned</u>	<u>Actual</u>
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**(i) Sources of Funding (Millions)**

ADF (UA)	32.24	31.90
World Bank (IDA)	54.5	54.5
World Bank (Africa Facility)	14.5	14.5
Switzerland (Swiss Francs)	16.9 million	16.9 m.

**(ii) Sources of Funding (Millions)**

ADF	53.42	53.42
IDA	US\$180.0	US\$180.0
IMF	US\$169.0	US\$169.0
Federal Rep. of Germany	US\$10	US\$10
Norway	US\$5.1	US\$5.1
Switzerland	US\$6.0	US\$6.0
Denmark	US\$6.3	US\$6.3
ODA	US\$1.3	US\$1.3

**E. Performance Indicators**

<b>(i)</b>	Cost overruns	:	NIL
	Implementation Performance	:	Unsatisfactory
	Project Outcome	:	Satisfactory
	Bank Performance	:	Satisfactory

<b>(ii)</b>	Cost overruns	:	NIL
	Implementation Performance	:	Satisfactory
	Project Outcome	:	Satisfactory
	Bank Performance	:	Satisfactory

## **1. EVALUATION SUMMARY**

### **1.1 Objectives and Scope**

1.1.1 In response to a steady decline in the war-torn Mozambican economy during 1980-84, the Government of Mozambique (GOM) initiated an Economic Action Programme (EAP, 1984-86) through which it took the first steps to relax its controls over the economy and provide incentives to the private sector. As the performance of the economy under that programme was inadequate, GOM embarked on a more comprehensive Economic Rehabilitation Programme (ERP-I) for the period 1987-90. The overall macroeconomic goals of this rehabilitation programme were to halt and reverse the negative trend of economic activity and growth, and partially restore standards of living. The Government's primary policy instrument for pursuing these objectives was the liberalisation of the economy, which was to entail dismantling its socialist machinery of central administrative controls and promoting a market-based economy by increasingly allowing price and credit policies to determine resource allocation. At the end of the ERP-I, GOM embarked on the ESRP 1991-93 because policy-makers and donors recognised that the reform process needed to continue if the benefits of earlier efforts were to be fully realised and sustained. ERP II, the economic part of ESRP, was targeted at broadening and deepening policy reforms already begun during ERP-I and therefore retained the strategy under the first programme for the most part. ERP-II also emphasised private sector development, public enterprise reforms and the social sector.

1.1.2 This report is an attempt to evaluate the response of the Mozambican economy to the reforms carried out under ERP-I and II. The methodology adopted in this PPER is to compare results after during and each programme with the targets set under it. The sources of information were Government of Mozambique published data, discussions with government officials and representatives of the donor community in Mozambique and the Bank Group's documents relating to the two programmes. The evaluation of ERP II is relatively easier because its appraisal report, unlike that of ERP I, stipulated measurable targets to be achieved by the programme.

### **1.2 Implementation Performance**

The approved amount of UA 32.24 million under ERL-I was to be disbursed in two tranches, while the amount of UA 53.42 million was to be disbursed in three tranches. The amount disbursed under ERL-I was UA 31.90 million (equivalent to 99% of the approved amount). ERL-II was fully disbursed. However, some implementation delays were experienced in both programmes as a result of the war situation in Mozambique and the inadequate familiarity of government officials with Bank Group rules and procedures.

### **1.3 Institutional Aspects**

1.3.1 The Borrower was GOM and the Executing Agency was the Ministry of Finance in both cases. Compliance with reporting requirements was notably unsatisfactory. Nevertheless the Government demonstrated ownership and a high level of commitment to the implementation of the programmes by taking all the necessary steps to meet loan conditions at every stage. It also did its best, under institutional and human capacity constraints, to implement both programmes.

1.3.2 Although the Bank did not participate in formulating the programmes, it found them to be adequate bases for making the loans to GOM and collaborated satisfactorily with other participating donors. Coordination was less than fully satisfactory under ERP-I. Bank performance during ERP-I was on the whole satisfactory, even though reporting was inadequate. Supervision improved considerably under ERP-II and overall performance was highly satisfactory.

#### **1.4 Programme Impact**

1.4.1 **Aggregate Impact:** Most policy targets were achieved under the two programmes. Under ERP-I, the GDP growth rate accelerated to 5.8% in 1987 as against the 1988 target of 3.5% and averaged 5.5% during the next two years, again exceeding the projected rate for 1990. ERP-II successfully built on the foundation laid under the first programme and has continued the newly achieved trend in macroeconomic performance. The GDP growth rate remained positive every year except 1992 when Mozambique, like the rest of Southern Africa, experienced a severe drought. In spite of the 1992 performance, real GDP growth rate averaged 7.5% a year during 1992-1997, as compared to the target of 5.3% a year for 1992-1996. The target was overachieved in three of those years. The corresponding actual per capita growth rate was 4.8% as against the target of 2.7%.

1.4.2 Successful adjustment in the external sector during ERP-I included the significant narrowing of the gap between the official and parallel exchange rates, liberalisation of trade and foreign exchange allocation and reduction of the external debt service burden. ERP-II resulted in further progress in these areas: GOM merged the official and parallel exchange rates and adopted a floating exchange rate system by the end of the programme period, widened the scope of non-administrative allocation of foreign exchange, and reinforced export incentives. The debt service ratio fell appreciably, even though the external debt stock was rising gradually. In contrast to the overall performance, the performance in fiscal management was notably below appraisal expectation, in terms of the budget deficit, under both programmes.

1.4.3 **Sectoral Impact:** Agriculture and industry responded positively to policy reforms and production in these sectors grew considerably during ERP I. However, exogenous factors offset the effect of ERP-II incentives until shortly after the programme period.

1.4.4 **Other Impacts.** The programmes also enhanced human and institutional capacity in the government. Although gender and environmental issues were not explicitly raised in either of the programmes, satisfactory provision was made for them in implementation.

#### **1.5 Sustainability**

Sustainability of the benefits of the two programmes requires that the policy reform process should be maintained until all outstanding structural problems have been successfully addressed. The most important requirement in this regard is the commitment of the government. Another requirement is the continued social acceptance of reform programmes, which has so far resulted from the positive macroeconomic impact of the reforms and recent donor-supported efforts targeted at cushioning the adverse consequences of adjustment. Sustainability of the benefits of policy reforms would also require continued donor support on concessional terms.

## **1.6 Conclusions**

The macroeconomic goals of the two economic rehabilitation programmes were largely achieved, and economic and social conditions improved considerably during and after their implementation. The negative trend of economic activity and output was arrested and reversed during ERP I and the positive trend of GDP growth was maintained during ERP II, in spite of the 1992 drought. Besides, the successful implementation of the policy measures envisaged under each programme laid a good foundation for the effective implementation of subsequent reforms. These successes notwithstanding, the economy still faces serious challenges that should be addressed promptly. Among these are the heavy dependence of the country's budget and balance of payments on foreign aid, the need to develop a broader tax base, and inadequate human and institutional capacity.

## **1.7 Feedback**

One lesson learned from these programmes is that a transparently high level of commitment to needed policy reforms is necessary for successful reform implementation and generates and sustains the goodwill of donors. Secondly, inadequate familiarity of government officials with Bank rules and procedures is a significant cause of delays in programme implementation. Finally, there is need to harmonise donors' reporting requirements for policy-based lending in order to reduce the burden on borrowers.

## **2. BACKGROUND**

### **2.1 Country Economic Context**

2.1.1 Economic developments in Mozambique have been influenced in the last two decades by two major factors – government control over the economy and the civil war, which followed the attainment of independence. At independence in 1975, the Government of Mozambique adopted a centrally planned economy based on socialist principles. In agriculture, state farms were established and parastatals were given monopoly powers in the marketing of agricultural inputs and products. The state also fixed prices at all stages of production and marketing. In industry, state-trading companies dominated foreign trade, commerce and production. State involvement was extended to the administrative allocation of foreign exchange regime.

2.1.2 Politically, a civil war followed independence and this was to last for 16 years. The civil war considerably destroyed the country's infrastructure, and encouraged the mass exodus of skilled labour, which was low in the first instance. In addition, it has been estimated that over one-third of health facilities and about one-half of all primary schools were destroyed as a result of the war. The effects of the civil war were further compounded by two major droughts – in 1988 and 1992 respectively.

2.1.3 During the first five years following independence (1975-79), the economy grew at an annual average rate of 2.5%. But during 1980-1984, this was to decline to an annual average of –6.5%. In response to this decline, the Government initiated the Economic Action Programme (EAP, 1984-86), through which it took the first steps to relax its controls over the economy and provide incentives to the private sector. But the scope of these reforms and their impact were inadequate to bring about the much-needed accelerated economic growth. Thus in 1987, the Government launched the Economic Rehabilitation Programme (ERP-I, 1987-90).

2.1.4 The objective of the ERP-I was to achieve a turn-around in the economy by supporting the rehabilitation and maintenance of those productive investments and economic services where output response would most immediately occur. A three-pronged strategy was used to meet the programme objectives: (i) to reverse the decline in production while restoring consumption and income to a minimal level for the population, especially in the rural areas; (ii) to curtail domestic and external financial imbalances; and (iii) to establish the conditions for more rapid and more efficient growth in the medium to long term. The ERP-I was relatively successful. GDP growth rates averaged 3.5% in real terms annually during 1987-91, while capita income averaged 2.5% during the same period. Institutional and sectoral reforms were also implemented and much of the war-torn installed capacity had been rehabilitated. Inflation however remained high while the external debt increased markedly.

2.1.5 Despite these achievements in the areas of growth and stabilisation, policy makers soon realised that the reform process was by no means completed, and that there was need to broaden and deepen the reforms already begun. The outstanding policy reforms were mainly in the areas of further price deregulation, fiscal management, foreign exchange and trade liberalisation, privatisation, parastatal and financial sector reforms. There was also the need for building additional industrial capacity. Thus in 1991, the Government launched the Economic and Social Rehabilitation Programme (ESRP, 1991-93). The ESRP was in two parts—an Economic Rehabilitation Programme II, (whose objective was to broaden and

deepen the reforms begun under ERP-I), and a Poverty Reduction Programme (whose objective was to offset the adverse consequences of the adjustment process).

## **2.2 Programme Formulation, Content and Relevance**

2.2.1 The ERP was designed jointly by the World Bank and by the Government of Mozambique (GOM), with little input from the Bank and other donors. Its aim was to turn the economy around from a centrally planned to a market economy as described in paragraph 2.1.4 above. This aim was to be achieved by the implementation of a set of policy reform measures (see pp7-9 of the Programme Completion Report and pp17-24 of the Appraisal Report). The principal policies in the programme were those aimed at reducing non-concessional borrowing; reactivating industrial production through the provision of imported inputs and raw materials; and reviving domestic market and rural trade by providing incentive goods. The implementation of these measures expected to achieve (i) a progressive reduction of centralized administrative controls; (ii) increased use of indirect controls, such as price and credit policies, rather than administrative interventions to determine resource allocation; and (iii) link the real cost of production and incomes to the economic performance of units and individuals.

2.2.2 In terms of relevance, the programme had merits. The economy was in sharp decline in all sectors. It was centrally controlled and was heavily indebted. The rehabilitation of the war-torn economy had become an imperative as a basis for the resumption of growth. These were the declared objectives of the government as contained in the Letter of Development Policy. It was also the declared goal of the Bank as spelt out in the Economic Prospects and Country Programming Paper, 1988-90. The ERP-I is therefore relevant and appropriate to both development strategies.

2.2.3 The ERP-II was a follow-up of ERP-I. The World Bank took the lead in its preparation as it did under ERP-I. Indeed, by the time the ADF undertook the preparation of the ESRP (which contained the ERP-II and the associated SDA project), the World Bank had already carried out the preparation of the adjustment programme and the policy framework paper. The aim of ERP-II was to broaden and deepen the reform process which was begun under ERP-I. In other words, the aim was to complete the orientation of the economy from a centrally planned to a market economy. The Social Dimensions of Adjustment Project was incorporated as a means of addressing the adverse effects of earlier adjustment efforts. The description of policy measures under both programmes is contained on pp.20–26, and on pp.31-37 of the Appraisal Report. This programme is consistent with the development objectives set out in the Bank's Economic Prospects and Country Programming Paper, 1993-95, as well as with the Government's Letter of Development Policy.

2.2.4 Both programmes are consistent with Bank Group strategy of promoting growth in regional member countries through project and other types of lending (see chapter 4). But both programmes were silent on the implications of the reform process for regional or sub-regional economic integration. This omission could have ramifications for both Mozambique and her neighbours.

## **2.3 Objectives and Scope at Appraisal**

2.3.1 As indicated in 2.1.4, the objectives of ERP-I were two-fold: to rehabilitate a war-torn economy and dismantle government control over it. The quick-disbursing loan supporting the ERP-I was to be used to import spare parts and raw materials that would be used

to rehabilitate the economy. It was also to provide balance of payments support to the government in order to enable it to carry out the reforms necessary for the liberalisation of the economy. Such reforms include the elimination of the parallel market for foreign exchange, and ultimately the determination of the exchange rate by market forces. In the financial market, existing regulations limiting entry into the market were to be dismantled thus paving the way for increased competition. The interest rate would be free from administrative control and be determined by market forces. Elsewhere in the economy, prices were to be deregulated. On the external front, the Government was to reduce non-concessional lending as a means of reducing the debt burden.

2.3.2 While the scope of ERP-I was limited to that of rehabilitation and introducing market influence into the determination of key prices, the objectives and scope of ERP-II were mostly the consolidation of the gains of the earlier programme. The ERP-II was broader in scope as it included the objectives of encouraging private sector development and parastatal reform. In a quick reaction to the observed worsening living conditions, ERP-II was approved alongside an SDA programme whose aim was to address the social consequences of the adjustment process, and poverty issues brought about by the civil war.

## 2.4 **Financing Arrangements**

2.4.1 The ERP was a multi-donor-supported programme. The World Bank led the way with US\$ 69.7 million from its soft window, IDA, and US\$ 18.6 million from its Special Africa Facility. A grant of US\$ 11.4 million was extended by Switzerland to be administered by IDA, while the IMF approved a three-year (1987-1989) Structural Adjustment Facility of US\$ 34.1 million. The Bank Group, through the African Development Fund, provided the sum of UA 34.24 million.

2.4.2 The ESRP was similarly a multi-donor effort. The World Bank, through IDA, provided US\$ 180 million, IMF (US\$ 156 million), Germany (US\$ 10 million), Norway (US\$ 5.1 million), Denmark (US\$ 6.3 million), Overseas Development Association (US\$ 1.3 million). The ADF provided UA 53.421 million towards the financing of the Economic Rehabilitation Programme II, and a loan of UA 4.605 million and a Technical Assistance Fund (TAF) grant of UA 0.460 million in support of the Social Dimensions of Adjustment Programme. Other donors like the World Bank, Germany, the Netherlands, Switzerland and the United Kingdom contributed to this US\$ 10.5 million programme.

## 2.5 **Evaluation Methodology**

2.5.1 The appraisal report for the ERP-I did not contain measurable indicators by which to judge the performance of the Programme. The evaluation of ERP-II is made relatively easier because the appraisal report stipulated targets to be achieved by the programme. What is done in the rest of this report is to review the performance of the economy before and after the ERP. Key macroeconomic variables like the GDP, its rates of growth, per capita incomes, rate of inflation, balance of payments and the deficit ratio are just a few of the indicators that would be used to measure performance. As for the second programme, performance under it would be compared to the targets set at appraisal. Since the SDA project is still on going, no effort is made to evaluate its impact.

2.5.2 In multi-donor supported programmed of this type, it is always difficult to attribute performance to any donor. This is particularly so in the case of the ADF, which was a small player in terms of financial contribution. Nonetheless, what is done in this report is to evaluate the general response of the economy to the various policy measures. The Bank is then credited with a share of the success or otherwise of the outcome of both programmes.

2.5.3 Neither of the Appraisal reports made use of the Method of Project Design and Evaluation (MPDE) in the design of the programmes. While the PCR for the ERP II developed an MPDE matrix, the PCR for the ERP-I did not. In this report, a retrospective MPDE matrix is constructed for the ERP-I. This would be used along with the MPDE matrix provided by the PCR for the ERP-II.

### **3. PROGRAMME IMPLEMENTATION AND ACHIEVEMENTS**

#### **3.1 Loan Conditions, Effectiveness, and Implementation Schedule**

##### **Loan Conditions**

3.1.1 There were three conditions to be satisfied prior to the release of the first tranche of ERL-I. These conditions required the Borrower to give an undertaking to pursue diligently the implementation of all the policy measures envisaged in ERP-I, open a foreign exchange account into which the proceeds of ERL-I were to be deposited, and undertake to ensure that the proceeds of the loan would not finance any local taxes, duties or levies of any kind. These conditions were sufficiently few, clear and relevant and compliance with them could be realistically expected.

3.1.2 In contrast, the conditions precedent to the release of the second and final tranche were less precise and more demanding in terms of the effort required to fulfill them. For instance, under the first condition, the criteria for deciding when the Borrower had "satisfactorily implemented the loan programme" or "achieved acceptable progress" in programme implementation were not indicated. Moreover, the other three conditions required GOM to produce a report on "the Government's proposed plan for implementing the recommendations contained in the recently completed review of agricultural and industrial enterprises." Similarly, it was to prepare a "programme for applying the lessons" from a study of the implications of the liberalisation of the vegetable and fruits market as well as a breakdown of the distribution of the incentive goods financed with the first tranche of the loan. Compliance with these conditions called for considerable input of expert manpower and appeared likely, if left entirely to GOM, to encounter some difficulty, given the inadequate capacity situation in war-torn Mozambique.

3.1.3 As regards ERL-II, the conditions precedent to the release of the first tranche were very similar to the corresponding conditions under ERP-I, except that the policy measures envisaged now referred to the second ERP (ERP-II), which was a follow-up on ERP-I. A negative list was also used to define the imports financed under ERL-II, which was not the case under ERL-I, but this restriction did not result in any procurement difficulties or delays. Accordingly, the ERL-I and ERL-II conditions precedent to the disbursement of the first tranche had the same merits. In contrast to ERL-I, the conditions for the release of subsequent tranches were specific and monitorable except that no criteria were stated for determining "satisfactory progress" in policy reform implementation. It could also have been reasonably expected that some of the radical measures would encounter some inertia at every stage in a country emerging from a socialist centrally controlled culture.

##### **Loan Effectiveness**

3.1.4 The ERL-I conditions of effectiveness, which were the same as the conditions precedent to the release of the first tranche, have been summarised in paragraph 3.1.1 above. GOM fulfilled them with relatively little difficulty and few delays, but, largely as a result of difficulties in producing the required reports referred to in paragraph 3.1.2 above, experienced considerable delay in meeting the conditions for releasing the second tranche. (See ERL-I PCR, Annex X). Accordingly, ERL-I, which had been approved on April 28, 1988, signed on November 22, 1988, became active in March 1989. The first tranche was released on May 4, 1989, that is, within six months of Board approval and loan signature. Similarly, GOM experienced only a little delay in fulfilling the initial conditions for ERL-II, which had been

approved on October 29, 1992 and signed on December 12, 1992. Accordingly, the loan became effective on June 6, 1993, less than six months after loan signature, and the first tranche was released 16 days later.

### **Implementation Schedule**

3.1.5 Although ERL-I was approved as scheduled at appraisal, loan signature, which had been planned for May 1988, took place on November 22, 1988, and programme effectiveness slipped by 11 months to May 4, 1989, starting a chain of delays in programme implementation. The difficulties of fulfilling the conditions precedent to the disbursement of the first tranche led to further delays and the mid-term review slipped by 28 months from January 1989 to May 1991. The deadline for the last disbursement eventually slipped by over two years from June 30, 1990 to September 30, 1994, mainly as a result of procurement problems. For similar reasons, two review missions had to be undertaken (February and August, 1994), following the release of the first tranche of ERL-II. Consequently, the review after the release of the second tranche slipped by 18 months from November 1993 to May 1995 and the deadline for the last disbursement by three years from the planned December 31, 1995.

3.1.6 The use of the proceeds of the first tranche was slow as a result of delays in the opening of letters of credit and the issuance of import licences. Another underlying factor was the difficulty GOM experienced in fulfilling the conditions precedent to the release of the second tranche. No serious problems were encountered in applying procurement procedures during the implementation of ERL-II because GOM had learned from the experience of ERL-I. (See ERL-II PCR, para. 4.7). However, some delays arose from the weakness of the commercial banking system and the difficulties of importers in providing local counterparty funds for imports.

3.1.7 The considerable slippage experienced in the implementation of ERL-II was due largely to GOM's failure to abolish registration procedures for rural traders – a condition required for the release of the second tranche. This situation, which required two ADF review missions to rectify, suggests initial inertia on the part of GOM as regards changing established ways of life. The other reason for the slippage, GOM's delay in producing an acceptable report on the utilisation of the Special Account, was evidently due to capacity constraints.

3.1.8 Nevertheless, the slippages experienced under the two loans appear to have had no appreciable adverse impact on programme costs and benefits because of the availability of funds from co-financiers who had in fact started to implement the rehabilitation programmes before ADF approved its loan in each case. It should be noted, however, that the second tranche of ERL-I was released when Mozambique was already under pressure to replenish rapidly deteriorating oil supplies. (See PCR ERL-I, para.6.8).

### **3.2 Performance of the Borrower**

3.2.1 The Borrower's performance under ERL-I was mixed. Mistakes were made regarding procurement on account of the inadequate familiarity of GOM's officials with the Bank Group's rules and procedures and reporting was hampered by language problems and capacity constraints. On the other hand, GOM demonstrated steadfast commitment to the policy measures envisaged by ERP-I. This performance improved substantially and was satisfactory under ERL-II. (See PCR paras. 6.1 – 6.3). The Government continued to demonstrate ownership and commitment to the reform programme by commencing the

implementation of ESRP before the approval of the ADF loan and fulfilling the conditions precedent to the release of the various tranches of ERL-II.

3.2.2 However, compliance with reporting requirements was notably unsatisfactory. The PCR submitted to the Bank by GOM was late and incomplete. As a result of this reporting situation, the Bank had to rely heavily on the findings of review missions and information available from IDA and IMF. (See PCR, ERL-I, paras. 6.8 – 6.9).

### 3.3 **Performance of the Bank**

3.3.1 The Bank's performance under ERL-I was not fully satisfactory. ERP-I was already being implemented before ADF became involved and ADF did not contribute to its design. Bank supervision was inadequate during ERP-I when inexperienced GOM officials needed guidance. As a result, procurement and reporting problems could not be corrected before they became serious and programme implementation was thereby delayed.

3.3.2 On the whole, the Bank's performance under ERP-II was very satisfactory. Just as was the case with ERL-I, ERL-II was approved when the reform package had been put together and was being implemented with other financiers, notably IDA and IMF. ADF, therefore, did not participate in the underlying policy dialogue or in designing the adjustment package. It is arguable that, if ADF had been involved from the beginning, it might have anticipated the procurement problems that later arose from the ineligibility of using ADF funds to procure goods and services from the Republic of South Africa. South Africa at that time accounted for over 80% of Mozambique's total imports (PCR, ERL-II, para. 4.11) but was not a member of the Bank Group. Nevertheless, in spite of its late arrival on the scene, the Bank made a major contribution to the programme by financing a social-dimensions-of-adjustment project alongside ERL-II. The Bank was also particularly diligent in sending out review missions promptly to ensure that programme implementation was not unduly delayed.

3.3.3 Bank collaboration with other donors was inadequate during ERP-I but excellent during ERP-II. Inadequate coordination under ERP-I explains why the Bank did not find out early that conditions for the release of IDA's second tranche had been fulfilled. The Bank would otherwise have disbursed its second tranche earlier on that basis, as it eventually did (PCR, ERL-I, para. 6.8). Once its second loan was approved, the Bank worked closely with the other multilateral and bilateral donors involved at all times thereafter.

## **4. PROGRAMME EVALUATION AND IMPACT**

### **4.1 Proposed Policies and Measures**

4.1.1 In response to the problems described in Chapter 2, the Government of Mozambique embarked on policy measures to revitalise its rapidly declining war-torn economy through an Economic Action Programme (1984-86). As a result of the inadequate performance of the economy under that programme, GOM embarked on a more comprehensive Economic Rehabilitation Programme (ERP-I) for the period 1987-90. The Government's primary policy instrument for pursuing its development objectives was the liberalisation of the economy. The liberalisation entailed dismantling its socialist machinery of central administrative controls and promoting a market-based economy by increasingly allowing price and credit policies to determine resource allocation.

4.1.2 Successful liberalisation would improve planning and policy-making by making them more dependent on market forces. This would eventually create a situation where factor incomes would be more closely determined by productivity as compared to the pre-programme period when earnings were determined by fiat. Other elements of the development strategy were to reduce domestic and external financial imbalances, rehabilitate physical infrastructure and directly productive industrial capacity, increase international rail and port traffic, and mobilise external resources. The Government articulated these policy measures to the Bank at appraisal in its Development Policy Letter dated December 4, 1987. (See ERL-I Appraisal Report, Annex 2).

4.1.3 For the period 1991-93 immediately following the end of the ERP-I, GOM embarked on the ESRP. This follow-up programme became necessary because policy-makers and donors recognised that the reform process needed to continue if the benefits of earlier efforts were to be fully realised and sustained. Targeted at broadening and deepening policy reforms already begun during ERP-I, ESRP retained the strategy under the first programme for the most part. The economic rehabilitation component of the new programme (ERP-II) envisaged more comprehensive macroeconomic and structural reforms and, unlike ERP-I, specified many verifiable targets. More specifically, the policy measures of ERP-II included a systematic reduction in domestic and external macroeconomic imbalances, evolving efficient marketing structures and channels, and fostering economic growth, enhancing efficient resource allocation in the public sector; promoting institutional capacity building; and poverty alleviation. The relevant policies were spelt out in considerable detail at appraisal under the external sector, financial sector, agriculture, industrial sector, transport sector, social sector, private sector development, and public enterprise reform. (See ERL-II Appraisal Report, Chapter 3 and Annex II). Thus ERP-II was a continuation of ERP-I in pursuit of the same development goals.

### **4.2 Relevance of the Programmes**

4.2.1 ERL-I was approved in the context of the Bank Group's medium-term programme for Mozambique covering the period 1988-90. The overarching objective of that programme, as contained in the Economic Prospects and Country Programming (EPCP) (Board Paper No. ADB/BD/WP/88/49), was to respond to Mozambique's economic development needs, which were spelt out in the ERP as summarised in the Government's Development Policy Letter of December 4, 1987 (ERL-I Appraisal Report, Annex 2). The Bank was to focus on economic restoration and rehabilitation. The EPCP indicated three main

areas of Bank operations during the period, including support for Mozambique's declared policy reform measures by contributing towards the financing of Mozambique's import requirements through policy-based lending. The Bank reflected this strategy in the indicative lending programme by including in the envisaged total commitment for the period an adequate amount for the balance of payments support programme. ERL-I was thus fully within the scope of the Bank Group's assistance strategy for Mozambique.

4.2.2 ERL-I was an import-support loan designed to finance part of the foreign exchange cost of the import requirements of ERP-I for 1987-89, namely, 16 percent of the financing gap as at the end of 1987. The proceeds of ERL-I were to be allocated as percentages of sectoral resource gaps without targeting specific end-uses or beneficiaries, thereby giving GOM considerable freedom in the use of the loan. The items financed by ADF were an integral part of a government programme that had been put together in final form and was being implemented before the Bank was approached for financing. The Bank did not modify this programme and only provided financial support that Mozambique needed and requested. Moreover, ERL-I was provided as a quick-disbursing package. ERL-I was thus fully relevant to Mozambique's stated economic development goals and strategy at that time.

4.2.3 Similarly, ERL-II was approved in the context of the Bank's medium-term programme as contained in the EPCP covering the period 1993-95 (ADF/BD/WP/94/48). This programme was targeted at continuing support for Government's ongoing efforts to attain its development objectives, which were spelt out in the ESRP, namely, transforming the economy and fostering economic growth as well as alleviating poverty. Evidently, ERL-II was fully relevant to the Bank's assistance strategy for Mozambique just like ERL-I.

4.2.4 ERL-II was equally relevant to, and consistent with the declared development goals and strategy of GOM, as outlined in the Government's Letter of Development Policy dated June 24, 1992. (See Appraisal Report, Annex II). The loan was fully supportive of ESRP, which was aimed at deepening and broadening the policies which were started under ERL-I. Once again, the Bank fitted into Mozambique's plans and did not modify the goals or strategies that were already in place.

4.2.5 It is remarkable that the Government's current and projected medium term policies are a continuation of those envisaged at the appraisal of the two loans. This implies that the loans continue to be relevant, even after their completion. Indeed the objectives and strategies of both programmes were essentially the same, as the second programme simply continued where the first left off. GOM's development objectives and strategy since the end of ERP-II, including the current medium term strategy as articulated in its recent policy statement, *A View into the Future*, have remained consistent with previous programmes in searching for ways of facilitating rapid economic growth and alleviating poverty. Accordingly, the Bank's economic rehabilitation loans to Mozambique were relevant both in the short run and in the long run.

### 4.3 Achievement of Objectives

4.3.1 The overall macroeconomic goals of the first rehabilitation programme were to halt and reverse the negative trend of economic activity and growth, partially restore standards of living, and generally improve resource allocation, particularly in the public sector. In pursuit of these goals, the Government stipulated the policy measures summarised in Section 4.1 above. While the targets set for the GDP were quantified, those for the policy measures were not and

only indicated the desired direction of change. The key issues of the policy measures may be organised under the following broad areas: external sector, fiscal policy and management, money and credit, pricing and distribution, agriculture, industry, and transport. They are discussed in detail in paragraphs 3.3.1 – 3.3.22 of the appraisal report and paragraphs 3.5 - 3.14 of the relevant PCR.

4.3.2 The key issues under ERP-II may also be organised around the same sub-heads, since ERP-II was designed to consolidate the gains of ERP-I as well as broaden and deepen the policy reform measures where necessary. The new areas emphasised by ERP II were private sector development, public enterprise reforms and the social sector. The objectives and strategy of the programme are discussed in detail in the appraisal report (pp. 20 – 26) and summarised in the PCR (p. 5). The programme targets cited below are taken from Annex X of the appraisal report. The quantified macroeconomic targets of ERP-II included: (i) a GDP growth rate of 5.0% a year over the programme period; (ii) reduction of the inflation to 10% a year by the end of 1993; (iii) reduction of the fiscal deficit to 4.4% of GDP; (iv) reduction of the deficit in the external account; and (v) narrowing the spread between the official and parallel market exchange rates and eventually unifying both rates.

### **Macroeconomic Performance**

4.3.3 The economy was expected to experience sustained growth throughout the ERP I period and the growth rate of real GDP was projected to rise to 3.5 percent in 1988 and 5 percent by 1990. It may be noted that real GDP had declined by about 20% during 1980-86, in spite of real growth of 1.8% in 1984 and 1986. GDP growth was expected to be reflected in an increase in agricultural and industrial output mainly for the domestic market, although no quantitative targets were indicated. The projected aggregate growth implied a growth in per capita GDP, as the population growth rate was estimated to be 2.6%.

4.3.4 The data in Appendix Table I show that the macroeconomic goals of ERP I were achieved. The GDP growth rate accelerated to 5.8% in 1987 as against the 1988 target of 3.5% and averaged 5.5% during the next two years, again exceeding the projected rate for 1990. These rates imply positive growth rates for GDP per capita during 1987-89, indicating potential improvement in standards of living. The evidence warrants the conclusion that Mozambique's economic decline was arrested and replaced with a positive growth trend as from 1987.

4.3.5 ERP-II successfully built on the foundation laid under the first programme and has continued the newly-achieved trend in macroeconomic performance (Table II). The GDP growth rate remained positive every year except 1992 when Mozambique, like the rest of southern Africa, experienced a severe drought. In spite of the 1992 performance, real GDP growth rate averaged 7.5% a year during 1992-97, as compared to the target of 5.3% a year for 1992-96. The target was overachieved in three of those years. The corresponding actual per capita growth rate was 4.8% as against the target of 2.7%.

### **Fiscal and Budgetary Developments**

4.3.6 The Government's objective under ERP-I was to improve its fiscal position and reduce the fiscal deficit and the need for domestic borrowing. The strategy for restoring budget balance was to increase tax revenue by 300% and restrain the growth rate of expenditure below that of revenue (Appraisal Report, p.21). The additional tax revenue was to be realised mainly by increasing the rates of various taxes, including turnover, consumption, and import taxes as

well as company and individual income taxes. A major proposed measure for reducing government expenditure was to end, by 1990, net transfers to state enterprises to cover their losses.

4.3.7 The planned tax reforms, including the tax rate increases previously identified, were effected in 1987 and 1989. As can be seen from Appendix Table IV, tax revenue increased dramatically from MT 15.6 billion in 1986 to MT 58.1 billion in 1987 and MT 266.4 billion in 1990 – a 17-fold increase during 1987–90. The tax revenue to GDP ratio remained low on account of the country's low tax base, but rose steadily from 9.3% in 1986 to 20.7% in 1989 before tapering off to 19.9% in 1990. Public expenditure proved more difficult to control and its increase from MT 51.6 billion in 1986 to MT 692.8 billion in 1990 – corresponding to a steady rise from 30.8% to 51.7% of GDP – more than offset the tax revenue increase. Subsidies to public enterprises declined from 8.5% of GDP in 1986 to about one percent in 1990 but they did not end as planned. As a result, ERP-I was unsuccessful as regards the budget deficit. The budget deficit before grants increased from MT 29.5 billion in 1986 to MT 394.8 billion in 1990, resulting in a steady rise in the deficit to GDP ratio from 17.7% to 29.4% during the ERP-I period. The situation was, however, sustained by large inflows of grants, which accounted for over 70% of total government revenue during the period.

4.3.8 ERP-II similarly failed to achieve its target for the budget deficit. As a ratio of GDP, the budget deficit before grants declined from 29.4% in 1990 to 21.9% in 1993 (Table IV). The corresponding figures for the deficit after grants were 12.5% and 4.8%. The underlying reason is that total expenditure, which increased 4.3 times during the period, grew faster than tax revenue, which grew 3.7 times in the same period. The same trend is evident from Table II, which compares actual deficits for 1992-97 with appraisal projections for 1992-96. The principal factor in expenditure growth was the unforeseen financial requirements for implementing special programmes for the settlement of demobilised soldiers, refugees and displaced persons, preparing for the first multi-party elections, and financing the emergency needs of the 1992 drought. Considerable reductions in import duties and export taxes during the ERP-II period (see under External Sector below) may also have restrained tax revenue growth.

### **Money and Financial Sector Developments**

4.3.9 The key policy measure in money and credit was to reduce excess liquidity by controlling the rate of credit expansion and promoting domestic savings. The Government established a credit ceiling that implied a credit expansion of 8 percent over the credit level in 1986 as compared to an annual expansion rate of 23% during 1980-86. It also raised the bank lending rate from 5-7 percent in 1986 to a range of 12 – 35 percent and, to encourage saving, raised the ceiling of interest rate on time deposits from 3% to 20%.

4.3.10 The available evidence indicates that ERP-I achieved its money and credit objectives. Although the credit ceiling was not adhered to, the growth rate of credit and money supply fell in the last two years of the programme (Appendix Table VI). During 1988–90 the growth rate of broad money supply fell from 53.6% to 37.1%, and that of credit from 38.4% to 26.9%. Notably, net credit to Government, that is, the Government's net indebtedness to the banking system, fell to MT 31.9 billion, its lowest level in five years. Quasi-money increased steadily from MT 4.0 billion in 1986 to MT 26.6 billion in 1990, reflecting a phenomenal increase in domestic savings and the effectiveness of the Government's monetary policy in general and its interest rate policy in particular. These developments effectively reduced the annual inflation rate from 163.3% in 1988 to 40.0% in 1990.

4.3.11 During ERP-II the financial sector was to be further developed by creating more competition in the banking system in order to improve services and reduce inflation through appropriate monetary policies. The actual performance was mixed. Most measures planned for the sector were successfully implemented. Following the approval of a true central banking legislation in December 1991, the Bank of Mozambique (BOM) shed its commercial functions and became a central bank in early 1992. To promote responsible competition, new regulations were drawn up to facilitate entry of new banks. Lending conditions were also harmonised as commercial banks were given a single interest band within which each bank could determine its lending rates. However, the inflation target of 10% a year during the programme period was not achieved. Even though lending to government continued to decline, money supply and credit increased at unprecedented rates during ERP-II. Consequently, inflation jumped from 33.3% in 1991 to 45.1% in 1992 and further to 63.1% in 1994. For the period 1992-97 the annual average was 38.3% as compared with a target of 14.3% during 1992-96. Up to 1996, inflation also remained higher than projected, but it has been falling rapidly since 1995. It was only 5.8% in 1997 and the indications at the time of the post-evaluation mission were that there has been no inflation since January 1998.

### **External Sector Developments**

4.3.12 The policy measures in the external sector relate to the exchange rate, trade and foreign exchange management, and external debt. For a number of reasons, Mozambique's economy, including the balance of payments, had deteriorated dramatically for most of the decade before ERP-I. Foreign exchange earnings from merchandise exports were declining largely because of government's inappropriate pricing policies and the exodus of people from the countryside on account of insecurity. Foreign exchange receipts from services were also declining as a result of negative developments in international transportation services and in workers' remittances. At the same time the import bill remained high on account of inelastic imports of food and industrial inputs. Foreign exchange became scarce and the arbitrarily fixed official exchange rate of the metical, the national currency, was highly overvalued. Thus a need was created for administrative control of foreign exchange.

4.3.13 The high level of imports was made possible by external borrowing, resulting in a rapid rise in the external debt stock and the burden of debt service. Thus the debt stock increased ten-fold from an estimated US\$244 million in 1978 to US\$2.4 billion - equivalent to 120% of GDP - by end 1984 on its way to a figure of US\$ 3.2 billion at the end of 1986. In the circumstances, the Government was unable to meet its debt service obligations and payment arrears accumulated, a situation that caused capital inflows to slow down, making the balance of payments problem worse. Mozambique benefited from debt re-scheduling for some time, but in 1985 the creditors became increasingly uncooperative as a result of the country's poor performance. As a result, the country remained heavily indebted. Corrective measures for the external sector were needed by the economy and demanded by Mozambique's external creditors. It is against this background that the following policy measures for the external sector were stipulated in ERP-I in terms of the exchange rate, exchange and trade management, and external debt.

4.3.14 Regarding the exchange rate, the overvaluation had created a thriving parallel market and the need for administrative allocation of foreign exchange. Under ERP I the metical was to be devalued at frequent intervals until the parallel market rate premium was eliminated, making administrative allocation unnecessary. In conformity with this plan, the first two

devaluations were effected in January and July 1987 followed by a third in January 1988. The process continued throughout the programme period as planned, reducing the gap between the official rate and the parallel market rate. The average exchange rate of the metical was MT 1038 to one US dollar in 1990 as against MT 40 in 1986. The evolution of the exchange rate since 1985 can be seen in Table III.

4.3.15 As interim steps towards liberalisation of trade and foreign exchange management, the Government was to undertake two actions. The first was the progressive increase in the categories of goods freely eligible for purchase without quantitative restriction. The other was the progressive replacement of administrative allocations of foreign exchange with free market purchases. In addition, the Government was to review and expand the foreign exchange retention system that was already in place. In response to the above needs, the Government, in 1989, introduced a system for the non-administrative allocation of foreign exchange (SNAAD) and permitted exporters to sell all of their foreign exchange earnings in the secondary market. The scope of SNAAD was expanded in 1990. These developments helped to reduce the scope of administrative controls, opened up the foreign exchange market appreciably and enhanced incentives to exporters.

4.3.16 In the area of external debt the objective was to reduce Mozambique's debt service burden. For this purpose, ERP-I set a ceiling of \$50 million for non-concessional external borrowing with maturities of 12 years or less. The Government diligently maintained this ceiling. Accordingly, the subsequent growth in total external debt was not accompanied by a corresponding increase in external debt service burden. Nevertheless, total external debt increased by 57% from its 1986 level to about US\$ 5.0 billion in 1990, as can be seen in Table III and Mozambique remained a heavily indebted country. It should be noted, however, that over 40% of this increase was in 1987 alone and that the external debt stock grew at a remarkably slower rate during the rest of the ERP-I period.

4.3.17 The net effect of the policy measures in this sector was to lay a good foundation for a market-led external sector. The immediate effect of the policies on the balance of payment was positive. The export of goods and non-factor services as a ratio of GDP rose from 3.6% in 1986 to 15.1% in 1988 and then stabilized up to 1990. The corresponding ratios for imports of goods and non-factor services jumped from 14.4% in 1986 to 47.8% in 1987 and thereafter rose more gradually to 65.7% in 1990. While the trade balance and current account balance without unrequited transfers widened appreciably, the overall deficit narrowed marginally as a result of foreign capital inflows, mostly in the form of grants. As a result, external reserves doubled from US\$ 50.79 million (equivalent to 1.1 months of imports) in 1986 to US\$ 105.67 million (22.0 months of imports) in 1987 and quadrupled to US\$ 207.48 million (2.8 months of imports) in 1990.

4.3.18 Under ERP-II, the gains already made were to be consolidated and enhanced by broadening and deepening policy reforms. Efforts were to continue to unify the official and parallel exchange rates and develop a foreign exchange market in which access to foreign exchange would be unrestricted. Efforts to reduce the debt service burden were also to continue. In line with programme expectations, devaluation of the currency continued, reducing the parallel exchange rate premium from over 100% during 1987-90 to an estimated 15-20% in 1992. Thus GOM was able to merge the official and parallel exchange rates and adopted a floating exchange rate system by the end of the programme period. In addition, the scope of non-administrative allocation of foreign exchange was further increased and export incentives were reinforced, with export taxation being virtually eliminated by reducing export

tax rates from a range of 3.5-12.5% to 0.5% in October 1991. The import tariff regime was also restructured and simplified while duty rates were reduced from 34% to 5%. Total external debt stock continued to rise gradually in 1991 and 1992 but fell off slightly in 1993. GOM evidently managed its external debt efficiently and the debt service ratio declined from 24.4% to 21.1% in 1992 before rising sharply to 27.6% in 1993. Mozambique's high indebtedness and its satisfactory debt management record were later to qualify it as a beneficiary under the HIPC's Initiative.

### **Pricing and Distribution**

4.3.19 In Mozambique, producer prices were fixed by government and had changed little in the decade preceding ERP-I. In the mean time, the prices of consumer goods and agricultural inputs were rising while the exchange rate was overvalued. Accordingly, production costs in agriculture and other sectors were understated and relative prices in the entire economy distorted. Partly as a result of the parallel market operations that inevitably emerged, administrative allocation became the standard mode of commodity distribution. The net effect of this situation was an economy-wide declining trend in production.

4.3.20 Under ERP-I, the Government was to undertake corrective measures including progressive liberalisation of pricing. The number of products in the fixed price list was to shrink continually in favour of the regulated price and free market price lists. The prices of items remaining on the fixed price list were also to be increased to reflect exchange rate adjustments. In line with these plans, Government reduced the fixed price items from 47 in mid-1987 to 32 in January 1988 while fixed prices were increased in January and June 1987 by 100-500% and 50-100% respectively, following the devaluation of those dates. Besides, the pricing system still under administrative controls was improved to better reflect production costs better.

4.3.21 The Government was also committed to liberalise the distribution of goods progressively and improve the efficiency of distributing products still subject to administrative allocation. Government honoured this commitment and the number of products subject to administrative allocation promptly fell from 43 to 30. Another remarkable development was the virtual restriction of the role of the parastatal AGRICOM to wholesale business, a major concession to the private sector at the expense of administrative control of distribution. The relevant PCR confirms that distribution improved substantially during 1986-90, especially in rural areas (PCR, ERL-I, para. 5.9). The reforms continued during ERP-II. All restrictions on inter-provincial trade in agricultural commodities were removed in 1991 and domestic trade became substantially free.

### **Sectoral Performance**

4.3.22 Under ERP-I, the pricing and distribution policies discussed above were to be applied specifically to agriculture and industry. This was done and the two sectors responded positively. This response was amplified by complementary measures in the transport sector, aimed at promoting the role of the private sector and rehabilitating rail and port facilities. In this connection, licensing restrictions on private sector participation in transportation were removed in 1987. The transport infrastructure rehabilitation effort, on its part, attracted substantial donor support and partial opening of the railway corridors connecting Mozambican ports to the international transit traffic of neighbouring countries was effected.

4.3.23 The policy reforms in agriculture and industry stimulated economic activity, which translated into increased production, even though supply response was constrained by insecurity in the countryside and the destruction of roads by insurgents. Agricultural production grew at an average annual rate of 5% during 1987-90 and industrial production by 8% during 1987-89. The effect on agricultural exports during the same period was erratic and was probably determined as a residual by domestic demand. The impact on total export earnings was discussed earlier in paragraph 4.3.3.

4.3.24 Pricing and distribution reforms in agriculture and industry were intensified during ERP II. In agriculture, restrictive registration requirements for rural traders were abolished while in industry, a significant number of prices were freed in 1992 and 1993. The rehabilitation of railways continued while private sector participation improved during 1991-93.

4.3.25 Agricultural and industrial production did not immediately respond to the policy measures. In fact, real output declined appreciably in agriculture in 1991 and 1992 and in industry throughout 1990-94. These developments most probably reflect the overwhelming effect of two exogenous factors, the drought of 1992 and the civil war and its immediate aftermath. With the return of peace and normal weather, real agricultural production grew by 9.1% and 5.9% in 1996 and 1997 respectively. The corresponding figures for industrial production were 11.6% and 9.1%.

### **Socio-economic Impact**

4.3.26 The appraisal report for ERP-I did not raise issues concerning the social sector. But under ERP-II, GOM was to give new emphasis to the social sector and poverty reduction. This was to be done by re-deploying budgetary expenditure in favour of education and health and supporting income-generating projects for the vulnerable groups and the poor. The data in Table V suggest that the planned budgetary re-orientation took place. The share of health and education in total current expenditure rose from about 9% during the first rehabilitation programme to 14.4% in 1994 and has been rising steadily ever since. A major factor underlying this development is the substantial decline in military expenditure since the return of peace in 1992. Poverty reduction was financed as a separate project, which falls outside the scope of the present post-evaluation. While some modest efforts were made under ERP-II to attack the problem of poverty, living conditions in Mozambique still remain one of the lowest in the world.

### **Gender and Environment**

4.3.27 Gender issues were not explicitly raised in either of the programmes. This is probably because gender was not a current issue in the Bank when these projects were appraised. However, the policy measures in both programmes were targeted at goals that would indirectly benefit women as much as other members of society. Indeed women may have benefited disproportionately from trade liberalisation because of their greater involvement in domestic trade. The programmes thus appear to have provided satisfactorily, though inadvertently, for women.

4.3.28 For probably the same reasons, none of the programmes addressed environmental issues at appraisal. However, when the war ended, its negative environmental effects were so obvious that GOM had to graft environmental issues to its ongoing ERP-II.

GOM created a National Commission for the Environment in mid-1992 to oversee the preparation of a National Environmental Management Programme (NEMP). NEMP was approved in 1995, two years after the end of ERP-II. While these measures have created a significant awareness for environmental problems, it is obvious that a lot remains to be done to protect the environment from damage.

#### 4.4 **Institutional Development**

4.4.1 The main achievement in the area of institutional reforms during the two economic rehabilitation programmes was the creation of an enabling environment for the reform implementation that subsequently took place. Public enterprise reforms involved the privatisation of state-owned enterprises and the restructuring of others to make them commercially oriented. Following the privatisation of 120 small and medium-size enterprises during 1987-90, GOM embarked on a more comprehensive programme during ERP-II, focusing on larger and more complex enterprises. An enabling legislation for privatisation was enacted in August 1991 and an Inter-Ministerial Committee for Enterprise Restructuring (CIRE) was created three months later together with a technical unit (UTRE) to service it. The same year, GOM approved an Investment Code providing tax and non-tax incentives to investors.

4.4.2 The programmes, particularly ERP-II, led to the creation of a number of government agencies that have proved useful for the implementation of policy reforms. These include the public enterprise reform agencies mentioned above and the Inter-Ministerial Commission for External Economic Relations (CREE) to coordinate and monitor the implementation of the structural adjustment programme.

4.4.3 The programmes also enhanced institutional capacity of the government. One way in which the Government achieved this result was by enhancing the allocation of budgetary resources to the social sector. This new priority given to the social sector is expected to produce capacity building benefits well beyond the programme period. Moreover, the involvement of GOM officials in formulating and implementing the reform packages also strengthened their institutional capacity through a process of learning by doing. The widespread view in the resident donor community is that, while Mozambique's economic reform process remains considerably dependent on technical assistance, the contribution of its officials to it has increased appreciably overtime.

#### 4.5 **Sustainability of the Achievements**

4.5.1 Each of the programme periods saw a considerable improvement in the economic and social conditions of Mozambique. The continuation of these benefits requires that the economic reform process should be maintained until all outstanding structural problems have been successfully addressed. The most important requirement for the sustainability of the policy environment and its macroeconomic benefits is the commitment of the government. The government's track record suggests that this commitment can be expected to continue in the future. It is noteworthy that the necessary legal and regulatory framework is already in place. Government's commitment to structural reforms was consistently unswerving throughout the two programmes and has continued ever since. A recent government policy statement, *A View into the Future*, is a restatement of the Government's continuing commitment to free enterprise and policy reforms.

4.5.2 Another factor favouring sustainability is the social acceptance of the reform programmes. The programmes have resulted in sustained economic growth after a long period of steady economic decline. Moreover, recent donor-supported efforts targeted at the social sector and cushioning the adverse consequences of adjustment should enhance the social acceptability of the reform programmes. The Bank Group's full involvement in this effort is evidenced by the ADF's Social Dimensions of Adjustment Project that was approved at the same time as ERL-II.

4.5.3 The implementation of policy reform measures and the macroeconomic gains realised during the two programmes were made possible by liberal inflows of external capital on concessional terms. In particular, the government's budget and the balance of payments depend heavily on donor funds for their health. Sustainability of these benefits would require continued donor support on the same terms. This is the greatest risk to the reform process, but the indications are that such support will continue at least in the medium term. It is remarkable that the World Bank's policy-based assistance to Mozambique has been on a sustained basis ever since it started. The World Bank approved, in 1985, the first of three economic rehabilitation IDA credits and has since followed up with three economic recovery credits. On its own part, the Bank Group has been doing the same thing beginning with ERL-I, which was approved in 1988, and its ERL-III, a follow-up on ERL-II, is ongoing and almost completed.

4.5.4 GOM's effectiveness in generating tax revenue would influence sustainability. Two opposing factors will be at work here. The growth of the economy is broadening the national tax base and should enable the government to finance an increasing share of its programmes in the years ahead. However, this will probably be partially offset by declining revenue from import duties as a result of regional integration that includes the Republic of South Africa, a major source of Mozambique's imports.

4.5.5 On the whole, the prospects for the sustainability of the programme benefits are good. Nevertheless, it should be noted that the country continues to be in the shadow of unfriendly exogenous factors such as periodic drought and cyclones to which that region is prone.

## **5. PERFORMANCE RATINGS**

The performance rating is based on the analysis of the information contained in chapter 4. The outcome of the ratings is contained in Annexes I and II.

### **5.1 Implementation Performance**

Implementation performance of ERP-I was rated unsatisfactory. The major problem here was the delay in implementation schedule by over 2 years. Implementation under ERP-II was however rated satisfactory.

### **5.2 Bank Group Performance**

Although the Bank did not participate in the initial design phase of both programmes, its subsequent performance was rated satisfactory.

### **5.3 Project Outcome**

The outcome of ERP-I and II was satisfactory. There remains however areas of concern – the high dependence on external resources, the budget deficit, the poverty situation and the poor state of human and institutional capacity.

## **6. CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Overall Assessment**

6.1.1 It is difficult, for a number of reasons, to identify precisely the specific contribution of the Bank's economic rehabilitation interventions to the performance of the Mozambican economy. Firstly, the Bank's contribution to total programme financing was small, particularly in comparison with that of participating donors. Moreover, it is not possible to isolate the effects of exogenous factors such as war, drought, and world economic developments. However, to the extent that macroeconomic developments during and after the programmes are consistent with the goals and objectives of the programmes, it may be argued that those developments partly reflect the impact of the programmes.

6.1.2 The macroeconomic goals of the two economic rehabilitation programmes were largely achieved, and economic and social conditions improved considerably during and after their implementation. In contrast to the overall performance, the performance in fiscal management was notably below appraisal expectation, in terms of the budget deficit, under both programmes. During ERP-I, the negative trend of economic activity and output, which had persisted for years, was arrested and reversed, as total and per capita real GDP targets were exceeded. Building on the foundation laid under ERP-I, the policy measures under ERP-II were also successfully implemented and produced even more impressive results. The positive trend of GDP growth was maintained, in spite of the 1992 drought. Successful foreign exchange adjustment eliminated the parallel exchange market, and inflation was brought under control shortly after the second programme. Besides, the successful implementation of the policy measures envisaged under each programme laid a good foundation for the effective implementation of subsequent reforms.

6.1.3 It is evident that ADF contributed significantly to the economic recovery of Mozambique by financing some of the spare parts, raw materials and incentive goods that made the expansion of agricultural and industrial production possible. ERP-II helped to consolidate these and other gains of ERP-I and further enhanced the environment for reforms and economic growth. In order to achieve these results, impressive progress was made in dismantling the machinery of central administrative controls and in creating a market economy. These actions reflected the Government's commitment to the programme and were remarkable, considering that Mozambique had been a socialist country and was still fighting a civil war. It should be noted, however, that the impact of the Bank's interventions, particularly ERL-II, is yet to be fully realised, as the programmes under review have only recently been completed.

6.1.4 The successes achieved under the two rehabilitation programmes notwithstanding, the economy still faces serious challenges that should be addressed promptly. Firstly, the country's budget and balance of payments depend heavily on foreign aid. Mozambique should be assisted to develop a broader tax base so that its dependence on external financing and the implicit vulnerability of a country in that situation will be reduced over time. Its perennial budget deficit also needs to be addressed conscientiously. In addition, the physical infrastructure, human capacity and institutional capacity are still weak. The country needs continued adjustment assistance as well as assistance to complement its capacity building efforts. Finally, widespread poverty continues to be a major problem in the country. Accordingly, the Bank's ongoing SDA Project may require at least one follow-up when it ends.

## 6.2 **Feedback and Recommendations**

### **Lessons Learned – Government**

6.2.1 A major lesson that can be derived from both programmes is that Government ownership of the programmes and its commitment to these earned the good will of the donor community. This in turn made external resource flow, which the economy needed badly, possible. It is clear that any country in a similar situation could generate and sustain the goodwill of donors only by being transparently committed to needed policy reforms.

### **Lessons Learned - Bank**

6.2.2 The implementation of each programme was in conformity with the operational policies, rules and procedures of the Bank, but this was not easy. The problems encountered were on account of the lack of familiarity on the part of Mozambique's officials with the Bank's requirements. This lack of familiarity resulted in wrongful procurement from Australia during ERP-I (PCR, ERL-I, para. 6.8), which was not a member of the Bank Group. This kind of problem is preventable and within the control of the Bank.

6.2.3 Donors usually require the same type of information and that was why ADF was able to disburse the second tranche of ERL-I on the basis of information that had been made available to IDA (para.3.3.3 above). This suggests that reporting requirements for policy-based lending can be made less difficult by harmonising them with those of other co-financiers.

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## 6.3 **Recommendations**

### **Government**

6.3.1 GOM should remain committed in word and deed to policy reforms, including poverty alleviation efforts, without which the gains achieved to date, could be eroded. Such commitment would also help to sustain the donor goodwill that Mozambique has been enjoying during the past decade and a half.

6.3.2 Although the financial support of donors remains indispensable for Mozambique's medium term and long term growth, it has made the country one of the most heavily dependent on external resources in the world. GOM should intensify efforts to mobilise more domestic resources and stimulate export growth in order to reduce the dependence of the country's budget and balance of payments on foreign capital aid. Diversification of the export base would also reduce the country's vulnerability to external shocks. In this connection, GOM should diligently explore the potential for developing non-traditional exports.

### **Bank**

6.3.3 When dealing with national institutions that are to become newly involved in the implementation of Bank Group programmes, the Bank should arrange workshops for their officials to be properly briefed on the Bank's rules and procedures early. Such workshops would help to avert avoidable errors and their attendant delays. Adequate Bank supervision would also shorten considerably the delays experienced in implementing such programmes.

6.3.4 The Bank should take steps to ensure its involvement in the formulation of any project it co-finances. Such involvement would enable it to anticipate the kind of problem experienced under ERP-II regarding the ineligibility of South Africa as a procurement source (para. 3.3.2 above). It is recognised that the Bank's belated involvement was due to the late replenishment of ADF resources. Nevertheless, it is recommended that the Bank should explore ways of becoming engaged in all the pre-approval activities, including upstream economic and sector work, even before it has secured the lending resources.

6.3.5 In view of the discussion in paragraph 6.2.3 above, the Bank should have a deliberate policy of harmonising its reporting requirements with those of other co-financiers. Harmonisation is desirable because it would lighten the reporting burden on borrowers.

6.3.6 The Bank should assist GOM to find ways of becoming more effective in domestic resource mobilisation and export stimulation. An appropriate study in each of these areas is recommended. The terms of reference of the studies should include broadening the tax base, improving the efficiency of tax administration, and developing non-traditional exports.

6.3.7 An institutional support project is also recommended to enhance institutional capacity in Mozambique. The beneficiaries should include the economic ministries and the Bank of Mozambique.

6.3.8 The Bank should act early to determine whether there will be need for a fourth Bank Group economic rehabilitation programme for Mozambique when the ongoing third programme ends. Early action would enable the Bank to be fully involved in the formulation

of such a programme instead of simply financing an ongoing programme as it did with ERP I and ERP-II.

6.3.9 Neither of the two programmes raised issues concerning regional economic integration, probably because, among other things, the subject had not come to centre-stage in the Bank at the time of their appraisal. The silence is remarkable as the promotion of greater regional and sub-regional cooperation has since become an explicit objective of Bank operations. The matter is particularly relevant for a country like Mozambique that shares borders with six countries whose policies invariably influence its economic performance. It is therefore recommended that future policy reform programmes in Mozambique should explicitly explore the implications for regional economic integration.

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PERFORMANCE RATINGS – ERP-I  
FORM IP 1  
IMPLEMENTATION PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	1	Implementation schedule was exceeded by more than 2 years.
2	Adherence to Cost Schedule	N/A	
3	Compliance with Covenants	2	In spite of language and other difficulties, the Borrower made efforts to comply with covenants.
4	Adequacy of Supervision and Reporting	2	While reporting was inadequate, supervision was satisfactory.
5	Satisfactory Operations (if applicable)	3	The entire operation was satisfactory
	TOTAL	8	
	Overall Assessment of Implementation Performance	2	Unsatisfactory.

Key:

- 1: Highly Unsatisfactory
- 2: Unsatisfactory
- 3: Satisfactory
- 4: Highly satisfactory

FORM BP 1  
BANK PERFORMANCE – ERP-I

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	N/A	Bank did not participate in identification.
2	At Preparation of Project	2	Bank preparation was satisfactory.
3	At Appraisal	3	Although the appraisal report did not specify indicators of performance, the appraisal report was generally satisfactory.
4	At Supervision	2	There should have been more than one supervision mission, given the poor state of human and institutional capacity in the country.
	TOTAL	7	
	Overall Assessment of Bank Performance	2.3	Satisfactory.

FORM PO 1  
PROJECT OUTCOME – ERP-I

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
<b>1</b>	<b>Relevance and Achievement of Objectives (*)</b>	<b>3</b>	<b>The programme was relevant and it achieved most of its goals.</b>
i)	Macro-economic Policy	3	The policies to be pursued were relevant and adequate.
ii)	Sector Policy	3	The adjustment policies were well formulated. They were relevant to the problems at hand.
iii)	Physical (incl. Production)	N/A	This and issues listed in iv-vii did not figure in the appraisal report.
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	N/A	
vi)	Environmental	N/A	
vii)	Private sector development	N/A	
viii)	Other (Specify)		
<b>2</b>	<b>Institutional Development (**)</b>	<b>2</b>	<b>The Programme made some contribution to institutional development.</b>
i)	Institutional Framework including Restructuring	2	The Programme made some contribution to institutional development but a lot remains to be done.
ii)	Financial and MIS including Audit Systems	N/A	
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. turnover) Training & Counterpart staff	2	There are serious human capacity constraints.
<b>3</b>	<b>Sustainability</b>	<b>2</b>	<b>Although sustainability of this programme appeared uncertain, this was changed by the successor programme.</b>
i)	Continued Borrower Commitment	3	Borrower commitment is very strong.
ii)	Policy Environment	3	The policy environment is favourable to policy reforms.
iii)	Institutional Environment	1	The institutional environment is weak.
iv)	Technical Viability and Staffing	1	There are human capacity constraints.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	N/A	
vii)	Environmental Viability	N/A	
viii)	O & M facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities)	N/A	
<b>4</b>	<b>Economic Internal Rate of Return</b>	<b>N/A</b>	
	TOTAL	7.0	
	Overall Assessment of Outcome	<b>2.33</b>	Satisfactory

PERFORMANCE RATINGS – ERP-II  
FORM IP 1  
IMPLEMENTATION PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	1	Implementation schedule was exceeded by more than 2 years.
2	Adherence to Cost Schedule	N/A	
3	Compliance with Covenants	3	Performance under ERP-II was satisfactory.
4	Adequacy of Supervision and Reporting	2	Reporting was inadequate but supervision was satisfactory.
5	Satisfactory Operations (if applicable)	3	The entire operation was satisfactory.
	TOTAL		
	Overall Assessment of Implementation Performance	2.25	Satisfactory.

Key:

- 1: Highly Unsatisfactory
- 2: Unsatisfactory
- 3: Satisfactory
- 4: Highly satisfactory

FORM BP 1  
BANK PERFORMANCE – ERP-II

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	N/A	Bank did not participate in identification.
2	At Preparation of Project	2	Bank preparation was adequate.
3	At Appraisal	3	Bank role in this area was satisfactory. The Bank extended the programme to include an SDA component.
4	At Supervision	3	Bank supervision under ERP-II was satisfactory.
	TOTAL	8	
	Overall Assessment of Bank Performance	2.6	Satisfactory.

**FORM PO 1**  
**PROJECT OUTCOME – ERP-II**

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
<b>1</b>	<b>Relevance and Achievement of Objectives (*)</b>	<b>2.8</b>	<b>The programme was relevant to the problems of the economy. Most of the goals were achieved.</b>
i)	Macro-economic Policy	3	The policies to be pursued were relevant and well articulated.
ii)	Sector Policy	3	The policies were relevant and achievement was satisfactory.
iii)	Physical (incl. Production)	N/A	
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	3	Adequate progress was made in this area.
Vi)	Environmental	2	At appraisal, there were no policies in this area but the government has initiated same measures. A lot remains to be done.
Vii)	Private sector development	3	Policies in this area were relevant and satisfactory progress was made.
Viii)	Other (Specify)		
<b>2</b>	<b>Institutional Development (**)</b>	<b>2.5</b>	
i)	Institutional Framework including Restructuring	3	The relevant institutions for development have been created.
ii)	Financial and MIS including Audit Systems	N/A	
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. Turnover) Training & Counterpart staff	2	The human capacity constraint has eased a little bit, but much remains to be done.
<b>3</b>	<b>Sustainability</b>	<b>2.80</b>	<b>The sustainability of the adjustment process is certain, but some critical areas call for attention.</b>
i)	Continued Borrower Commitment	3	Borrower commitment is very strong.
ii)	Policy Environment	3	The policy environment is sufficiently robust for economic take-off.
iii)	Institutional Environment	3	Progress has been made in setting up relevant institutions.
iv)	Technical Viability and Staffing	2	Progress has been made here but a lot remains to be done.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	3	
vii)	Environmental Viability	N/A	
viii)	O & M facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities)	N/A	
<b>4</b>	<b>Economic Internal Rate of Return</b>	<b>N/A</b>	
	TOTAL	8.05	
	Overall Assessment of Outcome	<b>2.7</b>	

**RETROSPECTIVE LOGICAL FRAMEWORK MATRIX: ERL-I**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b><u>GOALS:</u></b></p> <p>i) Promote growth through liberalisation of the economy</p>	<p>GDP to grow by 4% during 1989</p>	<p>National Income Accounts</p>	<p>i) Strong Government commitment to the reform process.</p>
<p><b><u>OBJECTIVES:</u></b></p> <p>i) Encourage agricultural production.</p> <p>ii) Support light industries in order to increase capacity utilisation.</p>	<p>--</p> <p>--</p>	<p>National Income Accounts</p> <p>National Income Accounts</p>	<p>No exogeneous shocks like drought.</p>
<p><b><u>OUTPUT:</u></b></p> <p>i) Liberalisation exchange rate, prices and interest rates, and a deregulated economy.</p>	<p>i) unification of the parallel and official exchange rates</p> <p>ii) liberalised prices and interest rates.</p>	<p>Bank mid-term review missions and World Bank Reports.</p>	<p>Adequate flow of technical assistance and balance of payments support.</p>
<p><b><u>INPUT/ACTIVITIES:</u></b></p> <p>Government to take measures to dismantle the apparatus of state control over the economy and reduce external borrowing.</p>	<p>Development partners to support the reform programme with balance of payments support.</p>	<p>ADF missions and reports by the Government and other donors.</p>	<p>Implementation by the Government of the reform programme and timely provision of resources by development partners.</p>

**RETROSPECTIVE LOGICAL FRAMEWORK MATRIX: ERL-II**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b><u>GOALS:</u></b></p> <p>i) Promote sustainable development through liberalisation of the economy.</p> <p>ii) Reduce poverty.</p>	<p>1.1 Average real GDP growth of 5% annually during the period of the programme (1991-93).</p> <p>1.2 Average inflation rate of 17%.</p> <p>Average per capita growth of 2.4%.</p>	<p>1.1 National Accounts published by the National Statistical Institute and other publication.</p> <p>1.2 National Accounts published by the National Statistical Institute and other publications.</p>	<p>1. Strong commitment by the Government to the reform programme.</p> <p>2. No severe exogenous shocks like drought.</p>
<p><b><u>OBJECTIVES:</u></b></p> <p>Promote fiscal sustainability and promote private sector development.</p>	<p>1.1 Reduce primary current account deficit to an average of 61%.</p> <p>1.2 Reduce primary fiscal deficit to an average of 4.4%.</p>	<p>Ministry of Finance and World Bank and IMF Reports.</p>	<p>1. Strong Government commitment to fiscal discipline.</p> <p>2. No severe exogenous shocks like drought.</p>

<p><b>Outputs:</b></p> <p>i) Improved fiscal management</p> <p>ii) Liberalised foreign trade and exchange.</p> <p>iii) Financial &amp; banking reforms.</p> <p>iv) Privatisation and public sector reform.</p>	<p>1.1 Increase revenue mobilisation by over 23%.</p> <p>1.2 Maintain public expenditures at 50% of GDP.</p> <p>2.1 Unification of the official and parallel exchange rates.</p> <p>2.2 Reduction of customs tariffs &amp; simplification of tariff structure.</p> <p>3.1 Separation of the commercial and central banking activities in the Bank of Mozambique.</p> <p>4.1 Selling of loss-making public corporations.</p> <p>4.2 Improved management of public utilities.</p>	<p>Ministry of Finance and World Bank and IMF reports and missions reports.</p> <p style="text-align: center;">„</p> <p style="text-align: center;">„</p> <p>ADB Mission Reports.</p> <p>ADB Mission Reports.</p>	<p>1. Improved capacity building at the Customs Department.</p> <p>2. Stricter control of public expenditures.</p> <p>3. Adequate flow of technical assistance and balance of payments support.</p>																
<p><b>Activities:</b></p> <p>1.1 Government to pass legislation on several policy and institutional reforms in the following areas: fiscal management/foreign exchange and trade/privatisation/and public enterprise reform/and price and marketing reforms, as well as environmental reforms.</p>	<p>Development partners to support the reform programme with balance of payments support:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">ADF</td> <td style="text-align: right;">US\$ 76.3 (million)</td> </tr> <tr> <td>IDA</td> <td style="text-align: right;">180.0</td> </tr> <tr> <td>IMF</td> <td style="text-align: right;">156.9</td> </tr> <tr> <td>Germany</td> <td style="text-align: right;">10.0</td> </tr> <tr> <td>Switzerland</td> <td style="text-align: right;">6.0</td> </tr> <tr> <td>Norway</td> <td style="text-align: right;">5.1</td> </tr> <tr> <td>Denmark</td> <td style="text-align: right;">6.3</td> </tr> <tr> <td>ODA</td> <td style="text-align: right;">1.3</td> </tr> </table>	ADF	US\$ 76.3 (million)	IDA	180.0	IMF	156.9	Germany	10.0	Switzerland	6.0	Norway	5.1	Denmark	6.3	ODA	1.3	<p>ADB missions and reports by the Government and the development partners.</p>	<p>Implementation by the Government of the reform agenda and timely provision of financial support by the development partners.</p>
ADF	US\$ 76.3 (million)																		
IDA	180.0																		
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Norway	5.1																		
Denmark	6.3																		
ODA	1.3																		

RECOMMENDATION AND FOLLOW-UP ACTION MATRIX: ERL-I&II

MAIN FINDING	RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
<p><u>Formulation and Project Rationale</u></p> <p>i) Programmes were well formulated, but goals (under ERP-I) were not identified in measurable terms.</p> <p>ii) Bank did not participate in the design of both programmes.</p> <p>iii) Regional dimensions of the programmes were ignored.</p>	<ul style="list-style-type: none"> <li>• Programme goals should be defined in measurable terms.</li> <li>• The Bank should ensure that it puts in place a mechanism for participating in the design of programme. Such participation should be based on prior economic and sector work.</li> <li>• Design of adjustment programmes should consider fostering regional economic integration objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• Define goals and targets in measurable terms</li> <li>• The Bank should consider joining PFP and other missions for the design of programmes.</li> <li>• Bank, BWI and other donors should consider this approach to adjustment programmes.</li> </ul>	<p>Operations Departments and Borrower</p> <p>Operations Departments</p> <p>Operations Department, OCOD and other donors.</p>
<p><u>Project Implementation</u></p> <p>The original life of the programmes were exceeded by more than two years.</p>	<p>There is need to adhere to the implementation schedule specified at appraisal.</p>	<p>Keep to the time table set at appraisal.</p>	<p>Operations Departments and Borrower.</p>
<p><u>Compliance with Loan Conditions and Covenants</u></p> <p>GOM was relatively successful in this area but reporting was inadequate.</p>	<p>Bank should ensure that all reports and PCR are submitted regularly and on timely basis.</p>	<p>Bank should simplify loan conditions. Supervision missions should reiterate the need to comply with loan conditions.</p>	<p>Operations Department and Borrower.</p>

<p><u>Performance Evaluation and Outcome</u></p> <p>i) Programmes were largely successful although there are recurrent fiscal slippages.</p> <p>ii) Government is too heavily dependent on external resources.</p> <p>iii) The state of institutional and human capacity remains poor.</p>	<p>Government should mobilise domestic resources.</p> <p>The Government should take measures to broaden the tax base.</p> <p>The Bank and other donors should assist the Government in the area of training and technical assistance.</p>	<p>The Government could benefit from an institutional support for tax reform.</p> <p>The Government could benefit from an institutional support for tax reform.</p> <p>The Bank could support GOM with technical assistance grants.</p>	<p>Operations Departments and Borrower.</p> <p>Operations Departments and Borrower.</p> <p>Operations Departments and other donors.</p>
<p><u>Sustainability</u></p> <p>The sustainability of the achievements is assured. After the completion of ERP –II, the economy would be ready to address specific sectoral problems.</p>	<p>After careful study of the problems of the economy, the Bank should consider the introduction of SECALS.</p>	<p>The Bank and other donors to address specific sectoral problems.</p>	<p>Operations Departments and other donors.</p>

**Table I****MOZAMBIQUE: KEY MACROECONOMIC INDICATORS**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
GDP at current market prices (MT billion) <sup>1</sup>	167.0	423.0	657.0	966.0	1340.7	2056.3	3125.8	5463.4	8652.1	13417.0	19771.0	24183.0
Real GDP Growth Rate (%)	1.8	5.8	5.5	5.4	1.0	4.9	(0.8)	18.8	4.4	1.3	6.6	14.1
Population (Million) <sup>2</sup>	12.1	n.a	13.9	14.0	14.2	14.5	14.8	15.1	15.5	15.8	16.2	16.5
GDP per capita (MT'000)	13.8	n.a	47.3	69.0	94.7	142.1	211.3	361.1	559.2	848.1	1222.1	1461.8
GDP per capita (US\$) <sup>2</sup>	n.a	n.a	120.0	90.0	102.0	99.1	86.9	97.0	94.5	95.4	109.7	128.3
Exchange Rate (MT/US\$)	40	289	529	820	1038	1845	2742	5238	6552	10776	11295	11604
Private Consumption Deflator (% Rate of Increase)	12.2	175.8	55.0	40.0	32.8	50.1	58.8	49.8	52.5	50.4	41.0	7.0
Monthly Minimum Wage (MT'000)	n.a	n.a	n.a	n.a	25.1	31.5	44.7	63.7	98.0	170.2	244.9	301.6
Growth Rate of Monthly Minimum Wage (%)	n.a	n.a	n.a	n.a	24.7	25.6	41.8	42.5	53.7	73.8	43.9	23.2
<b><u>Ratios to GDP (%)</u></b>												
Exports of Goods and Services <sup>1</sup>	3.6	12.1	15.1	15.4	15.9	21.6	23.6	21.3	23.3	27.7	27.9	23.9
Imports of Goods and Services <sup>1</sup>	14.4	48.2	65.0	67.5	65.7	69.8	75.5	73.8	79.0	65.0	56.7	44.8
Current Account Balance b.g. <sup>3</sup>	(14.9)	(47.8)	(52.9)	(58.9)	(53.1)	(51.8)	(57.5)	(56.2)	(61.2)	(45.1)	(36.2)	(28.9)
Current Account Balance a.g. <sup>3</sup>	(9.8)	(26.8)	(22.6)	(29.0)	(22.0)	(29.1)	(18.6)	(21.9)	(22.5)	(23.0)	(21.5)	(12.4)

Note: For current account balance, b.g. = before grants, and a.g. = after grants

1) Data for 1986-1989 from EPCP Paper 1993-1995

2) Data for 1986-1989 are from World Bank, African Development Indicators 1998/99; 1986 figures are for 1980

3) Data for 1986-1989 from ERL-II Appraisal Report, Figure for 1986 staff estimate

Source: (Mozambique) Statistical Yearbook 1997; Bank of Mozambique, Statistical Bulletin, various issues,

**Table II**

**MOZAMBIQUE: ECONOMIC REHABILITATION LOAN II**  
**Actuals and Targets, 1992 - 1997**

	1992	1993	1994	1995	1996	1997	Annual Average
<b><u>A. Growth and Inflation</u></b>							
<b><u>Real GDP Growth Rate</u></b>							
Target	5.0	5.0	5.0	5.5	6.0	n.a	5.3
Actual	(0.8)	18.8	4.4	1.3	6.6	14.1	7.5
<b><u>Real Per Capita Growth</u></b>							
Target	2.4	2.4	2.4	2.9	3.4	n.a	2.7
Actual	(3.4)	16.2	1.8	(1.3)	4.0	11.5	4.8
<b><u>Inflation Rate</u></b>							
Target	25.0	14.4	11.9	10.0	10.0	n.a	14.3
Actual	45.1	42.3	63.1	57.0	16.2	5.8	38.3
<b><u>External Reserves (Months of Imports)</u></b>							
Target	3.7	3.6	3.6	3.7	3.8	n.a	3.7
Actual	3.3	2.4	2.1	2.9	5.3	8.2	4.0
<b><u>B. Ratios to GDP</u></b>							
<b><u>Balance of Payments</u></b>							
<b><u>Current Account Balance (before grants)</u></b>							
Target	(63.4)	(63.2)	(58.8)	(55.7)	(52.3)	n.a	(58.7)
Actual	(57.5)	(56.2)	(61.2)	(45.1)	(36.2)	(28.9)	(47.5)
<b><u>Current Account Balance (after grants)</u></b>							
Target	(18.6)	(25.1)	(23.1)	(21.6)	(20.0)	n.a	(21.7)
Actual	(18.6)	(21.9)	(22.5)	(23.0)	(21.5)	(12.4)	(20.0)
<b><u>Public Finance</u></b>							
<b><u>Total Revenue</u></b>							
Target	23.3	23.9	24.1	24.3	24.5	n.a	24.0
Actual	21.1	20.0	17.6	18.3	17.6	19.0	18.9
<b><u>Total Expenditure</u></b>							
Target	50.7	50.2	49.0	49.0	49.1	n.a	49.6
Actual	47.9	42.2	47.3	38.3	34.3	37.6	41.3
<b><u>Budget Balance (after grants)</u></b>							
Target	(4.8)	(3.2)	(3.0)	(3.5)	(4.0)	n.a	(3.7)
Actual	(6.7)	(4.8)	(8.3)	(4.9)	(5.1)	(5.3)	(5.9)
<b><u>Public Investment</u></b>							
Target	22.9	22.9	22.3	22.1	22.0	n.a	22.4
Actual	22.0	20.1	24.5	21.3	17.8	19.9	20.9

Note: n.a = not available

Sources: ERL-II Appraisal Report for targets; Annexes I, III and IV of this report for actuals

**Table III**

**MOZAMBIQUE: EXTERNAL ACCOUNTS, 1985 – 1998**  
(Amounts in US\$ million)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
TRADE BALANCE	-347.1	-463.6	-545.0	-632.6	-702.9	-751.1	-736.5	-715.7	-822.9	-869.0	-552.7	-556.5	-530.0	-620.1
Exports (f.o.b.)	76.6	79.1	97.0	103.0	104.8	126.4	162.3	139.3	131.8	149.5	174.3	226.1	230.0	248.2
Imports (c.i.f.)	423.7	542.7	642.0	735.6	807.7	877.5	898.8	855.0	954.7	1018.5	727.3	782.6	760.0	868.3
SERVICES BALANCE	-92.9	-158.7	-148.0	-102.7	-144.8	-112.6	-109.6	-132.8	-126.7	-160.5	-127.3	-88.7	-80.3	-96.0
Receipts	107.1	119.0	137.0	156.6	166.7	173.4	202.8	222.6	239.8	245.9	291.7	314.2	342.3	332.5
Payments	200.0	277.7	285.0	259.3	311.5	286.0	312.4	355.4	366.5	406.4	419.0	402.9	422.6	428.5
CURRENT ACCOUNT BALANCE EXCLUDING UNREQ./TRANSF.	-440.0	-622.3	-693.0	-735.3	-847.7	-863.7	-846.1	-848.5	-949.6	-	-680.0	-645.2	-610.3	-716.1
UNREQUITED OFFICIAL TRANSFERS	139.0	213.0	304.2	376.8	387.5	448.4	501.7	499.4	503.3	564.6	339.2	224.7	312.9	313.2
PRIVATE TRANSFERS	0.0	0.0	0.0	78.0	85.0	97.5	107.6	110.0	125.0	137.5	0.0	0.0	0.0	0.0
CURRENT ACCOUNT BALANCE INCLUDING UNREQ./TRANSF.	-301.0	-409.3	-388.8	-280.5	-375.2	-317.8	-236.8	-239.1	-321.3	-327.4	-340.8	-420.5	-297.4	-402.9
CAPITAL ACCOUNT BALANCE	29.7	-50.0	-76.8	-126.2	-55.0	-83.5	-187.5	-155.1	-107.0	-22.1	57.6	235.0	183.1	387.9
ERRORS & OMISSIONS (NET)	22.7	28.7	24.7	35.2	29.8	3.1	-33.6	-12.4	-7.8	2.9	27.1	130.3	23.2	22.2
OVERALL BALANCE	-353.4	-488.0	-440.9	-371.5	-400.4	-398.2	-457.9	-406.6	-436.1	-346.6	-256.1	-55.2	-91.1	7.2
EXTERNAL DEBT STOCK	2794.3	3156.5	3898.2	4209.7	4391.4	4959.5	4994.8	5041.0	5011.2	5276.9	5471.7	5691.6	5643.1	n.a
EXTERNAL DEBT SERVICE RATIO (%) <sup>1</sup>	207.8	247.4	20.9	37.2	24.2	24.4	24.3	21.1	27.6	22.4	24.0	24.2	16.9	n.a
EXTERNAL RESERVES (Amount)	60.5	50.79	105.67	155.42	162.38	207.48	239.7	233.37	187.24	177.51	195.32	344.06	517.35	521.78
EXTERNAL RESERVES (Months of Imports)	1.2	1.1	2.0	2.5	2.4	2.8	3.2	3.3	2.4	2.1	2.9	5.3	8.2	7.2
EXCHANGE RATE (MT/US\$)	13	40	289	529	820	1038	1845	2742	5238	6553	10776	11295	11604	12366

1) Data for 1985-1989 are from various Bank documents on Mozambique, Data after debt rescheduling.

Source: Bank of Mozambique, Statistical Bulletin, various issues; Ministry of Planning and Finance; IMF; International Financial Statistics; and National Institute of Statistics; Statistical Yearbook 1997.

**Table IV**

**MOZAMBIQUE: SUMMARY OF GOVERNMENT FINANCE STATISTICS**  
(Amounts in billion meticaais)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total Revenue	19.1	22.1	68.6	130.7	226.5	298.0	447.2	660.9	1092.6	1526.0	2412.7	3478.5	4585.8	5311.0
Tax Revenue	13.3	15.6	58.1	110.1	199.8	266.4	379.9	574.0	995.0	1397.2	2201.7	3192.8	4234.4	4946.0
Non-Tax Revenue	5.8	6.5	10.5	20.6	26.7	31.6	67.2	86.9	97.6	128.5	211.0	285.7	351.4	365.0
Current Expenditure	32.9	42.4	93.0	148.8	246.0	342.5	457.4	764.7	1170.8	1977.9	2189.5	3066.1	4225.2	5268.0
Current Budget Balance	(13.8)	(20.2)	(24.4)	(18.1)	(19.6)	(44.5)	(10.3)	(103.7)	(78.2)	(451.9)	223.2	412.4	360.6	43.0
Investment Expenditure	6.7	9.3	68.0	139.7	214.3	323.9	464.9	688.0	1097.0	2119.5	2863.0	3513.7	4817.5	4688.0
Total Expenditure	39.6	51.6	161.0	288.5	473.0	692.8	958.3	1451.6	2270.1	4097.4	5052.5	6579.8	9054.7	10317.0
Budget Balance (before grants)	(20.4)	(29.5)	(92.4)	(157.8)	(246.6)	(394.8)	(511.1)	(829.2)	(1194.1)	(2571.7)	(2745.8)	(3294.0)	(4514.0)	(4985.0)
Grants Received	3.0	3.9	39.6	91.8	159.8	226.3	382.5	620.4	932.2	1857.0	2090.0	2291.0	3226.0	3835.0
Budget Balance (after grants)	(17.4)	(25.8)	(52.8)	(66.0)	(86.7)	(168.5)	(128.6)	(208.8)	(261.9)	(714.7)	(655.8)	(1003.0)	(1288.0)	(1150.0)
<b><u>Ratios to GDP (%)</u></b>														
Total Revenue	n.a	13.2	16.2	19.9	23.8	22.2	21.7	21.1	20.0	17.6	18.3	17.6	19.0	n.a
Tax Revenue	n.a	9.3	13.7	16.8	20.7	19.9	18.5	18.4	18.2	16.1	16.7	16.2	17.5	n.a
Total Expenditure	n.a	30.8	37.5	45.2	49.0	51.7	46.6	47.9	42.2	47.3	38.3	34.3	37.6	n.a
Budget Deficit (before grants)	n.a	17.7	21.8	24.0	24.5	29.4	24.9	26.5	21.9	29.7	20.5	16.7	18.7	n.a
Budget Deficit (after grants)	n.a	15.4	12.5	10.0	7.8	12.5	6.3	6.7	4.8	8.3	4.9	5.1	5.3	n.a

Note: n.a = not available

Sources: Bank of Mozambique, Statistical Bulletin, various issues; (Mozambique) Statistical Yearbook 1997

**Table V**

**MOZAMBIQUE: GOVERNMENT CURRENT EXPENDITURE ON EDUCATION AND HEALTH**  
(Amounts in billion meticaís)

Year	Total Government Current Expenditure	Expenditure on Education and Health	
		<u>Total</u>	<u>% Share</u>
1989	246.0	22.1	9.0
1990	342.5	30.2	8.8
1991	457.4	n.a	n.a
1992	764.7	n.a	n.a
1993	1170.8	n.a	n.a
1994	1977.9	284.6	14.4
1995	2194.0	522.0	23.8
1996	3066.1	776.0	25.3
1997	4225.2	1092.9	25.9
1998	5268.0	1267.0	24.1

Source: Bank of Mozambique, Statistical Bulletin, various issues

**Table VI**

**MOZAMBIQUE: MONEY AND CREDIT**  
(Amounts in billion meticaais)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Broad Money (M2) Supply	96.5	111.4	166.0	225.0	381.0	522.4	709.0	1129.2	2018.6	3108.8	4967.9	5958.4	7413.5	8737.2
Money	92.6	107.4	156.1	244.4	365.2	495.8	660.3	1023.9	1795.8	2895.0	4538.1	5237.5	6123.5	7056.6
Quasi-Money	3.9	4.0	9.8	10.6	15.9	26.6	48.7	105.4	222.8	285.8	429.8	720.9	1290.4	1680.6
Domestic Credit	144.2	168.9	213.1	295.0	395.8	502.2	653.4	904.8	1134.2	1624.7	2117.7	2816.9	4028.1	5081.0
Claims on Government (net)	27.0	32.9	42.9	52.5	33.5	31.9	(4.8)	6.5	38.7	(86.6)	(351.4)	(748.2)	(1387.3)	(1659.1)
Claims on the Private Sector	117.2	136.0	170.2	242.5	362.2	470.3	658.3	898.3	1095.5	1711.3	2469.1	3565.0	5415.4	6740.1
Growth Rate of Broad Money (%)	15.4	15.4	49.0	53.6	49.4	37.1	35.7	59.3	78.8	54.0	59.8	19.9	24.4	17.9
Growth Rate of Credit	16.1	17.1	26.2	38.4	34.2	26.9	30.1	38.5	25.4	43.3	30.3	33.0	43.0	26.1
Inflation (CPI Growth) Rate (%)	n.a	38.7	163.3	50.1	40.0	40.0	33.3	45.1	42.3	63.1	57.0	16.2	5.8	-1.3

Note: n.a = not available

Source: Bank of Mozambique, Statistical Bulletin, various issues