

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**REPUBLIC OF MOZAMBIQUE**

**PORTFOLIO REVIEW REPORT**

**ONCF**

**December 2005**

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**CURRENCY EQUIVALENTS**  
**(December 2005)**

Currency Unit	=	Mozambican Metical (MZM)
1 UA	=	35,510.9 MZM
1 UA	=	1.45661 US\$
1 US\$	=	24,517.9 MZM

**FINANCIAL YEAR**

January 01 to December 31

**WEIGHTS AND MEASURES**

Metric System

## **ACRONYMS AND ABBREVIATIONS**

ADB	African Development Bank
ADF	African Development Fund
AGOA	African Growth and Opportunity Act
AM	Aide Mémoire
AMC	Arbitration, Mediation and Conciliation Centre of CTA
ANE	National Roads Authority
APP	Participatory Assessment of Poverty
BoM	Bank of Mozambique
CAADP	Comprehensive Africa Agriculture Development Programme (NEPAD)
CBO	Community Based Organizations
CFMP	Medium Term Fiscal Scenario (Framework)
CG	Corporate Governance
CGP	Country Governance Profile
CIRESP	Inter-ministerial Commission for Public Sector Reform
CNE	Elections National Commission
CPI	Investment Promotion Centre
CSOs	Civil Society Organizations
CSP	Country Strategy Paper
CTA	Confederation of Business Associations of Mozambique
CUT	Single Treasury Account (Conta Única do Tesouro)
DNPO	National Directorate of Planning and Budgeting
DNI	National Directorate of Taxes
DNPE	National Directorate of State Buildings
DNT	National Directorate of Treasure
DP	Development Partners
DPE	Provincial Directorate of Education
ECA	United Nations Economic Commission for Africa
EDM	Mozambique Electricity
FFPI	Small Industries Support Fund
IMF	International Monetary Fund
FTA	Free Trade Area (SADC)
GoM	Government of Mozambique
HIPC	Heavily Indebted Poor Countries
IAF	Household Survey
INE	National Statistics Institute
INIA	National Agricultural Research Institute
IVA	Value Added Tax
IPAJ	Institute of Juridical Sponsorship and Assistance
MADER	Ministry of Agriculture and Rural Development
MAE	Ministry of State Administration
MDG	Millennium Development Goals
MF	Ministry of Finance
MINED	Ministry of Education
MIREME	Ministry of Mineral Resources and Energy
MISAU	Ministry of Health
MJUST	Ministry of Justice
MMCAS	Ministry of Women and Coordination of Social Action
MOPH	Ministry of Public Works and Housing

NEPAD	New Partnership for Africa's Development
NGGS	National Good Governance Strategy
OGE	State Budget
OMM	Mozambican Woman Organization
ONG	Non-governmental Organisation
PAF	Performance Assessment Framework
PAPs	Programme Aid Partners
PARPA	Plan of Action for the Reduction of Absolute Poverty
PBLG	Policy-Base Lending on Governance
PES	Economic and Social Plan
PRSP	Poverty Reduction Strategy
PRPSP	Poverty Reduction Strategy Paper
RMC	Regional Member Country
ROCS	Roads and Coastal Shipping
SADC	Southern African Development Community
SISTAFE	Financial Management Information System
STAE	Technical Secretariat for Electoral Support
TA	Administrative Court
UAC	Anti-Corruption Unit
USAP	Public Procurement Supervision Unit
UTRAFE	State Financial Administration Reform Technical Unit
UTREL	Technical Unit for Legal Reform
UTRESP	Technical Unit for Public Sector Reform
UTUSP	Prison System Unification Technical Unit
WB	World Bank

## **EXECUTIVE SUMMARY**

### **I. INTRODUCTION**

The objective of this Country Portfolio Review Report (CPR) is to assess the performance of the on-going portfolio of Bank Group-financed projects in Mozambique, with regard to implementation progress and achievement of development objectives. This portfolio review of Bank Group operations is based on the outcome of several sector portfolio review missions fielded by the Bank in the country in 2005 (Social, Agriculture & Infrastructure Sectors), the Internal Audit Report on project Execution Activities in 2005, the Course on Project Implementation that gathered all the PIUs and Country Portfolio Review mission held in September 2005.

### **II. COMPOSITION AND OVERVIEW OF THE PORTFOLIO**

The Bank Group has, since the commencement of operations in Mozambique in 1977, approved fifty two (52) projects, six (6) policy-based programs and eleven (11) studies. Total commitments stand at UA 911.2 million of which UA 779.7 million were from ADF resources, UA 124.6 million from ADB resources and UA 6.9 million from NTF resources. The agricultural sector has received the largest share of financing (31%), followed by policy-based programs (24%), public utilities (18%), transport sector (14%), social sector (8%) and industry (5%). Additionally, through its private sector window, the Bank has approved two projects, namely the MOMA Titanium Minerals Project, approved in May 2003, for an amount of UA 30.7 million, and the SASOL Gas Pipeline Project, approved in October 2003, for an amount of UA 52.1 million.

Twenty-two operations are at present on going with a total commitment of UA 319 million, and a disbursement rate of 37%. Agriculture (36%) and public utilities (25%) are the most active sectors and together are responsible for a total commitment of UA 193 million. This portfolio review reveals that the performance of on-going projects is rated satisfactory with an average rating of 2.0. The overall picture emerging from the above analysis is that Bank Group-financed projects in the infrastructure sector tend to perform better than projects in the agricultural and social sectors.

Comparing the Bank's overall portfolio and the Mozambique portfolio, one can conclude that the later has performing better. The average age of the Mozambique Project Portfolio at December 2005 was 3.9 years, which was bellow the average of 4.2 years for the Bank. This indicator is further reinforced by the 2004 CPIA rating that placed Mozambique on the first quintile of the Portfolio Performance Rating sub-section.

By analysing the Mozambique portfolio throughout time, one can identify a clear positive trend. Comparing the portfolio performance during the last CPR, in 1999, with the present CPR, in terms on disbursement rates, average age and overall performance, it can be concluded that although with variations across sectors the overall results in 2005 are significantly better than those verified in 1999. The APPR evaluations also confirmed this result. The 2004 APPR identified only five problematic (PP) or potentially problematic projects (PPP) while the 2002-03 APPR identified ten PP or PPP.

Finally, in terms of external comparisons with similar institutions, the conclusions are less encouraging. Running relatively similar projects, the WB manages to implement its projects in a shorter period of time thus resulting on a higher average disbursement rate. In terms of project size, the WB projects are on average 2.5 times bigger than those of the ADB.

### **III. PROBLEMS AND ACTIONS NEEDED TO IMPROVE PORTFOLIO PERFORMANCE**

The Bank Group and GoM's implementation management capacity has improved (see Chapter 3) since the last review, however there are still numerous problems that are hampering project implementation, namely: (i) delays in fulfilling conditions for loan effectiveness; (ii) absence of suitable review mechanisms of documents submitted to the Bank; (iii) inadequate accounting procedures; (iv) communication from GoM officials in the official languages of the Bank; (v) delays to resolving audit issues; (vi) slow procurement processes; (vii) slow disbursement of Government's counterpart funding; (viii) poor communication within Government and PIUs, and between them and the Bank Group; and (ix) frequent changes on initial project design and project's task manager.

These problems are detailed in Chapter 6 together with a detailed action plan to overcome them. In general, to improve the performance of the portfolio, the following key efforts need to be made: (i) reinforce mechanism for reviewing procurement and payment documents; (ii) reduce delays in fulfilment of grant conditions to make grants effective; (iii) enforce timely release of counterpart funds; (iv) enforce timely transmission to the Bank of quarterly internal review, financial bids evaluation, and audit reports; (v) strengthen PIU's capacity and human resources allocated to contracts analysis and clearance at the MF and BoM; (vi) improve communications; (vii) streamline loan conditions; (viii) organize more often training session in procurement and financial management; (ix) ensure a minimum task managers turnover rate; (x) increase number of Bank staff fluent in Portuguese; and (xi) clean up more systematically the portfolio.

This CPR also holds a number of lessons for future country programming and portfolio management, namely on: ideal project size, need for selectivity and to challenge current project design, donor cooperation, harmonization and coordination, role of local office and implications of the new results based approach.

### **IV. CONCLUSION AND RECOMMENDATIONS**

This portfolio review exercise has shown that the performance of the Bank Group Portfolio in Mozambique is generally satisfactory. However, there remain some recurrent problems relating mainly to the continued weak capacity of PIUs, central and local government. A number of recommendations for Government and the Bank Group are made on Chapter 7.

## **I. INTRODUCTION**

### **1.1 Objectives and Structure of the Report**

The objective of this Country Portfolio Review Report (CPR) is to assess the performance of the on-going portfolio of Bank Group-financed projects in Mozambique, with regard to implementation progress and achievement of development objectives. This portfolio review of Bank Group operations is based on the outcome of several sector portfolio review missions fielded by the Bank in the country in 2005 (Social, Agriculture & Infrastructure Sectors), the Internal Audit Report on project Execution Activities in 2005, recent PCRs, the Course on Project Implementation that gathered all the PIUs and the Country Portfolio Review mission held in September 2005.

It informs the Boards of Directors about the progress made at the portfolio level since the last review in December 1999 as well as the constraints on the implementation of ongoing Bank operations. The report also makes recommendations to the Government (GoM) and to the Bank to improve the quality of the portfolio.

### **1.2 Recent Economic and Social Developments**

**1.2.1 Growth:** From 1996 to 2004, Mozambique experienced an astonishing average growth of 8% based on four pillars: (i) GoM stabilization and structural reforms, (ii) extensive donor support (one of the highest Aid/GDP ratios in Africa), (iii) consistent growth in agriculture, construction and tourism, and (iv) foreign investment mainly related to mega projects (representing 7% of GDP) in aluminium smelting, natural gas and mining. In 2004, the growth remained broad based with agriculture (which accounts for 24% of GDP) growing by 8.9%, transport by 16.4%, while the value added of mega-projects rose by 15.4%. Although poorer than neighbouring countries, Mozambique has achieved record growth rates within the region. Growth has been broad based across income levels (Gini index of 0.38 is one of the lowest in the region) and consequently, the proportion of the population living below the poverty line dropped significantly from 69% in 1996 to 54% in 2003.

**1.2.2** The fiscal deficit (including grants) for 2005 is estimated at 5.6%, just under the 6% target. Nevertheless, additional efforts to mobilise tax revenues are necessary in order to reduce dependence on foreign aid. Gross national savings averaged 15% of GDP between 2002 and 2005, while the average annual gross investment rate was 25% of GDP, with the gap being financed by foreign savings including grants. Inflation increased to 14% in 2005 mainly due to the oil prices increase. In the last two years, mega-project-led exports contributed to the decrease in the trade deficit and, combined with higher-than-projected donor support and private capital inflows, boosted reserve accumulation to an equivalent of 5.8 months of imports. With the introduction of the foreign exchange auction system in January 2005<sup>1</sup>, the exchange rate presented significant fluctuations, leading to an increase of foreign exchange sales of USD 160 million by monetary authorities in order to reduce volatility during the first quarter of 2005 and thus leading to depreciation of Metical.

**1.2.3** 20% of Mozambican imports are oil related. For 2006, high oil prices will affect the balance of payments, exchange and inflation rates. According to a GoM study: i) import costs may rise by USD 150 million (2.3% of 2006 estimated GDP); ii) the Metical may suffer a real

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<sup>1</sup> The exchange system in Mozambique is a managed float. Foreign exchange can be bought or sold by the BoM, which sets a daily rate, to customers in a perfectly negotiable basis. Restrictions on payments and transfers for current account transactions have been eliminated.

<sup>2</sup> Impacto do Aumento do Preço do Petróleo na Economia Mocambicana, September 2005.

depreciation of 9-10%; iii) inflation may increase by 6%; and consequently iv) domestic price of fuel may fluctuate by 15 to 40%, comparing to the price level in June 2005.

**1.2.4 Debt:** The efforts under HIPC initiative are essential to maintain the country's debt sustainability. Mozambique reached the Decision Point in April 1998, when declared eligible for debt relief under HIPC. The country reached its Completion Point under the original HIPC and enhanced HIPC in June 1999 and September 2001, respectively, and in November 2001 the GoM signed the agreement with Paris Club creditors under the HIPC framework. As a consequence of reaching the Completion Point, the country received a total debt relief of US\$ 4.3 billion in nominal terms equivalent to US\$ 2.0 in NPV. Mozambique's external debt remains high but has been reduced to sustainable levels. According to the IMF debt sustainability analysis (DSA), assuming full enhanced HIPC Initiative debt relief, continued fiscal prudence and strong growth, public and publicly guaranteed (PPG) debt will decrease from 72% of GDP, in 2004, to 29%, in 2025. Mozambique's external and public debt situations are sustainable and would remain so in the future.

**Table 1: Macro Indicators**

Main Macroeconomic Indicators	2003	2004	2005 E	2006 P
Real GDP Growth	7.8	7.2	7.7	7.4
Consumer Price Index (annual average)	13.8	9.1	14.0	8.0
Real Effective Exchange Rate (% change)	-2.7	24.8	-5.0	-
Foreign Reserves (in months of imports)	5.4	5.8	4.7	4.4
Fiscal Deficit before grants (% GDP)	-14.0	-11.7	-12.4	-10.2
Domestic Revenue (% GDP)	12.9	12.3	13.2	14.0
External Current Account (incl. Grants) (% GDP)	-9.2	-5.8	-7.1	-6.8
NPV of total public external debt (% exp)	102.0	83.8	83.6	89.5
Ext. debt service after enhanced HIPC (% exp)	6.1	4.5	5.1	5.3

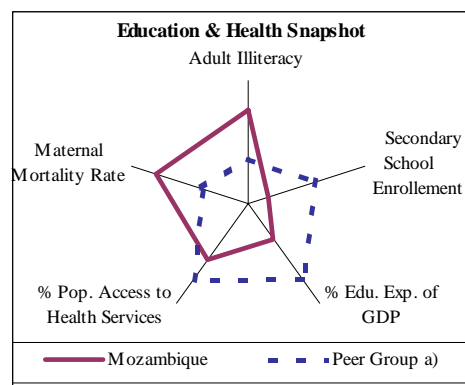
Source: IMF

Note: IMF projections do not include effects highlighted under chapter 1.4

**1.2.5 Social Indicators:** Despite its recent solid economic performance, Mozambique remains one of the poorest countries in the world, ranked by the UNDP in the 2005 Human Development Report as 168 out of 177 in terms of the Human Development Index (HDI). Although many social indicators have significantly improved, Mozambique did not progress at a pace fast enough to reach the MDGs targets.

Infant mortality remains relatively high, with 118 per 1,000 ratio in 2004. Total youth literacy increased from 49%, in 1990, to 63%, in 2003 and gross enrolment rates for primary schooling increased from 60%, in 1995, to 99%, in 2001. Access to clean water increased from 24% to 42% of population in the last 10 years. According to last budget review, spending in priority sectors was acceptable and reached 63.3% of total expenditure, of which 50.4% on education and health. HIV/AIDS, which affects 12% of adult population, remains one of the biggest challenges facing the country.

**Graph 1: Social Indicators Peer Comparison**



a) Includes Tanzania, Lesotho, Madagascar, Malawi, Botswana, Zambia and RSA

Source: ADB Selected Statistics

### 1.3 Size and Composition of Portfolio

1.3.1 The Bank Group has, since the commencement of operations in Mozambique in 1977, approved fifty two (52) projects, six (6) policy-based programs and eleven (11) studies. Total commitments stand at UA 911.2 million of which UA 779.7 million were from ADF resources, UA 124.6 million from ADB resources and UA 6.9 million from NTF resources. The agricultural sector has received the largest share of financing (31%), followed by policy-based programs (24%), public utilities (18%), transport sector (14%), social sector (8%) and industry (5%). Additionally, through its private sector window, the Bank has approved two projects, namely the MOMA Titanium Minerals Project, approved in May 2003, for an amount of UA 30.7 million, and the SASOL Gas Pipeline Project, approved in October 2003, for an amount of UA 52.1 million. The following tables summarize the Bank group operations divided per financing window, loan instrument, implementation level and support per sector.

**Table 2: Summary of All Operations as at 31/12/05**  
(UA million)

Source	Amount Approved	Cumulative Disbursements	Cancellations	% Disbursed
ADB	124.6	80.1	18.7	76%
ADF Loan	734.8	527.2	38.4	76%
ADF Grant	44.9	28.7	2.1	67%
NTF	6.9	6.7	0.2	100%
<b>TOTAL</b>	<b>911.2</b>	<b>642.7</b>	<b>59.5</b>	<b>75%</b>

**Table 3: Distribution of Commitments by Sector**  
(UA million)

Sector	Number of Operations	Amount Approved	Breakdown per Sector	Cumulative Disbursements	% Disbursed
Rural Development	23	284.0	31%	177.3	71%
Finance & Industry	7	43.4	5%	31.9	76%
Public Utilities	15	160.9	18%	84.6	54%
Transport	8	129.7	14%	97.6	84%
Social	9	70.4	8%	35.9	55%
Multi-Sector	7	222.8	24%	215.3	98%
<b>Total</b>	<b>69</b>	<b>911.2</b>	<b>100%</b>	<b>642.7</b>	<b>75%</b>

1.3.2 In terms of the size of the portfolio within the Bank, Mozambique is the fifth most supported country with 4.8% of the Bank's (ADF) total portfolio. The support per capita and recent disbursements indicators reinforce Mozambique as one of the most important countries to the Bank.

**Table 4: Mozambique within the Bank's Portfolio**  
(UA million)

Mozambique Within ADF	Amount (UA)	Ranking	% of the Bank's total
Total Support (1967-2003)	911 million	5 <sup>th</sup>	4.8%
Support per Capita	47	8 <sup>th a)</sup> and 3 <sup>rd b)</sup>	n.a.
Disbursements in 2004	60 million	3 <sup>rd</sup>	4.6%

a) Considering countries with Pop. > 2M

b) Considering countries with Pop. > 10M

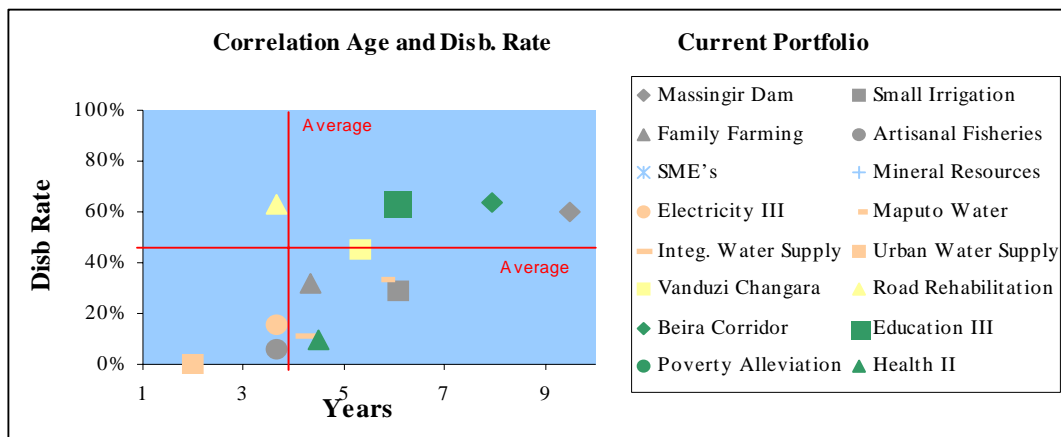
1.3.3 Of the 69 approved operations, twenty two (22) are at present on going with a total commitment of UA 319 million, and a disbursement rate of 37%. Agriculture (36%) and public utilities (25%) are the most active sectors and together are responsible for a total commitment of UA 193 million.

**Table 5: Bank Ongoing Operations**  
(UA million)

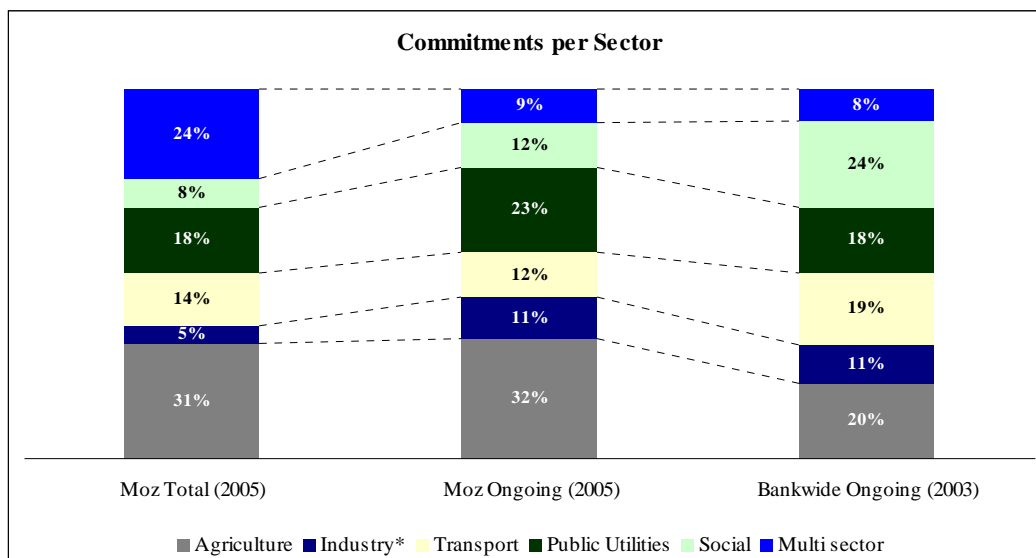
Sector	Number of Operations	Amount Approved	Breakdown per Sector	Cumulative Disbursements	% Disbursed
Rural Development	5	113.4	36%	42.3	37%
Finance & Industry	4	39.3	12%	29.5	75%
Public Utilities	5	79.9	25%	10.0	13%
Transport	2	42.6	13%	23.7	56%
Social	5	42.0	13%	12.9	31%
Multi-Sector	1	2.1	1%	-	0%
<b>Total</b>	<b>22</b>	<b>319.3</b>	<b>100%</b>	<b>118.3</b>	<b>37%</b>

1.3.4 The average age of the Mozambique Project Portfolio at December 2005 was 3.9 years, which was below the average of 4.2 years for the Bank. The next graph depicts the on going portfolio by projects in terms of age and disbursement rate. There are two “Star” projects: the Support to SME’s and the Road Rehabilitation project that although younger than the average have higher disbursement rates. Most projects are distributed in quadrants one and four. Younger projects have naturally disbursement rates lower than the average of the portfolio and older projects have higher disbursement rates.

**Graph 2: Projects Ranked per Age and Disbursement Rate**



1.3.5 In terms of sector distribution of the portfolio and comparing once more with the Bank’s total portfolio, apart from Agriculture, that has 12% more than the Bank’s average, Mozambique’s is broadly in line with the Bank’s portfolio. By comparing the total and on going portfolio sector breakdown in Mozambique, one can conclude that the Bank, in the last years, has been focusing mainly on infrastructures and social sector.

**Graph 3: Sector Distribution**

\* Mozambique bars include Moma Mineral Sands Project, a private sector operation.

## II. REVIEW OF ONGOING OPERATIONS

### 2.1 Rural Development Sector

The Bank Group has, approved twenty-three operations in the agricultural and rural sector, since the commencement of its operations in 1977, having received the largest share of financing (31%). Total commitments stand at UA 284 million and cumulative disbursement is UA 177 million. The average size of the on going agriculture projects is UA 24 million.

Currently, there are five ongoing operations but one is still not effective. The following table summarizes the amount, age and disbursement rate of the revised agriculture projects.

**Table 6: Rural Development Ongoing Operations**

Projects	Amount Approved (UA Million)	Age (Years)	Disbursement Rate
Massingir Dam and Smallholder Agri. Rehab.	55.0	9.4	60%
Small Scale Irrigation Project	13.6	6.0	29%
Family Farming Income Enhancement Project	13.5	4.3	32%
Artisanal Fisheries Development Project	15.9	3.6	6%
<b>Total Rural Development Sector</b>	<b>98.0</b>	<b>5.8</b>	<b>43%</b>

The cumulative commitments on the ongoing operations stand at UA 98 million and the cumulative disbursement at UA 42 million (43%).

## **A. Massingir Dam and Smallholder Agriculture Rehabilitation**

### **A.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> Loan: 55 000 000	Disbursements: 33 080 000 Rate of Disbursement: 60%	Balance: 21 920 000
Approval Date: 24/11/1993	Date of Signature: 04/02/1994	Date of Effectiveness: 30/05/1996
Deadline for Last Disbursement: 31/12/2005	Executing Agency: National Directorate of Water (DNA) ARASUL	
Status of Audit: The external auditors report for 2004 financial statements has been received on 20 June 2005.	Date of Last Supervision Mission: July 2004	
<u>Objectives, Description and Components:</u> The project will improve the efficiency of the Massingir dam and enhance smallholder productivity in the production of food crops. The main components are: (A) Rehabilitation of the Massingir Dam; (B) Rehabilitation of the Irrigation Infrastructure at Xai Xai; and (C) Establishment of infrastructure such as roads and agricultural services buildings. The main outputs of the project will be: i) a rehabilitated Massingir Dam, ii) Rehabilitated Irrigation and Drainage Infrastructure in Xai-Xai, iii) Rehabilitated offices, workshops and staff housing including potable water supply, iv) Establishment of a demonstration farm in Xai-Xai area and v) Establishment of a credit association owned and operated by farmers.		

### **A.2 Compliance with Conditions Precedent/Commitments**

The project experienced delays in fulfilling the conditions prior to entry into force but its performance has improved in the last years.

### **A.3 Procurement Performance**

All the major procurement of goods, services and works required for the execution of the project have been acquired in accordance with the relevant Bank rules and procedures. However there were some delays in recruiting the TA services to replace the initial firm, which was ended due to allegations of fraudulent acts.

### **A.4 Financial Performance**

There were substantial delays in the allocation and release of GoM counterpart funds to the project and the PIMU has been unable to pay the VAT portion of the contracts. The financial performance of the GoM is therefore rated unsatisfactory.

### **A.5 Project Activities and Outputs**

The project has accumulated 9 years' delay due to initial arrears experienced during the procurement of the TA. Physical implementation is now in progress. The rehabilitation of houses and social amenities at Massingir has been completed. Furthermore, the main civil and hydro mechanical works for the dam rehabilitation were launched in April 2004 and are progressing satisfactorily. The contract for the rehabilitation of drainage and irrigation infrastructure at Xai-Xai has been approved.

### **A.6 Impact on Development**

Given the severe damage to the irrigation infrastructure due to 2000 floods, the project may fail to reach the desired irrigation area. This might slightly reduce its impact on development. Nonetheless the potential impact after completion is still rated satisfactory.

## A.7 Overall Performance Assessment

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.0	2.0	1.7	2.0	2.0	1.7

## A.8 Problems and Recommended Actions

Problems	Recommended Actions	Schedule
1. Untimely payment of Value Added Tax – there is the risk that contractors would leave site for breach of contract by the client.	1. Timely payment of Value Added Tax on works, goods, and services procured by the project is critical.	1. On-going
2. Regular and timely payment of Government Contribution the project	2. Government should be reminded more often that its expected contribution to the project is 10%.	2. On-going
3. Outsource management of inputs for the Casas Agrarias beginning 2006 crop season.	3. PIMU to commence consultations immediately.	3. 2005/2006 crop season
4. Supplementary loan for construction of auxiliary spillway and rehabilitation of irrigation infrastructure at Xai-Xai irrigation scheme.	4. Raise disbursements on the current loan to at least as shown in the disbursement schedule presented to the mission.	4. 2006

## B. Small Scale Irrigation Project

### B.1 Basic Administrative and Financial Data (UA)

<b>Amount:</b> Loan: 12 430 000 Grant: 1 210 000	<b>Disbursements:</b> Loan: 3 094 720 (24.90%) Grant: 469 935 (38.84%)	<b>Balance:</b> Loan: 9 335 280 (75.10%) Grant: 740 064 (61.16%)
Approval Date: 02/12/1998	Date of Signature: 05/03/1999	Date of Effectiveness: 29/10/1999
Deadline for Last Disbursement: 30/03/2006		Executing Agency: Ministry of Agriculture
Audit: Year ending Dec. 2004 submitted		Date of Last Supervision Mission: April 2005
<b>Objectives, Description and Components:</b> The objective of the project is to improve agricultural production and productivity by smallholders in three provinces through: a) expansion of the small-scale irrigation areas; b) increase efficiency of crop production; c) empowerment of farmers, including women; and d) improved institutional capacity and service delivery. The main components are: (i) Irrigation Development (establishment of 652 irrigation schemes covering 2,477 ha); (ii) Agricultural Technology Transfer; (iii) Direct Support to Farmers; (iv) Management Operations; and (v) Institutional Capacity Building.		

## **B.2 Compliance with Conditions Precedent/Commitments**

The effectiveness of the loan and the grant, amounting to UA 12.4 million and UA 1.2 million respectively, were declared in October 2000, with an eighteen-month delay. Progress and audit reports have been transmitted regularly to the Bank. The mid-term review of the project has been conducted. The payment of the Government's counterpart funds and taxes on works, goods and services procured under the project has not been on schedule.

## **B.3 Procurement Performance**

The Bank's procedures for the procurement of goods, services and works have been followed. A total of 48 (forty eight) contracts have, so far, been awarded and those completed have been performed without major problems. The planned services were provided to the satisfaction of the Bank. A firm was recruited to audit the accounts for the years 2002, 2003 and 2004. A new tender has been launched for the next three years.

## **B.4 Financial Performance**

Availability of foreign exchange and of local currency is not posing any problems. There were delays in the allocation and release of GoM counterpart funds to the project.

## **B.5 Project Activities and Outputs**

The project started at the beginning of 2002, after a long preparation period (1997 – 2001). Year 2002 was mainly devoted to the establishment of the internal project structure, while in 2003 the project started with Irrigation Development (Component A). Identification of potential irrigation schemes started in May 2002 in all three provinces involved in the project.

The project has so far examined a total of 1,760 ha (31 Schemes) for possible development into full schemes. Out of 31 schemes it was decided not to proceed with the development of 10 (524 ha), due to their unsuitability. The remaining 1,236 ha are at different stages of development: (i) 4 Schemes (350 ha) are in the Identification/Feasibility Phase; (ii) 1 Scheme (95 ha) is in the Survey Phase; (iii) 3 Schemes (307 ha) are in the Design Phase; (iv) 5 Schemes (159 ha) are in the Procurement Phase; (v) 5 Schemes (278 ha) are in the Construction Phase; and (vi) 3 Schemes (47 ha) have been completed.

Activities on Agricultural Technology Transfer (Component B) have been delayed by almost two years due to the time taken to approve the Special Service Agreement between INIA and National Directorate of Hydraulic Agriculture (DNHA) by the MF. It was finally approved in 2004 and its implementation started in 2005. During 2003 and 2004, the initiation of the Direct Support to Farmers (Component C) was prepared, by selecting the Local Partner for establishing and strengthening Farmers' Associations. The Local Partner activities started in August 2004. The project management operations (Component D) have been proceeding smoothly. The management team has been carrying out all the necessary routine activities. Under Institutional Strengthening (Component E), the internationally recruited technical assistance team has been in place since January 2003 and has carried out its assistance to capacity building initiatives. The DNHA staff training and acquisition of equipment have been on going. The envisaged credit study has been completed.

## **B.6 Impact on Development**

Due to the increase in the costs of scheme development against those envisaged at appraisal, only an area of around 1,236 ha (instead of 2,477 ha) might be constructed within the available budget. Furthermore, with the existing capacity in the project (PCU & PIUs) and in view of the time required for scheme development (2.5 – 3.0 years), it is not likely that the target of 1,236 ha

can be achieved within the schedule established (March 2006). It has been recommended to postpone the project's Last Disbursement Date by at least an additional 2-year period to enable it to meet the reduced target of 1,236 ha. This will have a negative impact on the number of potential beneficiaries and the overall expected output of the project. However, since this is the first major small-scale irrigation project undertaken since the end of the country's civil war, the lessons learned from it will enable the country to better design future projects.

### **B.7 Overall Performance Assessment**

The project has suffered both from a delay in project start up and from cost increases which can be attributed to an underestimation of the cost of irrigation development at appraisal and, as such, the envisaged target can not be reached. However, efforts are being made to optimize the resources available.

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.3	2.0	2.2	1.8	1.7	1.9

### **B.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Legalisation of Farmer Associations and access to title deeds for land earmarked for irrigation development – implications on credit component.	1. PMU to follow up.	1. On-going
2. Timely payment of Value Added Tax on works, goods, and services procured by the project is affecting the timely delivery of inputs to the project.	2. PMU to discuss with the government.	2. On-going
3. Timely payment of Government Contribution the project.	3. Government is reminded that its expected contribution to the project is 10%. However it has so far contributed only with 6% of the total expenditure. This must be corrected to ensure smooth implementation of project activities.	3. On-going
4. Revision of the Work Programme and Budget of the project.	4. To ensure that the schemes are fully completed, within the two-year extension granted to the project, the work programme and budget must be revised.	4. End January 2006
5. Submission of proposal for the utilization of the 3 MSc Irrigation Fellowships.	5. It is imperative that the proposal be submitted without any further delay to ensure the fellowships can be administered within the project's life.	5. End December 2005

## **C. Family Farming Income Enhancement Project**

### **C.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> Loan: 12 460 000 Grant: 1 000 000	<u>Disbursements:</u> Loan: 3 612 578 (28.99%) Grant: 413 373 (41.34%)	<u>Balance:</u> Loan: 8 847 422 (71.10%) Grant: 586 627 (58.66%)
Approval Date: 13/10/2000	Date of Signature: 14/12/2000	Date of Effectiveness: 27/07/2001
Deadline for Last Disbursement: 31/12/2007	Executing Agency: Ministry of Agriculture	
Audit: Year ending Dec. 2004 submitted	Date of Last Supervision Mission: Dec 2004	
<u>Objectives, Description and Components:</u> The project's specific objectives are (i) to promote household food security, and (ii) to raise household incomes, and the welfare of the poor rural population in the Districts of Maputo, Matola Gare, Namaacha, Moamba, Marracuene and Manhica.  The activities of the project involve (i) provision of required facilities for the UGC (for feed production and supply, production of broiler day old chicks, storage, processing marketing of the produce from the project, disease diagnosis and treatment of the chicks, and production of planting materials for vegetable and tree crops for the target group); (ii) provision of credit to the family sector for poultry and crop production; (iii) construction of social facilities for the beneficiaries; and (iv) institutional strengthening and project coordination.		

### **C.2 Compliance with Conditions Precedent/Commitments**

After the signature of the loan and the grant agreement in December 2000, a loan and a grant amount of UA 12.46 million and UA 1.00 million, respectively, were declared effective in July 2001 (there was a six months delay in meeting the conditions of effectiveness). Progress and audit reports have been transmitted regularly to the Bank.

### **C.3 Procurement Performance**

On the whole, the procedures for the procurement of goods, services and works are being followed. A total of 20 (twenty) contracts have been awarded and performed (or are being performed) without major problems. The audit reports on fiscal years 2002, 2003, and 2004 accounts have been prepared and submitted.

### **C.4 Financial Performance**

Availability of foreign exchange and of local currency does not pose problems. The UGC is properly respecting its obligations of providing counterpart funds and the payment of taxes and duties on works, goods and services procured under the project. However, in recent months, it has been facing some difficulties in meeting these tax obligations and has started discussions with the GoM on the possibilities of tax exemptions.

### **C.5 Project Activities and Outputs**

Although, in its first two years, the project was concentrated on procuring some of the capital items for its operations, such as the construction and installation of the feed mill, it has also been involved in its envisaged productive activities such as the supply of day old chicks, poultry feed, drugs and vaccines, as well as the marketing of broilers produced by the beneficiaries. So far a total of 293,543 day old chicks have been distributed and 268,718 broilers sold by the Project.

## C.6 Impact on Development

The project targets mainly poor women within the Maputo region. The contribution to the household incomes and food security has been significant. The project has built its own sustainability mechanism in that all the production is sold at on-going market prices. Therefore, there is a strong probability that the project will attain its objectives in terms of development and will continue to generate benefits beyond the investment phase.

## C.7 Overall Performance Assessment

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	3.0	2.0	2.0	2.0	2.0	2.25

## C.8 Problems and Recommended Actions

Problems	Recommended Actions	Schedule
1. Payment of Value Added Tax on works, goods, and services procured by the project.	1. PMU must work with the GoM to address this issue. PMU is discussing with the GoM the possibility of some tax exemption for the construction and also to equip the breeder farm.	1. Must be concluded before the commencement of the works in 2006
2. Submission of draft tender documents for the expansion of the breeder farm.	2. Draft tender documents to be submitted to the Bank.	2. End 2005
3. Need to determine amount of funds to be deposited into the revolving fund and the related timeline.	3. Remaining balance of MZM 4.45 billion to be deposited into the revolving fund account, through 6 monthly instalments of MZM 741,865,080, starting Oct. 2005.	3. Monthly payments to start in Oct. 2005

## D. Artisanal Fisheries Development Project

### D.1 Basic Administrative and Financial Data (UA)

<u>Amount:</u> Loan: 14 170 000 Grant: 1 730 000	Disbursements: Loan: 713 278 (8.44%) Grant: 175 192 (10.33%)	Balance: Loan: 13 456 722 Grant: 1 730 000
Approval Date: 14/11/2001	Date of Signature: 20/12/2001	Date of Effectiveness: 04/04/2002
Deadline for Last Disbursement: Loan – 31 /12/2008 Grant – 31 /12/ 2006 Audit: 1 <sup>st</sup> report to be submitted in September 2005 Audit report submitted in November 05	Executing Agency: Ministry of Fisheries, Institute for Small Scale Fisheries Development  Date of Last Supervision Mission: September 05	

**Objectives, Description and Components:**

The project goal is to increase incomes of fishers' and their communities, fish traders and input suppliers thereby contribute to reduction of poverty, enhance food security and marine environment conservation and protection. The direct project objective is to increase fish production by supporting artisanal fishers in the project area by enabling them to catch process and market fish more efficiently.

The project has three components: (i) Provision of credit to boost fish production and promote fish marketing; (ii) Provision of community infrastructure; and (iii) Strengthening of institutional capacity.

**D.2 Compliance with Conditions Precedent/Commitments**

The loan and the grant were approved on 14 November 2001 and signed on 20 December 2001, which became effective in April 2002. The conditions precedents to the first disbursement were fulfilled in June 2003 (i.e. 17 months after project approval) and the project benefited from its first disbursement on 10 October 2003 (i.e. three months after project fulfilment of disbursement conditions). The main cause of the delay in fulfilling the conditions was the weak institutional capacity of the executing agency.

**D.3 Procurement Performance**

The project start-up has been slow because of the considerably delay on procurement of services and works, due to the executing agency's lack of familiarity with the procurement rules and procedures of the Bank. To address this constraint, the Bank made arrangements for three key PIU staff to participate in the Bank organized Swaziland National Workshop on Project Implementation, from 20 June to 01 July 2005.

So far, the project has procured short term consulting services in the development of procedures for implementation of the credit component and also the audit firm for auditing project accounts. The performance is unsatisfactory but expected to improve rapidly with the experience gained by PIU staff from the training on project implementation (with a strong focus on procurement aspects) and with the opening of ADB office in Maputo in August 2005.

**D.4 Financial Performance**

Availability of foreign exchange and of local currency is not posing any problems. The first disbursement of the rotating fund on the loan was effected on 10 October 2003 on the basis of a work-plan and budget estimate. The second disbursement was on 04 May 2005. Disbursement on the credit is not yet effective, as there was a need to undertake a two months study for development of modalities on implementation of the credit. The performance is unsatisfactory but expected to improve rapidly as explained above under D.3.

**D.5 Project Activities and Outputs**

The project has laid down the necessary institutions for physical project implementation in terms of institutional capacity building. The average physical implementation is about 5%. The expected key project outputs for each of the three components are: (i) provision of credit fishing and fish marketing; (ii) provision of infrastructure to fishing communities: (ii a) to provide potable water supply (rehabilitation of 20 wells and construction of 40 new wells), (ii b) to provide 220 km of access roads from fish landing sites to feeder roads, (ii c) to provide improvement of 15 fish landing sites, and (ii d) to provide funds for building two fish markets; and (iii) strengthening institutional capacity. The implementation of this component has advanced and noticeable outputs accomplished: 68 front-line extension staff trained and 40 community associations formed. However, recruitment of international consultants that should give a further boost to the implementation of the project (such as a marine biologist and environmentalist as well as a fishery technologist) is still due. Performance is rated satisfactory.

## **D.6 Impact on Development**

The early results obtained in capacity building component have helped the establishment of community associations that are the key institutions for the delivery of the credit and the project in general. The extension staff in conjunction with communities has also identified locations for installation and rehabilitation of water pumps. The project is empowering the beneficiaries to take charge of their own development through training and instilling the culture of saving money through their various group associations. The project is targeting to use the credit as a means for assisting the groups or individuals in setting up fishery enterprises in the project area and fish marketing out-lets. This is seen as important since development per se, does not emerge from projects nor support, but from sustainable income generating enterprises and conservation of natural resources.

## **D.7 Overall Performance Assessment**

The project encountered delays in starting implementation, mainly due to delays in fulfilling the conditions precedent to first disbursement. Furthermore, beginning of activities has been slow due to project management staff lack of familiarity with the procurement rules and procedures of the Bank. However, with the necessary institutions that have been put in place, on-going empowerment of communities and training in procurement and disbursement undertaken by project staff, physical project implementation and recruitment of TA staff would be accelerated. Current performance is unsatisfactory though.

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.8	1.5	1.5	2.0	2.5	1.9

## **D.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Procurement of training services for community mobilization and rural entrepreneurship.	1. Submit request for no objection with estimated budgets to the Bank.	1. On going
2. Problems with the accounting system – financial data not updated. - Project is still learning functionality of accounting system.	2. Fix the problems with the FIMPRO system, and update the financial data - project to assess if they need additional training in FIMPRO and/or a short consultancy to design customized reports	2. On going

## **2.2 Finance & Industrial Sector**

The Bank Group's intervention in the finance and industrial sector in Mozambique has been modest. One of the reasons that justify this is the fact that previously Mozambique had a centrally planned economic system, which provided little opportunities for interventions in the finance and industrial sectors.

Total Bank approvals in the sector since inception were UA 16.50 million for four operations, three of which are institutional support projects. One of the projects has been completed, two are

ongoing, and one is about to commence implementation. The two on going operations are being relatively well implemented. The Bank's current strategy in the sector is focused on improving sector performance and strengthening sector institutions, with the ultimate objective of attracting private investments. This explains why most of the operations in the sector were capacity building/institutional support operations. The following table summarizes the amount, age and disbursement rate of the ongoing finance & industrial projects:

**Table 7: Finance & Industry Ongoing Operations**  
(UA million)

Projects	Amount Approved (UA Million)	Age (Years)	Disbursement Rate
Support to SME's Development	3.5	2.6	81%
Mineral Resources Manag. Capacity Building	3.3	3.7	27%
<b>Total Finance &amp; Industry Sector</b>	<b>6.8</b>	<b>3.1</b>	<b>55%</b>

The cumulative commitments on the ongoing operations stand at UA 7 million and the cumulative disbursement at UA 4 million (55%). The average size of the on going finance & industrial sector projects is UA 3 million.

## **E. Support to SME's Development**

### **E.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> ADF: 3 500 000	Disbursements: 2 840 000 Rate of Disbursement: 81.3 %	Balance: 660 000
Approval Date: 16/01/2002	Date of Signature: 23/05/2002	Date of Effectiveness: 07/05/2003
Deadline for Last Disbursement: 30/06/2007 Audit: 31/12/2003	Executing Agency: Ministry of Industry and Commerce (MIC) Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u> The main objective of the Line of Credit (LOC) is to support the development of small and medium-sized enterprises (SMEs) in Mozambique by enhancing their access to medium and long-term finance, thereby contributing to the creation of a modern and competitive industrial sector. The LOC provided medium to long-term local currency funding to two institutions engaged in the financing of SMEs in Mozambique (the Small Industries Development Fund - FFPI, and the Small Investments Promotion Company – GAPI) for on lending to eligible small and medium enterprises in the country.		

### **E.2 Compliance with Conditions Precedent/Commitments**

There was a 12-month delay in fulfilling the conditions precedent to the effectiveness of the LOC, with the line becoming effective only in May 2003, after signature in May 2002. Its implementation has progressed satisfactorily, with over 80% of the resources now disbursed.

### **E.3 Procurement Performance**

Procurement performance of the LOC was satisfactory.

### **E.4 Financial Performance**

Financial performance has also been satisfactory. The availability of foreign exchange resources through the project funds is adequate, while local currency resources are also made available as required. The disbursement flow is satisfactory.

### **E.5 Project Activities and Outputs**

The LOC has compensated the delay with its effectiveness. The observance of the implementation schedule is satisfactory, as the project shall be fully implemented within its original timeframe.

### **E.6 Impact on Development**

Despite the small amount of the LOC, its development effectiveness has been significant. Actually the resources of the LOC are actually reaching the small and medium enterprises.

#### **Box 1: A Note on the Impact of the Support to SME's Development Project**

This project has been relatively successful addressing the some institutional limitations of the financial sector. The project made medium to long-term financing available to SMEs through GAPI and FFPI, thus contributing significantly to the development of 250 small and medium-sized enterprises (SMEs) that had access to term finance. The outputs of this project can be summarized as follow: medium to long-term loans were provided to small and medium-scale. The project has financed a total of 52 subprojects, with an average project size of USD 29,000, through GAPI and has financed a total of 75 subprojects, through FFPI, with an average project size of USD 9,500. Furthermore, the use of the resources has been fairly spread across the country, with projects financed in almost all the provinces, in such sectors as agro-business, rural commerce, building materials, food processing and transport services. It is estimated that up to 2,000 jobs have been created and/or sustained by the LOC.

Additionally the project serves to significantly increase the number of participants in Mozambique's growth process, thereby making the country's recent economic achievements more meaningful to the vast majority of its population. By supporting the development of SMEs, the project ensures that economic growth is more broad-based, and a helps to integrate larger foreign investment projects that had changed the Mozambican economy. Furthermore the project assists the development of the local economies in the areas where the benefiting enterprises are located. It assists in preserving existing jobs in the industrial sector, while engendering the creation of new ones. SMEs also have the ability to take advantage of small raw material supply sources, such as in agriculture, which might otherwise not have a market outlet. Thus, by supporting the growth and development of SMEs, the project contributes to the development of rural industries, thereby assisting poverty alleviation among the rural poor.

Besides the success of the project design, there were other reasons for successful implementation, like the stability of the entire management staff and its speedy grasp of the Bank Group's procurement and disbursement methods.

### **E.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.3	3.0	2.7	2.3	2.2	2.5

## **E.8 Problems and Recommended Actions**

<b>Problems</b>	<b>Recommended Actions</b>	<b>Schedule</b>
1. Good performance in danger of being undermined due to the institutional problems of one of the project implementing agencies, FFPI.	1. The GoM is in the process of developing a new strategy of SME support in the country. The new strategy will address the future direction of FFPI. The Bank is considering providing assistance to the Government for the development of the new strategy. Meanwhile, the implementation of the LOC would continue with the other implementing agency, GAPI.	1. The new SME development strategy is expected to be finalized during 2006.

## **F. Mineral Resources Management Capacity Building Project (MRMCBP)**

### **F.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> ADF: 3 290 000	Disbursements: 879 000 Rate of Disbursement: 27 %	Balance: 2 411 000
Approval Date: 03/09/2001	Date of Signature: 06/11/2001	Date of Effectiveness: 22/03/2002
Deadline for Last Disbursement: 31/12/2007 Audit: 31/12/2004	Executing Agency: Ministry of Mineral Resources (MIREM) Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u> The overall objective of the MRMCBP was to provide assistance to the GoM for institutional development and regulatory reform of the mining sector in order to encourage the expansion of private investment in mining in a socially and environmentally sustainable way. The project will also assist the GoM in its efforts to implement targeted interventions to alleviate poverty in the small-scale and artisanal mining areas of the country. The ADF loan is part-financing four subcomponents of the Project as follows: (i) Geochemical and Industrial Minerals Survey; (ii) Documentation Center and Mineral Information System; (iii) DNG Central Laboratory, and (iv) Project Management Unit.		

### **F.2 Compliance with Conditions Precedent/Commitments**

The compliance with conditions precedent to loan effectiveness was satisfactory, as the loan was declared effective within six months of its approval. Compliance with other conditions of the loan is also satisfactory.

### **F.3 Procurement Performance**

While the procurement activities under the project have generally been done in accordance with the Bank's procurement procedures, and therefore satisfactory in that respect, a lot of delays have been identified in the procurement process, which has significantly slowed down the implementation rate of the project. Significant delays are witnessed in the GoM approval of procurement documents. This aspect of the procurement performance has not been satisfactory.

### **F.4 Financial Performance**

Due to the procurement delays, the disbursement performance of the project is unsatisfactory. Four years after project approval, only UA 879,000 or 27% of the loan has been disbursed as at January 2006. The GoM has also had some difficulties in the availability of local cost contribution. The performance of co-financiers (World Bank and NDF) has been very satisfactory.

### **F.5 Project Activities and Outputs**

The adherence to project implementation schedule is unsatisfactory, given that less than 30% of the project activities have been accomplished after three years of implementation. The performance of consultants is satisfactory. Despite the slow implementation rate of the ADF-financed components of the project, important project outputs are being delivered: (i) the legal reform of the mining sector, with a new Mining Code approved in 2002, and its regulations developed and approved in 2003; and (ii) a new computer-based Mining Cadastre has been developed and opened, which has streamlined the processing and licensing of mining applications in the country. Important outputs have also been delivered regarding the development of Mozambique's geological infrastructure: (iii) high quality geological and geophysical maps have also been produced, as well as a (iv) comprehensive book detailing the geology and mineral resources of Mozambique. Good progress has also been made on the (v) environmental component of the project, with the promulgation of environmental regulations related to mining activities in April 2005.

### **F.6 Impact on Development**

The MRMCBP is already delivering some important development impacts. There are indications that the project is stimulating investors' interest in the mineral sector. The opening of the new Mining Cadastre has generated a significant increase in the number of applications and mining licenses issued in the country. Indeed, the granting of mining licenses has increased from an average of 130 per annum before the Cadastre was opened to an average of 500 per annum since it was opened. Fees generated from the new permit registry system have been doubling on the average every six months.

### **F.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.3	2.0	2.0	2.0	2.0	2.1

### **F.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Delays in procurement and disbursements activities.	1. Solving the disbursement delays requires more conscientious work by the Executing Agency and the Bank of Mozambique. This has been discussed with the two agencies and the GoM. It is expected that the Regional Office, when fully functional, would assist in ameliorating the problem.	1. On going

### 2.3 Public Utilities Sector (Energy, Water and Sanitation)

The Bank Group has approved fifteen operations in the public utilities sector (four in communications, six in power and five in water and sanitation), since the commencement of its operations in 1977, having received 18% of the total financing. Total commitments stand at UA 161 million and cumulative disbursement is UA 84 million. The average size of the on going public utilities projects is UA 16 million.

Currently, there are five ongoing operations. The following table summarizes the amount, age and disbursement rate of the revised public utilities projects.

**Table 8: Public Utilities Sector Ongoing Operations**

Projects	Amount Approved (UA Million)	Age (Years)	Disbursement Rate
Electricity III Project	11.1	3.7	15%
Energy Reform and Access Program	11.0	0.9	0%
Maputo Water Supply Augmentation Project	19.7	5.8	33%
Integrated Water Supply & Sanitation	16.8	4.3	11%
Urban Water Supply, Sanitation & IS Project	21.4	2.0	0%
<b>Total Public Utilities Sector</b>	<b>79.9</b>	<b>3.3</b>	<b>13%</b>

The cumulative commitments on the ongoing operations stand at UA 80 million and the cumulative disbursement at UA 10 million (13%).

### G. Electricity III Project

#### G.1 Basic Administrative and Financial Data (UA)

<u>Amount:</u> ADF: 11 120 000	Disbursements: 1 684 719 Rate of Disbursement: 15.15 %	Balance: 9 435 281
Approval Date: 03/09/2001	Date of Signature: 06/11/2001	Date of Effectiveness: 01/10/2002
Deadline for Last Disbursement: 31/12/2005	Executing Agency: Electricidade de Mozambique (EdM)	
Audit: up-to-date (2004 audit report submitted)	Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u>		
The objective of the project is to extend the national grid, as part of rural infrastructure development, to 19 rural centers to support economic growth towards reduction of poverty and improvement of standard of living of the rural population. The project goal is to supply power to rural towns in four provinces, namely: (a) Limpopo Valley and Massingir (Southern Region-Gaza Province); (b) Morrumbene, Massinga, Zandamela, Quissico, Inharrime, Chissibuka, Mavila and Cumbane (Southern Region-Inhambane Province); (c) Chitima, Chicoo, Magoe, and Mukumbura (Northern Region -Tete Province); and (d) Netia, Nacaroa, Chalaua, Micane, Moma, Morrupula and Muecate (Northern Region-Nampula Province). The project involves (a) construction of 895.5 km of 33 kV overhead line; (b) erection of 76 of 33/0.4 kV pole mounted transformer stations; (c) construction of 72 km of 0.4/0.22 kV overhead lines; (d) installation of 1,700 street lighting points; and (e) connection of 7,053 consumers including households, small industries and businesses, irrigated agriculture and service facilities.		

#### G.2 Compliance with Conditions Precedent/Commitments

The conditions precedents to entry into force were satisfactorily fulfilled before the loan was declared effective in October 2002. "Other conditions" to be fulfilled during the project execution require the Executing Agency (EdM) to (i) submit to the Bank the Report on

“Separation of Accounts and Re-organization of EdM”, (ii) implement the recommendations of the same within 12 months, (iii) improve the customers to employees ratio to 90:1 by 31 December 2002 and 100:1 by 2003, (iv) reduce account receivable collection period to 75 days by 2002 and 100:1 by 31 December 2003 and (v) submit Environmental Management Plan including the Compensation Plan before construction. The conditions (i) and (ii) were respectively fulfilled in 2002 and 2004. All conditions except condition (v) were fulfilled. The Compensation Plan will be submitted to the Bank before March 2006 and will be implemented before construction of the distribution networks in the project area.

### **G.3 Procurement Performance**

All procurement activities for this project have been completed.

### **G.4 Financial Performance**

The project is being financed by the ADF, OPEC Fund and EDM. ADF loan (UA 11.12 million) representing 58% total cost covers 84% of the costs of components A1, B, C and D in foreign exchange. The OPEC Funds loan (UA 5.47 million) corresponding to 28% of the total cost is to finance 90% of the costs of component A2 in foreign exchange. EDM’s contribution of UA 2.74 million, representing 14% of the total project costs, will be utilized to cover the local costs of the project. The disbursement rate for the ADF loan is 15.15% improved from 2% (in December 2004), whereas the disbursement rates for the co-financier-OPEC Fund and EdM are 14.1% and 14.4% respectively.

### **G.5 Project Activities and Outputs**

The provision of 7053 service connections and 1700 street lights included in the project will be realized through the contract for the supply and installation of (i) 895.5 km of 33 kV overhead line; (ii) 76 of 33/0.4 kV pole mounted transformer sub-stations; and (iii) 72 km of low voltage 0.4/0.22 kV overhead lines. The contract for the supply and installation of the above material and equipment, which has been postponed due to delay in advance payment, is expected to be completed by September 2007.

### **G.6 Impact on Development**

The project will provide electricity to about (a) 6,653 households; (b) 300 basic services, including schools, health service facilities and water supply facilities, mills and shops/restaurants; and (c) 100 irrigated agriculture, fishery, industries and business, which are the main activities in the area. The project will also enable the population in the surrounding, which is estimated at 830,000, to easily access electricity in the medium-term.

### **G.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	2.0	2.0	1.75	2.0	1.95

## **H. Energy Reform and Access Program (ERAP)**

### **H.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> ADF: 9 017 000	Disbursements: 0 Rate of Disbursement: 0%	Balance: 9 017 000
Approval Date: 05/11/2003	Date of Signature: 22/04/2004	Date of Effectiveness: 24/01/2005
Deadline for Last Disbursement: 31/12/2005	Executing Agency: Ministry of Energy/EdM Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u> The objective of the Program is to increase access to modern energy through capital investment and Private Sector Participation (PSP) in the energy sector. The Program has been designed to (i) entail electricity supply (grid and off grid) to about 66,350 households by 2007; (ii) provide for electricity supply to 300 schools and health facilities in rural areas through solar power (PV) installations; and (iii) mobilize private investment under concession arrangements. It is also designed to assist in creating an enabling environment for PSP in the electricity sector through restructuring the EdM in the Distribution segment of EdM, and capacity building in sector institutions. The components of the ERAP are: (A) Power Sector Reform, (B) Grid-based Electrification, (C) Independent Grid Rural Electrification, (D) Renewable Energy Promotion, (E) Institutional Development and Capacity Building, and (F) Audit Services. The Program will support expansion of the electricity distribution grids, promote the development of New and Renewable Energies (NREs), restructure the electricity sector by establishing separate Transmission and Distribution Companies from the existing EdM, and establish an Independent Regulator. It will also support measures to strengthen the capacity of the energy institutions to enhance efficiency of the sector and implement private sector led electrification.		

### **H.2 Compliance with Conditions Precedent/Commitments**

The “Other Conditions” of the Loan Agreement and Protocol of Agreement require (i) adjustment of electricity tariff to LRMC level by 31 December 2006; and (ii) submission of the final Environmental Management Plan (EMP) to the Bank and the settlement of compensations prior to the start of construction works were completed.

### **H.3 Procurement Performance**

The pre-qualification of contractors has been done for the supply and installation of materials and equipment for realizing the grid electrification component funded by IDA and ADF. The tender documents have also been prepared. The procurement process, which will be launched in January 2006, has been slipped by about five months due to delay in preparing the tender documents.

### **H.4 Financial Performance**

IDA funded components have been disbursed. However, no disbursement has been made on the Bank financed components until now. The Bank’s recent supervision Mission, which reviewed the situation, advised the Executing Agency to implement the training component approved by the Bank in order to expedite the disbursement. The Government has agreed to implement the recommendation of the Mission. It is expected that the project’s components relevant for ADF will start disbursing in 2006.

### **H.5 Project Activities and Outputs**

The Program objective is to increase access to modern energy through capital investment and Private Sector Participation (PSP) in the energy sector. To this end, the Program will (i) supply electricity to about 400,000 people by 2007; (ii) enhance service delivery through connection of 300 schools and health facilities in the project area; and (iii) mobilize private sector investment

of at least USD 7.4 million under the concession arrangements. Furthermore, the Program will assist in creating an enabling environment for PSP in the energy sector through reform and capacity building in the sector institutions.

## **H.6 Impact on Development**

ERAP will impact the energy sector as a whole by creating the enabling environment for private investment, which will accelerate expansion of energy infrastructure to all sectors of the Mozambique economy.

## **H.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	2.0	2.0	2.0	2.0	2.1

## **H.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. No disbursement on the Bank funded components.	1. GoM, namely the Ministry of Energy, must open a Special Account and submit to the Bank: the details of the Special Account opened the authorized signatures for purposes of transactions, and the submission of disbursement request may be done at the same time.	1. 2006

## **I. Maputo Water Supply Augmentation Project**

### **I.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> 19 600 000	Disbursements: 6 500 000 Rate of Disbursement: 37%	Balance: 13 600 000
Approval Date: 17/06/1999	Date of Signature: 23/11/1999	Date of Effectiveness: 17/08/2000
Deadline for Last Disbursement: 30/07/2006	Executing Agency: Fundo de Investimento e Património do Abastecimento de Água (FIPAG) and National Directorate of Water (DNA)	
Audit: Audit report for financial year 2004 has been received.	Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u> The purpose of the project is to rehabilitate and augment the water supply system in Maputo that will enable safe water to be delivered to un-serviced areas of Hulene, Lulane, and Mahotas urban areas of Maputo.		

## **I.2 Compliance with Conditions Precedent/Commitments**

The conditions for loan effectiveness were fulfilled within nine months after signing of the loan. The compliance with conditions precedent to loan effectiveness was satisfactory.

## **I.3 Procurement Performance**

Consultants have been contracted and detailed design work and preparation of bidding documents have been completed. The Contractors for the main water supply rehabilitation works have signed the contract in October 2004 and are working on the project sites. Compliance with Bank rules has been satisfactory.

## **I.4 Financial Performance**

At this stage of project implementation, the disbursement rate is low compared to plan at appraisal. The health education and sanitation component, financed by the grant, is just starting after a five years delay. The first disbursement was on 15 May 2002, a two years delay compared with the plan in the Appraisal Report. The audit report for the financial year 2004 has been received.

## **I.5 Project Activities and Outputs**

Until now, 40% of the activities under the contract have been executed, comprising: (i) manufacture and delivery in Maputo of 65% of materials required for the project (ii) rehabilitation of treatment plant that is 80% complete, (iii) 80% progress has been achieved on the replacement of the Chamanculo-Maxaquene trunk main, (iv) laying of the Chamanculo-Laulane trunk main is 5% complete, (v) Laulane Distribution Centre is 45% complete and (iv) Distribution Network extension/reticulation is 45% complete. Works on the rehabilitation of reservoirs at Maxaquene haven't started. The quarterly progress reports have been regular.

## **I.6 Impact on Development**

The project will have a positive impact on development, as the Maputo population will be provided with adequate quantity of water of improved quality. The welfare and health situation of affected population will be enhanced with clean water, sanitation and health education.

## **I.7 Overall Performance Assessment**

Indicator	Compliance with conditions	Procurement of goods and services	Financial performance	Activities and works	Impact on development	Overall Assessment
Rating	2.6	2.0	1.8	2.0	2.3	2.1

## **I.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Need for closer supervision of the contractors so that the works will be completed according to time schedule.	1. Extra effort required by FIPAG and DNA to stay within the agreed implementation time schedule and complete the project by mid 2006.	1. On going
2. Delays in providing local funds to pay the contractor.	2. FIPAG and GOM settle the outstanding amount to pay the contractor.	

## **J. Integrated Water Supply & Sanitation Project for the Provinces of Niassa and Nampula**

### **J.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> 16 800 000	Disbursements: 1 800 000 Rate of Disbursement: 11%	Balance: 15 000 000
Approval Date: 08/12/2000	Date of Signature: 29/12/2000	Date of Effectiveness: 29/08/2001
Deadline for Last Disbursement: 30/06/2007	Executing Agency: DNA	
Audit: Audit report for financial year 2004 has been received	Date of Last Supervision Mission: December 2005	
<u>Objectives, Description and Components:</u> The purposes of the project are a) to assist in providing safe and reliable water supply and sanitation facilities to the population in the project area, and b) to carry out hygiene and environmental sanitation campaigns and a water quality-monitoring program.		

### **J.2 Compliance with Conditions Precedent/Commitments**

The conditions for loan effectiveness were fulfilled within eight months after signing the loan. The compliance with conditions precedent to loan effectiveness was satisfactory.

### **J.3 Procurement Performance**

TA contracts were signed in 2004. Contracts for delivery of vehicles and office equipment were signed in 2004. Two contracts were awarded to implement a Baseline Survey and Community Development Work in the two Provinces. A contract for the construction water points (based upon boreholes) was signed for Mogovolas District in Nampula Province. Another contract for the construction water points (based upon boreholes) was signed for Cuamba District in Niassa Province. Compliance with Bank rules has been satisfactory.

### **J.4 Financial Performance**

The disbursement rate is still low at this stage of project implementation compared to plan at appraisal. The procurement process for the consultants responsible for the study in four towns, to be financed from the grant, is almost completed. The first disbursement was on 18 September 2003 (a two years delay compared with the plan in the Appraisal Report). The audit report for the financial year 2004 has been received.

### **J.5 Project Activities and Outputs**

The baseline study in three districts in Nampula Province has been completed and construction of water points and community mobilization are currently underway. The baseline study in one district in Niassa province is completed and construction of water points and community mobilization are currently underway. Procurement of vehicles, office furniture, and office equipment is completed; vehicles and office furniture have been delivered. The office building in Nampula is completed. However the office building in Lichinga will only be ready sometimes in early 2006.

### **J.6 Impact on Development**

The project will have a positive impact on development, as the rural population of two provinces, within the project area, will be provided with adequate quantity of water of improved quality. The welfare and health situation of affected population will be enhanced with clean water and sanitation system.

**J.7 Overall Performance Assessment**

Indicator	Compliance with conditions	Procurement of goods and services	Financial performance	Activities and works	Impact on development	Overall Assessment
Rating	2.7	2.0	2.0	1.5	3.0	2.2

**J.8 Problems and Recommended Actions**

Problems	Recommended Actions	Deadline
1. Need for closer supervision of the project by DNA so that the project will be completed according to time schedule.	1. Extra effort required by DNA to coordinate and supervise the project	1. On going

**K. Urban Water Supply, Sanitation & Institutional Support Project****K.1 Basic Administrative and Financial Data (UA)**

Amount: 21 400 000	Disbursements: 0 Rate of Disbursement: 0%	Balance: 21 400 000
Approval Date: 20/12/2002	Date of Signature: 03/06/2003	Date of Effectiveness: 17/12/2003
Deadline for Last Disbursement: 31/12/2007	Executing Agency: FIPAG and DNA	
Audit: Not done yet	Date of Last Supervision Mission: December 2005	
Objectives, Description and Components: The purpose of the project is to improve the access, quality, performance and sustainability of the water supply and sanitation services in Chokwe, Inhambane, Maxixe, and Xai-Xai.		

**K.2 Compliance with Conditions Precedent/Commitments**

The conditions for loan effectiveness were fulfilled within seven months after signing of the loan.

**K.3 Procurement Performance**

The draft contract for Consultants' Services for Works Supervision is scheduled to be signed in December 2005. The two contracts (Construction Works for Chokwe and Xai-Xai and Construction Works for Inhambane and Maxixe) were signed on 8 October 2005.

**K.4 Financial Performance**

No disbursements have been made from the Grant/Loan. The first disbursement was foreseen in 2004, with a one-year delay compared with the plan in the Appraisal Report.

**K.5 Project Activities and Outputs**

The contractors for both of the two Construction Works contracts are mobilizing.

## **K.6 Impact on Development**

The project will have a positive impact on development, as the population in those four towns will be provided with adequate quantity of water of improved quality. The welfare and health situation of affected population will be enhanced with clean water, sanitation and health education.

## **K.7 Overall Performance Assessment**

Indicator	Compliance with conditions	Procurement of goods and services	Financial performance	Activities and works	Impact on development	Overall Assessment
Rating	2.3	2.5	N/A	2.0	2.6	2.4

## **K.8 Problems and Recommended Actions**

Problems	Recommended Actions	Deadline
1. Delay in procuring supervision consultants services which might affect the start of works.	1. Extra effort required by FIPAG and DNA to comply with the agreed implementation time schedule and complete the project by 2007	1. On going

## **2.4 Transport Sector**

The Bank's main objective within the sector continues to be the improvement and the efficiency of the road, rail and port facilities serving the internal needs of Mozambique and also the needs of the neighbouring landlocked countries. The country's ports and railways were mainly developed to serve regional trade, while the road system served internal trade and access to the coastal ports. The ports of Maputo, Beira and Nacala and the transport corridors serve Zimbabwe, South Africa, Swaziland, Botswana, Malawi, Zambia and the Democratic Republic of Congo (DRC). The transport and communications sector accounts for about 11 % of GDP and 18 % of gross receipts of export services. The Bank Group has financed 8 operations within the transport sector amounting to UA 130 million. Apart from two road projects that were ended due to the insecurity situation in the eighties and the Vanuzi-Changara Road project that had procurement problems, transport projects have been well executed. The average size of the on going social sector projects is UA 21 million. Currently, there are two ongoing operations. The following table summarizes the amount, age and disbursement rate of the revised transport projects.

**Table 9: Transport Sector Ongoing Operations**

Projects	Amount Approved (UA Million)	Age (Years)	Disbursement Rate
Vanduzi Changara Road Rehab. Project	17.6	5.2	45%
Road Rehabilitation and Upgrading Project	25.0	3.6	63%
<b>Total Transport Sector</b>	<b>42.6</b>	<b>4.4</b>	<b>56%</b>

## **L. Vanduzi Changara Road Rehabilitation Project**

### **L.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> 16 790 000 (Loan) 800 000 (Grant)	Disbursements: 7 560 000 Rate of Disbursement: 45%	Balance: 9 230 000
Approval Date: 15/12/1999	Date of Signature: 31/03/2000	Date of Effectiveness: 11/08/2000
Deadline for Last Disbursement: 31 <sup>st</sup> January 2005 Audit: Carried out for 2004	Executing Agency: National Road Administration (ANE) Date of Last Supervision Mission: July 2005	
<u>Objectives, Description and Components:</u> The project was part of Road and Coastal Shipping Programme (ROCS-2) and comprises the following components: a) the rehabilitation of the 244km of the 270 km long Vanduzi-Changara road b) supervision of the works thereon c) project audit services and d) institutional support to the ANE. The main goal is to improve the economic activities through the rehabilitation and maintenance of transport infrastructure so as to protect past investments and to stimulate and recover the previous traffic levels of the national and rural road networks. The main objective of the project is therefore geared at reducing vehicle operating costs and thereby increases the quality of service as well as protecting the investment in road infrastructure thus far.		

### **L.2 Compliance with Conditions Precedent/Commitments**

Both the loan and the grant became effective on time i.e., in less than a year. All the conditions precedent to effectiveness and other conditions have been fulfilled.

### **L.3 Procurement Performance**

The civil works and the consultant services were procured using the Bank rules and procedures. Progress on the project was very slow due to the procurement of the contractor. All approval decisions from the Bank were given on time while that of the GoM, that included both the decision making and the approval processes within the GoM, took too much time.

### **L.4 Financial Performance**

The disbursement did not follow what was estimated at appraisal. In terms of physical achievement, the cumulative disbursement was 48% compared to estimate of physical achievement of 39%. The difference is attributable mainly to the contractor's execution claims and the preliminary and general items in the contract (as well as, for example, the 10km of road where the base and sub-base were done but the road was not completed). The extinction of the contract was due mainly to the poor counterpart funding specially with regard to the refund of taxes on time.

### **L.5 Project Activities and Outputs**

The training part of the grant has not been used and there is a concern that the Bank will subject the grant balance to cancellation at any time. About 41% of the institutional activity, mainly the TA, is completed. The Training component is yet to start. The implementation of the civil works was interrupted on 2 October 2003 as a result of the termination of the contract (the contractor gave notice of their intention to terminate the contract in respect of Clause 69.1(a) i.e. default by the employer to make payments as certified by the engineer). At present, only 87.9 km of the original 244km of the road has been completed. The Bank has insisted that the remaining UA9.2 million on the loan would only be used if the GoM secures a remaining finance before the Bank resources can be used. Currently efforts are being made to complete the works with supplementary financing from other sources. The remaining works have been divided into lots:

Lot 1 comprising 62 km to be financed by the Bank and GoM, and Lot 2 (92.9 km) for which GoM is seeking finance. As of July the GoM has decided that it will use the Road Fund to finance Lot 2 to bridge the financing gap. The Bank is currently reviewing this proposal.

### **L.6 Impact on Development**

This is an international road linking Mozambique to Malawi, Zimbabwe, Zambia and southern DRC. With the delay in the implementation, the impact on the movement of goods and services in this corridor both internally in Mozambique and to these international destinations would be minimized. Therefore overall its developmental impact would be offset by the delays and the increase in cost.

### **L.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	1.5	0.75	0.5	1.0	1.15

### **L.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Securing of finance to finance the Lot 2 of the remaining works.	1. The extension of deadlines for the loan and grant.	1. End 2005

## **M. Road Rehabilitation and Upgrading Project**

### **M.1 Basic Administrative and Financial Data (UA)**

<u>Amount:</u> ADF: 25 010 000	Disbursements: 14 256 000 Rate of Disbursement: 57%	Balance: 10 754 000
Approval Date: 08/12/2000	Date of Signature: 29/12/2000	Date of Effectiveness: 03/04/2002
Deadline for Last Disbursement: 31/12/2005	Executing Agency: National Road Administration (ANE)	
Audit: Audit for 2004 carried out	Date of Last Supervision Mission: July 2005	
<u>Objectives, Description and Components:</u> The project comprises: a) the civil works for the rehabilitation and upgrading of 299 km of roads; b) consultant services for the supervision of the civil works; and c) project audit services. The main objective of the project is to improve road transport services in the project areas as well as reduction of road maintenance and vehicle operating cost. The ADF is financing the Mussacama - Colomue road 162 km, while the OPEC Fund finances the Chokwe-Macarantene-Lagoa Nova road 67 km.		

### **M.2 Compliance with Conditions Precedent/Commitments**

All the conditions of the loan have been complied. The loan was signed 21 days after approval. However it only became effective in April 2002. This did not have much effect on implementation because the contractor did not sign the contract for the civil works for the Bank component until May 2003.

### **M.3 Procurement Performance**

The contractor was procured through International competitive bidding. The consultant was appointed through short listing and following the Bank Rules for the Use of Consultants. There are no outstanding procurement issues except one concerning addendum for the consultant described below. It must be strengthened that the decision-making on the part of the GoM in approving contract was slow.

### **M.4 Financial Performance**

At appraisal, disbursement was supposed to start in 2001 with about UA.36 million to be disbursed and UA13.61 million in 2002. Actually, due to the slowness in procurement, disbursement started with UA3.833 million in 2003, UA7.3 million in 2004 and about UA2.596 million has been disbursed in 2005. It is clear that the rate of disbursement has generally followed the rate of physical implementation especially with the value of the contract. The GoM counterpart funds have been paying particularly the VAT refunds to contractors and consultants. Even though the GoM is improving its payment of certificates in general and VAT in particular, the problem has not been completely resolved. Even though the payment of 2004 VAT has being resolved, the 2003 VAT is still outstanding. This situation is affecting the Contractor' and Consultant's cash flow.

### **M.5 Project Activities and Outputs**

The Bank financed component, the Mussacama-Calomue road, is over 90% completed and the whole 162 km of the road is completed and open to traffic. There are outstanding works of road furniture and the additional works on 12 bridges. The project would be completed by September 2005. For the OPEC Fund financed component of Chokwe-Maccarantane-Lagoa Nova, there is zero physical progress. This is due mainly to the fact that currently the OPEC has postponed the rehabilitation due to the original delays in implementation and later due to ANE decision to harmonize this project with the rehabilitation of the Massingir dam.

### **M.6 Impact on Development**

It will have maximum impact as forecast at appraisal. More importantly, there are loan savings and it is likely to be used in the corridor to further improve the effectiveness of the project.

### **M.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	3.0	3.0	2.5	3.0	3.0	2.9

### **M.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Payment of certificates on time and payment of VAT for 2003.	1. The GoM has to pay all outstanding VAT and submission of certificates to Bank on time for payment.	1. The IVA/VAT for 2003 should be settled by December 2005

## 2.5 Social Sector

The Bank Group has approved 9 operations in the social sector, since the commencement of its operations, having received 8% of the total financing. Total commitments stand at UA 70 million and cumulative disbursement is UA 36 million. The average size of the on going social sector projects is UA 8 million.

Currently, there are five ongoing operations. The following table summarizes the amount, age and disbursement rate of the revised social projects.

**Table 10: Social Sector Ongoing Operations**

Projects	Amount Approved (UA Million)	Age (Years)	Disbursement Rate
Beira Corridor Health Project	7.7	7.9	64%
Education III	12.3	6.0	41%
Capacity Build. for Poverty Alleviation Project	2.3	4.8	87%
Health II	9.6	4.4	10%
Education IV	10.0	3.5	0%
<b>Total Social Sector</b>	<b>42.0</b>	<b>5.3</b>	<b>31%</b>

The cumulative commitments on the ongoing operations stand at UA 42 million and the cumulative disbursement at UA 13 million (31%).

### N. Beira Corridor Health Project

#### N.1 Basic Administrative and Financial Data (UA)

<u>Amount:</u> 7 710 000	Disbursements: 4 710 826 Rate of Disbursement: 61.1%	Balance: 2 999 174
Approval Date: 18/10/1996	Date of Signature: 16/04/1997	Date of Effectiveness: 23/12/1997
Deadline for Last Disbursement: 30/11/2004	Executing Agency: Ministry of Health	
Audit: Process for recruiting an audit firm to undertake the 2004 audit has not been started during last supervision mission.	Date of Last Supervision Mission: February 2005	
<u>Objectives, Description and Components:</u> The project objective is to restore and strengthen the capacity of existing primary level physical facilities and human resources development. The project will improve both coverage and quality of health services. The project will be comprised of the following components: (i) Rehabilitation and Reconstruction of 17 Health Facilities; (ii) Human resources development and (iii) Project management.		

#### N.2 Compliance with Conditions Precedent/Commitments

The following project condition “Assign, prior to the completion of each health facility adequate numbers of health workers in accordance with the established norms to all the facilities rehabilitated and/or reconstructed under the Project” is not fully fulfilled. Indeed, most of the facilities visited are not fully staffed and they are working with a minimum number of staff. All the other conditions have been fulfilled.

#### N.3 Procurement Performance

The project registers serious delays due to procurement difficulties. Procurement of goods and services has improved recently as the PIU is gradually acquiring appropriate experience in the

Bank's rules and procurement of goods and services. However the overall performance is not satisfactory.

#### **N.4 Financial Performance**

Financial performance is now improving as the project management is gradually acquiring appropriate experience in the Bank's rules and disbursements procedures. However the overall performance is not satisfactory.

#### **N.5 Project Activities and Outputs**

The project overall implementation status by component and by category of expenditure is 80%. All the health facilities have been completed except Point Gea (half completed).

#### **N.6 Impact on Development**

Prospects for the project meeting the development objectives as defined in the appraisal report are good. However, it is likely that the achievements for such objectives would be delayed given that the implementation of the project is behind schedule.

#### **N.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	1.5	1.0	2.0	2.0	1.7

#### **N.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Long delays in procuring goods and services and in submitting acceptable documents to the Bank.	1. Submit to the Bank all pending bid evaluation reports and bidding documents after carefully revised by MoH or BoM.	1. On going
2. Long delays in the approval process of project documents from GoM and from ADB.	2. Expedite the civil works of Ponta Gea.	2. On going
3. Poor coordination/communication between GACOPI/Maputo and Provincial PIUs.	3. Improve the coordination/communication mechanism between GACOPI/Maputo and the projects' PIUs,	3. On going
4. Delays by BoM in signing and submitting of disbursement requests to ADB.	4. Expedite the signing and submission of disbursement requests to ADB.	4. On going

## O. Education III

### O.1 Basic Administrative and Financial Data (UA)

Amount: 12 315 000	Disbursements: 3 990 000 Rate of Disbursement: 37.4 %	Balance: 6 700 000
Approval Date: 15/07/1998	Date of Signature: 13/10/1998	Date of Effectiveness: 18/11/1999
Deadline for Last Disbursement: 30/06/2006	Executing Agency: Ministry of Education	
Audit: Extensive comments the Bank provided on the 2003 audit report. Not only was the audit report excessively late in its submission date, but it failed to include a management letter.	Date of Last Supervision Mission: February 2005	
<u>Objectives, Description and Components:</u> The project objective is to increase access to and improve the quality of basic education. The project is composed of three components: (i) rehabilitation/reconstruction of secondary education schools, (ii) training of teachers and (iii) a distance education component.		

### O.2 Compliance with Conditions Precedent/Commitments

All the conditions of the loan have been complied with.

### O.3 Procurement Performance

Procurement performance has been regular, but with several delays.

### O.4 Financial Performance

Financial performance has been hampered by inconsistent availability of counterpart funds.

### O.5 Project Activities and Outputs

The implementation of the project has not increased significantly since December 2003. The physical implementation rate of the project increased from 18% to 39% since then. Consider the fact that the project had to be extended, for a second time at the end of 2004, it is clear that a significant and consistent effort will be necessary in order to implement the remaining activities on time. However, considering that the remaining activities are cost-intensive, civil works and facility equipment-related, improved and strengthened project management and supervision, together with effective contractor performance, are essential to accelerate implementation.

### O.6 Impact on Development

Unless the project implementation is accelerated, it will be difficult to achieve the development objectives, especially as the project was extended for a second time at the end of 2004.

### O.7 Overall Performance Assessment

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	1.5	1.7	1.5	1.7	1.6

## O.8 Problems and Recommended Actions

Problems	Recommended Actions	Schedule
<p>1. Lack of counterpart funds, with only 37.4% made available to-date, needs serious attention by ME and MF. It also affects the maintenance of the recently completed Teacher Professional Development (IMAPs) provincial centres.</p> <p>2. The location of the PIU at the ME, Department for School Construction, makes it impossible for the staff to devote their time exclusively to the project. There are other donor-funded projects that also require a certain amount of attention.</p>	<p>1. The GoM must prioritize these investments not to further jeopardize the ADB projects.</p> <p>2. The recruitment of staff under Education IV could improve Education III implementation.</p>	1. On going

## P. Capacity Building for Poverty Alleviation Project

### P.1 Basic Administrative and Financial Data (UA)

<u>Amount:</u> 2 340 000	Disbursements: 1 960 000 Rate of Disbursement: 83.6 %	Balance: 380 000
Approval Date: 10/12/1998	Date of Signature: 05/03/1999	Date of Effectiveness: 30/12/2000
Deadline for Last Disbursement: 31/12/2004	Executing Agency: Ministry of Women and Coordination for Social Action.	
Audit: Regular submission (next one due June 2005)	Date of Last Supervision Mission: February 2005	
<u>Objectives, Description and Components:</u> The main objective of the proposed project is to strengthen national capacity to develop and implement interventions for poverty reduction targeted at the most vulnerable groups. Specific objectives of the project include: a) strengthen the institutional capacity of INAS, and b) develop and reinforce the capacity for the use of participatory approaches, and other related techniques for poverty reduction, within a number of relevant national institutions in Mozambique.		

### P.2 Compliance with Conditions Precedent/Commitments

The disbursement of the project is about 84% for the ADB and 56% for the government counter fund. After initial delays, since early 2005 that the key training courses in project cycle, financial management, and computer literacy have resumed and are advancing well.

### P.3 Procurement Performance

All good and services have been procured satisfactory.

### P.4 Financial Performance

The Bank undertook on December 2004 an audit of the project. The mission found that the project financial management was not adequate and required strengthening. Consequently Bank disbursements were suspended. The key concern at the moment is that the project is short of funds and the consulting firms have to re-schedule the remaining courses until the Bank and the Government releases the funds.

## **P.5 Project Activities and Outputs**

Despite the delays during the initial two years and subsequent suspension of disbursement in 2005, due to the findings of the Bank Audit of 2004, the implementation of project activities picked up and it is about to be completed as summarized in the table below.

**Table 11: Total Number of Participants by Institution and Province**

Course	DNDR			INAS			Grand Total
	Maputo	Provinces	Total	Maputo	Provinces	Total	
English Language	60	174	234	61	145	206	450
Project Cycle	4	8	12	2	9	11	23
Financial Management	2	8	10	2	9	11	21
Leadership	4	8	12	11	-	11	23
Executive Secretaries	5	-	5	5	-	5	10
Computer Literacy	6	16	22	17	21	38	60
Total	81	214	295	98	184	282	587

## **P.6 Impact on Development**

The Bank is closely monitoring the implementation of the project in order to ensure that it fulfils its development objectives. There is a strong probability that the project will achieve the development objectives that it set out to achieve.

## **P.7 Overall Performance Assessment**

Indicator	Compliance with Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.0	2.0	1.0	2.0	2.0	2.0

## **P.8 Problems and Recommended Actions**

Problems	Recommended Actions	Schedule
1. Poor financial management and non-compliance with standard financial management (based on the findings of the Bank Audit).	1. The Bank Audit gave recommendations for improvement and the GoM has responded and addressed most of the issues with exception of payment of ineligible expenses to INAS and DNDR. The Bank requested the estimates of these expenses and their repayment to the project.	1. End 2005.

## **Q. Health II**

### **Q.1 Basic Administrative and Financial Data (UA)**

Amount: 9 600 000	Disbursements: 1 450 000 Rate of Disbursement: 10%	Balance: 8 149 999
Approval Date: 21/12/2000	Date of Signature: 29/12/2000	Date of Effectiveness: 31/05/2001
Deadline for Last Disbursement: 30/06/2007 Audit: 2003-2004 Audit report has not yet been submitted		Executing Agency: Ministry of Health Date of Last Supervision Mission: February 2005

**Objectives, Description and Components:**

The project objectives are to enhance access to health care and improve the quality of care for rural communities through improved health infrastructure, support to the human resources development programme, management capacity building and control of infectious diseases (malaria and HIV/AIDS).

The project is composed of the following components: i) Improved Primary Health Care Delivery; ii) Institutional Development (Human Resources Development and Management Capacity Building); iii) Control of Infectious Diseases (Malaria & HIV/AIDS); and iv) Project Management.

**Q.2 Compliance with Conditions Precedent/Commitments**

All conditions precedent to entry into force and first disbursement has been implemented since project effectiveness date 31 May 2001. The Bank Group is yet to receive evidence for the fulfilment of the following Other Conditions: (i) within three months after date of entry into force of the Loan Agreement establish a steering committee for the coordination of project activities in the 3 provinces; (ii) within three months after date of entry into force of the Protocol of Grant Agreement recruit the staff (public health, social anthropology, gender, planning & finance, and social communication specialists) to be recruited for the AIDS Secretariat whose qualifications are acceptable to ADF.

**Q.3 Procurement Performance**

The procurement performance of the project is weak. This situation adversely affects the quality of the documents submitted to the Bank for review and causes a delay in the implementation of the planned activities. GACOPI (PIU for the health projects) uses a procurement assistant or procurement secretary to evaluate bid evaluation reports. Many bid evaluation reports are still sent to the Bank after bid security expiry. A recently sent bid evaluation report did not deduct a 2% conditional discount given by one of the bidder. A procurement specialist is currently being recruited.

**Q.4 Financial Performance**

Disbursement has been very slow as it currently stands at 8.57% of the ADB loan, 13.14% of the ADF loan, and 8.11% of the Government counter part. The slow disbursement level has been as a result of slow implementation of Bank Group financed activities.

**Q.5 Project Activities and Outputs**

The implementation of the project is experiencing very slow start-up of activities. The overall project physical implementation is at 12.5%. Civil works lag behind other categories of expenditures as 0% has been implemented. The project now is legible for cancellation according to the Bank's cancellation guidelines because there have been no disbursements for over 2 years. The current absence of a project manager –as the past manager has resigned since beginning of January 2005 - might hinder the pace of implementation. GACOPI is now expediting the recruitment of a new project manager. Currently the Bank is analysing tender documents prepared by consultants to initiate construction of health centres in Cabo Delgado, Nampula and Niassa.

**Q.6 Impact on Development:**

The slow implementation of the project is delaying the achievement of the development objectives as planned in the appraisal report.



**Objectives, Description and Components:**

The Moma Titanium Minerals Project, the first project financed by the Bank in Mozambique under the Private Sector window, is a large mineral sands deposit located in northeastern coast of Mozambique. The project, which is based on proven technology, entails dredge mining of titanium-bearing sands, the production of heavy minerals concentrate in a floating concentrator plant and the separation of final products. The annual production rate is set to about 612,000 tons of ilmenite with three different grades, along with co-products of zircon and rutile of approximately 12,500 and 24,000 tons, respectively. The titanium oxide (ilmenite and rutile) is mainly used in the pigment, plastic and paper industries, while zircon is used for ceramic production.

Total resources at Moma are estimated at 2.13 billion tons of ore containing 63 million tons of ilmenite. Initially a 20-year life span is planned, although the available resources can have longer economic life at the proposed production rate.

The project is located in the northeast of Nampula Province in northern Mozambique and some 600 km from Maputo, the capital city. The infrastructure in the project area is very limited and the project has to develop its own. Moma is expected to begin operations in late 2006.

**R.2 Project Sponsor and Loan Structure**

The sponsor of the project is Kenmare Resources Plc, a company registered in Ireland. Kenmare and the GoM signed two key Agreements in January 2002: the Modified Mineral Licensing Agreement, which includes enhanced provisions to protect lenders and the Implementation Agreement governing the operation of an Industrial Free Zone, which covers the processing and exporting aspects of the project.

Initially the terms and conditions of the loan, as approved by the Board, included a grace period of three years (or thirty-six months) commencing the date of signature of the Loan Agreement. During the grace period, only the front-end fee, commitment fee, and interest should be payable. However, the Bank and other lenders to the project (Development Bank of Southern Africa (DBSA), Kreditanstalt für Wiederaufbau (KfW), European Investment Bank (EIB)) had agreed to extend the grace period from 36 months to 45 months following negotiations of the engineering and procurement contract.

**R.3 Financial Performance**

At the time of Board approval, the total project cost was USD 350 million. However, the current total financing requirement of the project is now estimated at USD 437.99 million. The main reasons that contributed to the capex increase include cost overrun allowance in the Engineering, Procurement & Construction (EPC) contract, exchange rate variation, Export Credit Agencies (ECA) premium increase following Export Credit Agency of South Africa (ECIC) fee changes, etc. The Table below presents the old and current financing plan. The project's physical implementation has reached a 48% completion rate as at December 2005.

**Table.13: Original and Current Financing Plan<sup>3</sup>**

Sources of funds	2003 (US\$ m)		2005(US\$ m)			
	Senior Debt	Subordinated Debt	Total	Senior Debt	Subordinated Debt	Total
ADB	40	0.00	40.00	40.00	0.00	40.00
ABSA/ ECIC	70	0.00	70.00	80.00	0.00	80.00
EIB	10	42.00	52.00	18.35	75.493	93.843
DBSA	20	10.00	30.00	0.00	0.00	0.00
KfW	50	0.00	50.00	40.50	0.00	40.50
FMO	0.00	0.00	0.00	19.50	32.99	52.49
EAIF	0.00	0.00	0.00	5.00	0.00	5.00
<b>Total debt</b>	<b>190</b>	<b>52.00</b>	<b>242.00</b>	<b>203.00</b>	<b>108.483</b>	<b>310.99</b>
<b>Equity</b>			<b>108.00</b>			<b>127.00</b>
<b>Total Sources</b>			<b>350.00</b>			<b>437.99</b>

#### **R.4 Project Activities and Outputs**

The project will produce three types of ilmenite products. The first type is with titanium grade of about 54%TiO<sub>2</sub> with low impurity suited for chloride and sulfate pigment processes without roasting or further upgrading. The second ilmenite product is suitable for the sulfate market without further treatment. The third type will be a roasted product of around 60% TiO<sub>2</sub>, low in impurities and chemically suited for both chloride and sulfate pigment processes and will represent about half Moma's ilmenite production in the first 9 years of operation.

**Table 14: Anticipated Markets for Moma's Ilmenite Products**

Ilmenite Product	Quantity
Ilmenite Product I (54% TiO <sub>2</sub> )	Around 228 000 ton p.a. directed to manufacturers of titanium slag and sulphate TiO <sub>2</sub> pigments.
Ilmenite Product II (52% TiO <sub>2</sub> )	Around 86 000 tons p.a. directed to sulphate pigment market.
Ilmenite Product III (59-60% TiO <sub>2</sub> )	Around 298 000 t/a directed to the chloride pigment and synthetic rutile markets and possibly the sulphate pigment market.

#### **R.5 Impact on Development**

The project was planned to generate export revenues of about UA 50 million per annum or UA 1 billion over the life of the project. Other positive contributions include (i) increase employment opportunities (1,200 and 425 direct jobs, during the construction and the operation phases, respectively, and 1,500 due to ancillary and support services required by the project), (ii) expand the skills base and the extension of services to the district, by constructing essential infrastructures such as roads, power and water supply, telecommunication, clinic, schools, (ii) expand the national tax base (it was expected to contribute up to 2.4% per annum of the Mozambique's GDP), iii) increase soil fertility in the medium to long term, and (iv) contribute to transfer technology and know-how through on-and-off the job training of Mozambicans.

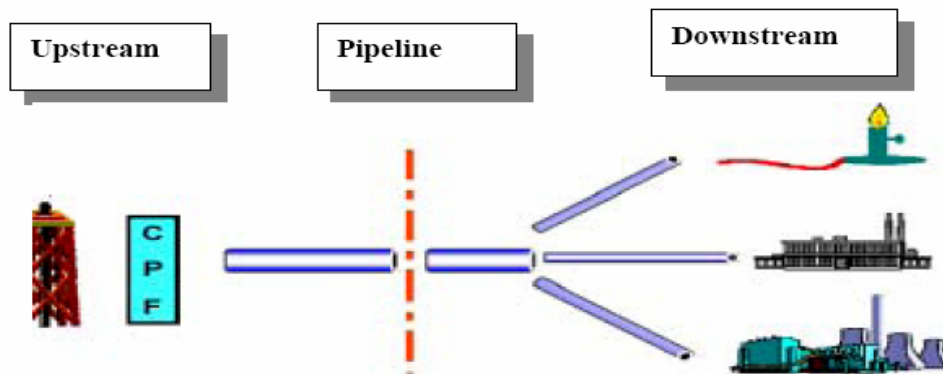
<sup>3</sup> Dutch Development Agency (FMO).

## S. SASOL (Regional: Mozambique – South Africa)

### S.1 Basic Administrative and Financial Data (UA)

<u>Amount:</u> ADB: 52 100 000	Disbursements: 52 100 000 Rate of Disbursement: 100 %	Balance: 0.00
Approval Date: 22/10/2003	Date of Signature: 15/03/2004	Date of Effectiveness: 09/2004
<u>Objectives, Description and Components:</u> The project involves (i) development and production of Temane and Pande gas fields (upstream), which are located in the North Eastern region of Mozambique, (ii) construction of central processing facility (processing), (iii) construction of 860 km gas pipeline (the pipeline), (iv) conversion of Sasol's existing petrochemical plants from coal to natural gas, and (v) gas distribution network (downstream).  Funding from the lenders (including AfDB) was sought only for the central processing facility (CPF) and the pipeline components. Sasol financed the downstream components from its own resources.		

**Table 15: Sasol – Upstream and Downstream Components**



### S.2 Compliance with Conditions Precedent/Commitments

The governments of South Africa and Mozambique signed a Cross Border Agreement, which provides for cooperation between the governments to facilitate trade in natural gas between the two countries. The Loan should have a duration of twelve years including a grace period of two years commencing the date of signature of the Loan Agreement and during the grace period, the front-end fee, the commitment fee and interest shall be payable. The Loan should be amortized over a period of ten years after the expiration of the grace period in twenty consecutive semi-annual instalments, the first of which should be payable on the applicable payment date immediately following the expiration of the grace period.

### S.3 Financial Performance

The overall cost of the project up to initial production, including pre-production costs of the upstream component and gas pipeline was projected at about UA 868 million. The Bank's assistance amounted to UA 52 million (6% of total project cost) in the form of senior loan. The lenders to the project are: ADB, EIB, DEG, Proparco, DBSA and Export Credit Agencies (ECAs) including Export Credit of South Africa (ECIC), Italian Export Credit Agency (SACE), Australian Export Credit Agency (EFIC) and Multilateral International Guarantee Agency (MIGA) & PRG (World Bank). The debt/equity ratio is about 48:52.

The loan agreement was signed on 15 March 2004 and fully disbursed in September 2004. Project implementation has now been completed and the project has reached operational status.

#### **S.4 Project Activities and Outputs**

The objective of this project is to provide alternative energy source for South Africa, promote new investment and employment generation in both countries, and convert Sasol's petrochemical plants, which currently use coal feedstock, to natural gas. The pipeline is designed to deliver 122 MGJ per annum without initial compression, of which 120 million gigajoule per annum (MGJ/a) will be sold and transported to South Africa under gas sales and transportation agreements and about 2 (MGJ/a) to Mozambique.

The investigation of new well fields and additional wells will be an ongoing priority and, should viable options be identified, then the life of the project might be extended. Various buried flowlines (pipelines) linking the production wells in the field to a Central Processing Facility (CPF) at Temane will be developed. These flowlines will be installed a minimum of one meter below the surface. Approximately 177 km of underground pipeline will be laid, of which 81 km will be in Temane and 96 km in Pande. A 25m-wide strip will be cleared along these flowlines for construction purposes and will be laid with approximately 1m surface cover. Permanent all-weather access roads will be constructed to each production field. The land use above the flowlines will be controlled in order to ensure that access remains possible for maintenance and monitoring purposes.

#### **S.5 Impact on Development**

The project provides strong economic impetus for both countries (Mozambique and South Africa), contributes to regional economic integration and attainment of the NEPAD goals. The development of the untapped gas resources enhance the GoM's effort to diversify its national economy by stimulating the industrial and commercial sectors. The project was designed to employ a workforce of more than 400 people on the Mozambican side. The GoM also benefits from: (i) higher tax revenue earned by companies involved in the gas project, (ii) a substantial addition to the country's infrastructure, providing access roads to the pipeline, ancillary infrastructure (roads to the gas fields, potable water, power supply, de-mining of existing roads), and (iii) increased exploration activity. Besides the direct impact of the project, the upstream exploration is expected to ensure that reserves will be made available to other projects, such as Maputo Iron and Steel (MISP). In addition to the gas, if crude oil (condensate) can be produced at a rate of about 2,000 barrels per day or 730,000 barrels per annum, it could lead Mozambique to become a net exporter of hydrocarbon liquids. The natural gas introduction will also contribute to the preventions of air pollutions and emissions from new industries that will use clean natural gas.

#### **2.7 Aged Projects and Risk Projects**

2.7.1 Aged Projects: By defining an aged project as one that is at least eight years old, the portfolio has therefore one old project: the Massingir dam and smallholder agricultural rehabilitation project. However, there are four active projects approaching this threshold, namely the Small Scale Irrigation Education, the Education III and the Maputo Water Supply Augmentation Project, equally aged six years, and the Beira Corridor Health project aged seven years.

2.7.2 On the part of the borrower, this situation is due primarily to delays at the level of effectiveness of projects (average eight months), resulting in a slippage of projects on the implementation schedule stipulated at appraisal. This is due to (i) non-compliance with the conditions of designation of project officers stipulated in the appraisal reports; (ii) late transmission of documents relating to section 5.01 of general conditions applicable to loan and guarantee agreements of the Fund, notably a copy of the appropriation law of the year of the

loan, an attestation certifying that the indebtedness ceiling has not been exceeded, and a copy of the legal opinion. This situation is compounded by lack of mastery of Bank rules and procedures by the executing agencies, absence of a monitoring and evaluation mechanism and weak organizational and managerial capacities of project implementation units. On the part of the Bank, long delays in the processing of bidding documents and disbursement requests contribute to the ageing of projects as well.

2.7.3 It takes on average two months to sign a project after its approval by the Board, and it takes additional eight months for the project to become effective. Rural development and social sector projects take on average 3 months more than infrastructure sector's to become effective. The Bank, together with the GoM, should envisage to reduce these periods to 1.5 months between Approval and Signature and 5 to months between Signature and Effectiveness.

**Table 16: Delays per Sector**

Sector	App-Sign	Deviation from Average	Target Indicator	Sign-Effect	Deviation from Average	Target Indicator	App-Effect
<i>Unit: Months</i>							
Rural Development	2.2	N/A	<b>1.5</b>	11.6	3.4	<b>5</b>	13.8
Finance & Industry	1.2	N/A		2.6	N/A		3.8
Infrastructures	2.7	0.5		7.8	N/A		10.5
Social Development	2.7	0.5		10.7	2.5		13.5
<b>Average</b>	2.2			8.2			10.4

2.7.4 Risk Projects: Two types of operations are used as the principal gauge of portfolio health: Problematic Projects (PP), and Potentially Problematic Projects (PPP). The ratings of these two types of projects are used to measure the number of Projects-at-Risk (PAR), from which the Commitment-at-Risk (CAR) measure is defined (the total loan and grant value of PAR). PPs are those that have an average IP or DO rating that is less than 1.5. The determination of a PPP is based on a project that has an average IP or DO rating that is equal to or greater than 1.5 plus there exist two or more criteria of concern, out of a total of 11. These criteria are diverse and some of them include delays in the declaration of loan effectiveness, delays in meeting the conditions for first disbursement, unavailability of counterpart funds, poor project management, slow disbursements and delays in project completion, amongst others.

2.7.5 By defining a risky project as any problem or potentially problematic project with a high probability of not attaining the set objectives, the Massinger Dam, the Electricity III, the Energy Reform Access Program, the Beira Corridor Health, and the Vanduzi-Changara Road Rehabilitation are the main projects that can be considered as risky project in the Bank portfolio in Mozambique (according to the 2004 APPR). These five risky projects amount to UA 108 million. Comparing to the last APPR exercise, and as the next tables shows, PAR decreased from 10 to 5 equivalent to a reduction of commitments at risk from 47% to 41%.

**Table 17: Risk Projects**

Projects at Risk	Actual Problem Projects (PP)	Potential Problem Projects (PPP)	Total (PP+PPP)		Commitments at Risk	
			#	%	UA m	%
APPR 2002/03 Mozambique	1	9	10	50%	123	47%
APPR 2002/03 Bank	32	114	146	48%	2536	46%
APPR 2004 Mozambique	1	4	5	29%	108	41%

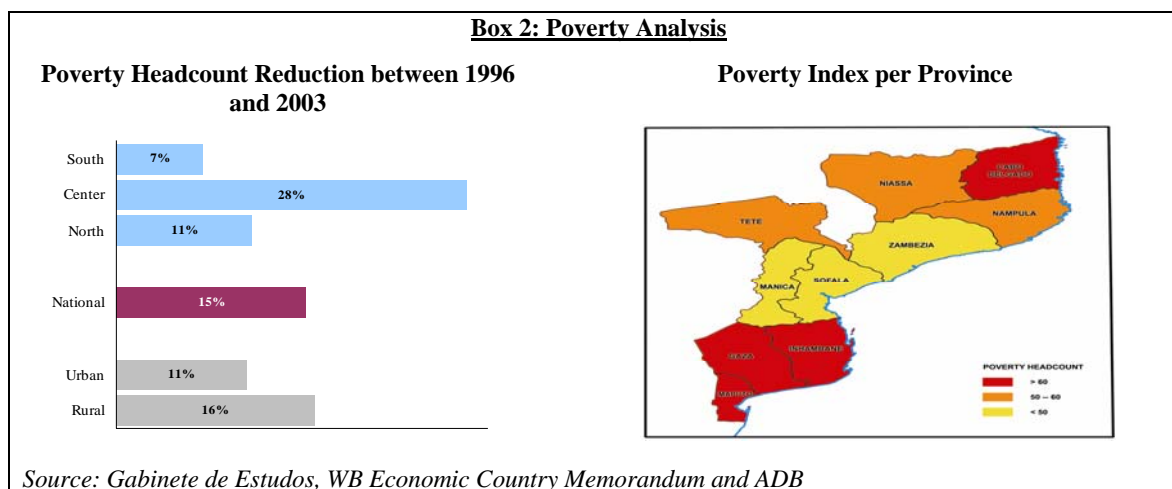
*Source: APPR 2002-03 and APPR 2004*

## 2.8 Assessment of Frequency and Quality of Supervision Missions

The average rate of supervision missions during the 1999-2005 period was in conformity with the Bank standard. The quality of supervision missions also improved in terms not only of the composition of teams and duration of missions, but also of the analysis of the status of projects, systematic inclusion of supervision reports in the SAP and monitoring of the implementation of recommendations.

## 2.9 Cross Cutting Issues

2.9.1 **Poverty Reduction:** Poverty is widespread, and Mozambique's social indicators are among the lowest in the world. According to poverty analysis undertaken in 2003, the proportion of the population living below the poverty line dropped from 69% in 1996 to 54% in 2003. Poverty is still localized more in the rural areas of the South and North.



2.9.2 All ongoing operations helped to improve these indicators and reduce poverty through: (i) the development of small-scale irrigation and rural electrification; (ii) intensification and diversification of agricultural and animal production; (iii) broadening of access to education by developing the educational system's intake capacities, mainly at the early childhood level, in primary and secondary education and at the level of literacy education; (iv) improvement of teaching and learning conditions in primary schools and colleges by providing, among other things, better security, health and hygiene conditions and broadening access to higher education using a decentralization approach, (v) reinforcement of the current infrastructure, namely roads and power connections to allow the flourishing of the private sector and creation of wealth; and (vi) increased access to clean water.

2.9.3 **Governance:** Mozambique is facing serious governance problems as shown by the complexity of private investment administrative procedures, legal and judicial procedures and government procurement procedures. One of the consequences of these governance problems is the low absorptive capacity of available investments. To address them, the GoM and the development partners adopted a vast governance programme. In 1999, the President established an Inter-Ministerial Commission for the Reform of the Civil Service (CIRES), which is chaired by the Prime Minister. A technical unit (UTRESP) was set up to prepare a Civil Service Reform Strategy, covering the 2001 to 2011 period. Its overall goals were: (i) to redefine and reinforce the role of the State; (ii) to improve the quality of service delivery; (iii) to strengthen the democratic participation of citizens at different levels of government; (iv) to promote decentralization; (v) to consolidate anti-corruption mechanisms; and (vi) to promote transparency

and good governance. The strategy defines public sector reform as the cross of multi-sector reforms already in progress (agriculture, infrastructure, education, health, commerce, state administration and finance). For instance within the PSR efforts, Mozambique initiated a Public Finance Reform (PFR) supported by UTRAFE whose key pillars are: (i) the introduction of a new public finance management system (e-SISTAFE); (ii) revenue collection reform; and (iii) internal audit reform. In 2002, the Inter-Ministerial Commission on Legal Reform (CIREL) was created to prepare a global and harmonious strategy for legal reform, establishing the goals and priorities within the modernization of the State and of the administration of justice that similarly to CIRESF was supported by a technical unit (UTREL).

2.9.4 Bank interventions took into account these initiatives. Hence, the latest budget support programs for Mozambique, the Program of Economic Reform and Good Governance for the Reduction of Poverty (PER GROF), approved in 2000, and the PER GROF II, approved in 2004, address specifically governance related issues and the efforts undertaken at UTRAFE and PFR level. The newest Mozambique portfolio projects, the Institutional Support for Public Sector Reform and the Financial Sector Technical Assistance, both approved in 2005, were designed jointly with the donor community and intend to support the efforts of UTRESF and UTREL.

2.9.5 **Gender Issues.** Gender is another major cross-cutting issue addressed by Bank Group operations. Mozambique's Gender related Development Index (GDI) position is 133 out of 144 and it is below regional averages. However some progress have been made. The GoM has signed the Convention for the Elimination of all forms of Discrimination against Women (CEDAW) - the Beijing Declaration - and recognizes the SADC Gender Policy. The Family Law was passed in Parliament in December 2003, strengthening the women's position as it maintains the concept of monogamy (it also recognizes de facto unions -equivalent to common law marriages) and women's rights within the marriage, recognizing the right of either spouse to be the head of the family. Under this law women have better opportunities to access economic resources and their own assets enter into contracts and agreements. In the case of property and inheritance rights, although women have equal rights according to the Constitution, the customary laws favour men and few aggrieved women have the knowledge of their rights or the money to take their grievances to court.

2.9.6 The Bank approved in 2004 a Gender Profile that enhanced the Bank's ability on policy dialogue with relevant stakeholders. Additionally, most agriculture, namely the Family Farming and Artisanal Fisheries, and social sector, namely the Capacity Building for Poverty Alleviation and Health projects have gender specific objectives/goals. The last approved projects, the Institutional Support for Public Sector Reform and the Gender Mainstream also reinforced the Bank's commitment on gender issues in Mozambique.

2.9.7 **Regional Integration:** Part of Mozambique recent growth is due to mega projects exports. The trade weighted average tariff is 9%, one of the lowest in Africa. The top tariff rate has been steadily lowered, from rates approaching 100% in the early 1990s, down to 25% in 2003. Further reductions in tariffs will follow as the SADC trade protocol is implemented. The Bank, through its budget support projects has helped to modernize the public administration so that it could cope with the new challenges of regional integration. The three regional transport corridors (Beira, Nacala and Maputo) play a strategic role in freight handling to and from the land-locked neighbouring countries of Zimbabwe, Zambia and Malawi, as well as South Africa, whose ports are congested. Mozambique will also benefit from electricity and gas exports to its neighbours. For instance, the Pande Gas Pipeline that connects the gas fields to Johannesburg (800 km) enabled the country to increase its exports earnings. The transport and public utilities projects the Bank has been sponsoring allow Mozambique to better explore these natural conditions. The road projects are developing the Nacala corridor that accesses Malawi and

Zambia, and the electricity projects attempt to spread electricity grid across the country and therefore opening up opportunities for the neighbour countries to have access to Mozambique's vast energetic capacity. With the support of the Bank, the country is planning to establish an electricity inter-connector with Malawi. Mozambique is also a supporter of the continent-wide NEPAD initiative, which is seen as important for improving the quality of regional infrastructure.

**2.9.8 Environment:** All Bank ongoing projects are classified environmentally before appraisal and the requirements of environmental standards are taken into consideration. Such classification helped take into account in the appraisal reports measures to mitigate the environmental impact of projects.

**2.9.9 Population:** A recent general population and household census estimated the population at 18 million. Of this total, 47 % is male. With the population growth rate estimated at 2.4 % between 2000 and 2005, and 2.5 % for 2005 to 2010, the population is expected to reach 19.7 million by 2010. The Mozambican population is very young. It is estimated that about 45 % of the population is younger than 15 and that the median age is 17.5 years. The sex ratio varies between provinces and by age group. For all the age groups and throughout the whole country, it is estimated that there are 92 men per hundred women. This ratio declines to 75.3 in the age group 25 to 29 years. The population is predominantly rural, with only 25 % living in the urban areas (provincial capitals), and almost 50 % living in the capital city, Maputo.

## **2.10 Overall Assessment of Portfolio Performance**

2.10.1 Out of 22 active projects four are not yet effective and another is a private sector operation. Although this CPR did not include these projects (Rural Finance Intermediation Program, Institutional Support for Public Service Reform, Financial Sector Technical Assistance and Education IV) under chapters 2.1, 2.2, 2.3, 2.4 and 2.5, the reasons for their effectiveness delay were considered under Chapter 6. Disbursements under the 17 operations subject of this review, amount to UA 93 million, representing a disbursement rate of 36%.

2.10.2 Comparing the Bank's overall portfolio and the Mozambique portfolio, one can conclude that the later has performing better. According to the 2004 Annual Portfolio Performance Report (APPR), the average age of the Bank's Project Portfolio was 4.2 years, which was above the average of 3.9 years for Mozambique. This indicator is further reinforced by the 2004 CPIA rating that placed Mozambique on the first quintile of the Portfolio Performance Rating sub section.

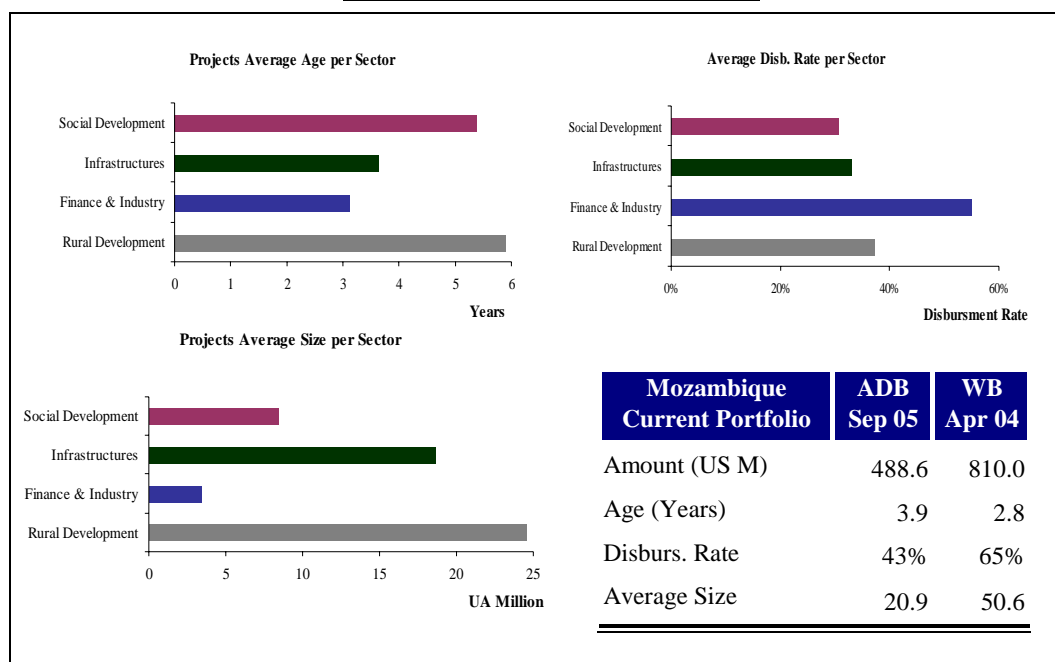
2.10.3 Graphs bellow compare age, disbursement rate and size per sector. Agriculture and social sectors projects are almost twice as old as infrastructure projects. The disbursement rate, apart from finance projects, is balanced across sectors. Comparing the two indicators it is clear that finance and infrastructure projects are performing better, with equivalent and higher disbursement rates than the other sectors but with a significantly shorter average age.

2.10.4 In terms of size, finance projects are on average below UA 5 million. At the other extreme, the agriculture sector average project costs almost UA 25 million. The Massinger Dam project, amounting to UA 55 million, is determinant for this outcome. Without it, the average agriculture project size would be UA 14 million. Infrastructure projects cost on average UA 19 million and social sector projects UA 8 million.

2.10.5 By comparing these indicators with a benchmark in the country, the World Bank, it is clear that there is scope for improvement. Running relatively similar projects, the WB manages to

implement its projects in a shorter period of time thus resulting on an higher average disbursement rate. The main reason for this gap might be related with the field presence that plays a crucial role in implementation. Another reason might be linked to the average project size (USD 21 Million for ADB and USD 51 Million for the WB). The total value of the ADB portfolio amounts to 60% of the WB's but the number of projects is similar.

**Graph 4: Overall Assessment per Sector**

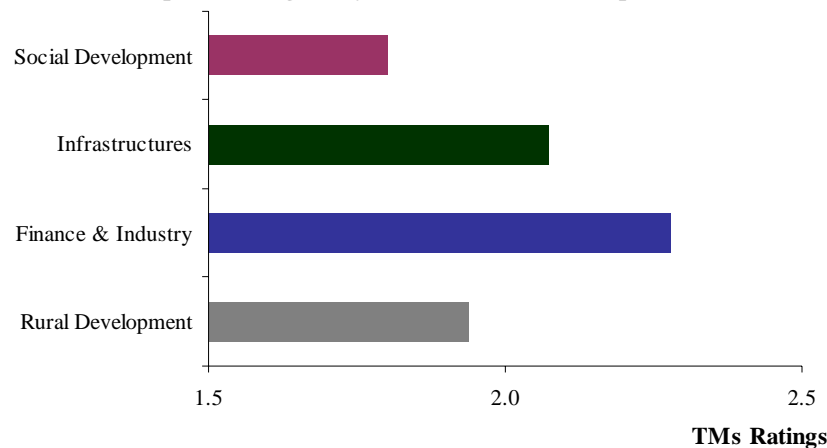


2.10.6 In terms of project evaluation, the overall performance of the operations under review is satisfactory, with a rating of 2 on a 0 to 3 scale, as shown in the following table.

**Table 18: 2005 Review Rating**

Sectors	Compliance With Conditions	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rural Development	1.8	1.9	1.9	2.1	2.1	1.9
Finance & Industry	2.3	2.5	2.4	2.2	2.1	2.3
Public Utilities	2.3	2.1	2.0	1.9	2.4	2.1
Transport	2.5	2.3	1.6	1.8	2.0	2.0
Social Development	2.0	1.6	1.4	1.9	1.9	1.8
<b>Average</b>	<b>2.2</b>	<b>2.1</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>2.0</b>

2.10.7 For the overall portfolio, the better performing criteria are “compliance with conditions” and “impact on development”, and, on the other extreme “financial performance” are the lowest ranked criteria. However, there are significant variations across sectors. For example, “procurement” and “financial performance” are regarded to be worst in agriculture and social sectors while “impact on development” is higher in public utilities. The portfolio review also shows that overall assessment fluctuates depending on which sector is considered. Based on Task Managers’ project ratings, performance is considered best in the Finance & Industry sector, followed by Infrastructures and, and worst in the Social sector.

**Graph 5: Rating Analysis (Overall assessment per Sector)**

2.10.8 This CPR notes that the current rating system poses some problem of analysis. This is because it is influenced by Task Managers' subjectivity, which in turn highlights the conflict of interest in the ratings system. Moreover the rating scale and its description is not clear leading to different interpretations and often to odd evaluations. To overcome this problem, the Mozambique Country Team made an effort to compare all ratings given by each task manager and relate them with the only objective implementation parameters there are: (i) age; and (ii) disbursement rate to achieve some degree of consistency within the portfolio. Although recognising the limitations of this exercise, its outcomes helped to compare objectively projects performances and overcome some of the "conflict of interest" element subjacent to the rating system. By providing relative information as guiding reference to the TMs, this exercise helped to achieve a degree of differentiation among projects, which is one of the purposes of the CPR rating exercise. Therefore, during the last supervision missions, TMs already rated their projects taking into consideration the average disbursement rate and age of the Mozambique portfolio. As one can see on Annex III, that details and presents the results of this exercise, there is now a clear positive correlation between the ratings and the *efficiency* ratio - a compound ratio of implementation deviation (years) from appraisal and disbursement rate.

2.10.9 Comparing to the 1999 Country Portfolio Review only two projects are still on going: the Massingir Dam and the Beira Corridor Health Project. The last CPR overall ratings are summarized in the following table.

**Table 19: 1999 Review Rating**

Indicator	Status	Procurement of Goods and Services	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.6	1.9	1.9	1.8	2.4	1.8

2.10.11 Comparing projects performance in 1999 and 2005 in terms on disbursement rates, average age and overall performance, it can be concluded that although with variations across sectors the overall results in 2005 are significantly better than those verified in 1999. The average age is almost half of the one verified in 1999 and the overall rating improved. Notice that the rating hierarchy among sectors in 1999 was almost the same as today's.

**Table 20: Evolution between CPR 1999 and CPR 2005**

Sector	Age		Disbursement Rate		Overall Rating	
	1999	2005	1999	2005	1999	2005
Rural Development	7.7	5.9	44%	43%	1.6	1.9
Finance & Industry	-	3.1	58%	55%	1.7	2.3
Public Utilities	7.5	3.3	61%	13%	2.0	2.1
Transport	8.1	4.5	53%	56%	1.8	2.0
Social	7.5	5.4	46%	40%	1.4	1.8
<b>Total</b>	<b>7.7</b>	<b>3.9</b>	<b>52%</b>	<b>36%</b>	<b>1.8</b>	<b>2.0</b>

### **III. ASSESSMENT OF PROJECT MANAGEMENT AND IMPLEMENTATION CAPACITY**

#### **3.1 Government and Executing Agencies Performance**

3.1.1 The Ministry of Finance (MF) is the representative for the GoM in all loan/grant agreements. The MF has a supervisory role to ensure compliance with GoM commitments. However, the MF has delegated the Bank of Mozambique (BoM) most of its responsibilities with regard to projects supervision, review of accounting documents, procurement and disbursement. The implementation of projects is ensured by technical ministries through executing agencies and project units. The BoM usually takes a long time, which results in delays in loan effectiveness, procurement and disbursement. In addition it does not routinely follow up the recommendations that arise from Aide Memories. Although the overall performance of the portfolio is satisfactory, there are weaknesses in the coordination and implementation of projects due essentially to lack of communication between the Bank, BoM and MF, the technical ministries and the project executing agencies.

3.1.2 Regarding the capacity of the executing agencies to manage and implement projects, there are still long delays in project implementation. Efforts are still to be made to build the country's capacity to implement projects. The strengthening of executing agencies with human resources, working equipment and training of their staff in Bank Group rules and procedures in the area of the procurement of goods and services should be the main thrusts of efforts to build national project implementation capacity. Some of the disbursements applications forwarded to the Bank contained errors, despite the fact that Bank of Mozambique should have vetted it. This is an indication of inadequate verification performed at the Executing Agency/Project Coordination Unit levels and also by BoM that should carefully review and signs disbursement applications request and forward them to the Bank.

3.1.3 Concerning audits, it can be noted that they have not been carried out at the recommended annual rate. Additionally, there are weaknesses in the monitoring of the implementation of recommendations and dissemination of reports to governmental audit structures. Furthermore, the general loan conditions, namely the timely transmission to the Bank of quarterly status reports and audit reports and fulfilment of other specific conditions, are generally not complied with, resulting in lack of dialogue.

#### **3.2 Bank Performance**

3.2.1 The most decisive Bank's measure to improve project implementation was the opening of the Mozambique Regional Office (RO) in 2005. It is expected that RO would solve most of the delays regarding procurement and financial issues, and improve significantly projects implementation. The RO will comprise, apart from the resident representative, an economist

responsible for programmes, an operations officer, a rural development expert, an infrastructure expert, a socio economist, an investments officer, a procurement officer and a disbursement officer. Although staff transferred from the Headquarters to the RO does not speak Portuguese, the locally hired staff does.

3.2.2 The Bank's performance in the area of assistance, monitoring and supervision has improved since the last review of 1999. Thus, in the area of supervision missions, the annual standard of 1.5 supervision missions, apart from the social sector, was exceeded for all sectors. In addition, the quality of supervision missions has also improved in terms not only of the composition of teams (average of 1.7 experts) and duration of missions (average of 8.1 days) but also of the analysis of the status of projects, systematic inclusion of supervision mission reports in the SAP and monitoring of the implementation of recommendations.

**Table 21: Supervision Quality Indicators**

Supervision Quality Indicators	Supervisions per Year	Average	
		Team Composition	# of Days
Rural Development	1,9	1,5	11,0
Finance & Industry	1,8	1,3	5,0
Public Utilities	1,9	2,0	6,5
Transport	1,9	2,0	7,0
Social Development	1,1	1,8	10,8
<b>Country Average</b>	<b>1,7</b>	<b>1,7</b>	<b>8,1</b>

3.2.3 Since the last review, the Bank has undertaken the following actions in the area of audits and supervision and monitoring of their recommendations:

- (i) Transmission to the GoM, in 1999, the matrix of actions of the Bank audit mission (Phase I Country Approach) of 1999;
- (ii) Follow up actions on project implementation and matrix recommendations, during supervision missions of ONAR, ONSD, ONIN and FFCO departments;
- (iii) Phase II Country Approach audit mission in November 2004. Update during second audit mission on the implementation of actions in the 1999 matrix and the identification of actions not yet implemented and their incorporation into the matrix of actions of the 2004 review;
- (iv) After the Phase II Audit mission, follow up mission of FFCO and transmission of a letter with actions to be taken by the GoM;
- (v) Infrastructure Sector Supervision mission in 2005;
- (vi) Social Sector Portfolio Improvement Plan in 2005;
- (vii) Agriculture Sector Portfolio Improvement Program in 2005.

3.2.4 Current provisions within the Bank concerning monitoring and evaluation were communicated to the GoM. They consisted of applying Bank rules of procedure in the area by the automatic suspension of disbursements when the general loan conditions are not fulfilled, in particular the timely transmission of quarterly status reports and audit reports, fulfilment of other specific conditions and mobilization of counterpart funds. However, on the part of the Bank, there is still: (i) inadequate analysis of the quarterly status reports and audit reports; (ii)

non-transmission to the GoM of this analysis; and (iii) long delays in the expression of non-objection opinions and in the processing of disbursement requests.

3.2.5 Finally, and in an attempt to address two of the most serious problems faced by PIUs: not fluency on the Bank's official languages and procurement rules, the Bank organised in September 2005 a course on Project Implementation in Portuguese that gathered all the PIUs.

#### **IV. AID COORDINATION**

##### **4.1 Assessment of the Government's Capacity to Coordinate External Aid**

4.1.1 The main external aid coordination assessment is carried out through the joint reviews between the GoM and the PAP<sup>4</sup>. The last coordination meeting was held in September, 2005 and the next meeting is scheduled for April 2006. During these reviews a set of PARPA goals and the respective GoM Action Plan are agreed for the following two years and the status of implementation of previous PARPA goals are assessed. Overall performance of the thirty-four PARPA/PAF indicators has been encouraging. Although acknowledging GoM weak institutional capacity, donors recognise the progress made on donor coordination. An important step forward and in the same time, a trustworthy signal on GoM reliability, was the set up of the G-18, which is a group of eighteen donors that have agreed on a Memorandum of Understanding (MoU) with the GoM to provide joint budget support and enhance donor harmonization. The ADB joined the G-18 in February 2006.

4.1.2 On a less positive tone, after the recent GoM restructuring, aid coordination at planning level is supervised by the National Director for Investments and Cooperation (DNIC) of the Ministry of Planning and Development. DNIC is responsible for project selection and design but implementation issues, namely on finance and procurement, are still responsibility of the MF and the BoM. Generally, development partners have reservations about the capacity of newly created entity to ensure an optimal coordination of external aid.

4.1.3 Regarding to counterpart funding, the GoM has asked the Bank to finance future projects on a 100% basis in order to improve project implementation. The GoM participation in Bank's projects varies between 4% on the Finance & Industry sector and 13% on Public Utilities projects. This request is being analysed by the Bank.

**Table 22: Counterpart Funding**

Sector	GoM Counterpart Funding	
	Amount (UA Million)	%
Rural Development	11,9	11%
Finance & Industry	1,3	4%
Public Utilities	18,6	13%
Transport	5,6	10%
Social Development	5,1	9%
<b>Country Average</b>	<b>8,5</b>	<b>10%</b>

<sup>4</sup> The Program Aid Partners (PAPs) include Belgium, Denmark, Canada, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the World Bank, and the African Development Bank. These 18 partners (G18) support a joint program for providing budget support and have signed a Memorandum of Understanding with the Government. Observing external partners included: Japan, United States, UNDP, and IMF.

## 4.2 Assessment of Bank Coordination with Other Donors

4.2.1 So far, external aid coordination with development partners was carried out through: (i) periodical consultations between donors on the preparation of the PRSP and new projects and (ii) thematic workshops between donors. Generally, the Bank used to operate on a stand-alone basis. For example, the current agriculture portfolio does not have any co-financed project and total co-financiers contribution for the projects participated by the ADB is less than 15%. Apart from the ERAP and MRMP projects, where the WB assumes an important stake, the contribution of other donors (mostly the OPEC Fund) on ADB projects is marginal.

**Table 23: Aid Harmonization Efforts**

Sectors	% Portfolio with other donors (per # of projects)	Co-financiers ...	
		... Contribution for Total Project Costs	... Status within ADB projects
Rural Development	0%	0%	Non existent
Finance & Industry	50%	74%	Project Leaders
Public Utilities	40%	30%	Supporting Role
Transport	50%	14%	Supporting Role
Social Development	20%	13%	Supporting Role
<b>Country Average</b>	<b>32%</b>	<b>14%</b>	<b>Residual Role</b>

4.2.2 In the future it is expected that this situation may change. The Bank recently joined the G-18 and will be able to fully participate in the donor community and donor coordination efforts. The Bank will provide budget support through the PAP framework and will have access to the sector working groups where new opportunities to coordinate assistance at sector level should arise. With the opening of the Regional Office, the Bank Group is expected to actively participate in further donor harmonization initiatives.

## 4.3 Assessment of Co-financiers

The current operations that are co-financed with other development partners include: (i) Mineral Resources Management Project with the World Bank, the Nordic Development Fund (NDF) and the Government of South Africa (RSA), (ii) Energy Reform and Access Project with the World Bank, and the (iv) Road Rehabilitation and Upgrading Project, the Education IV and Electricity III Project with the OPEC Fund. On the whole, although co-financiers still have a residual role in ADB projects, the coordination performance is satisfactory and therefore should be leveraged in the future.

## V. STATUS OF LOAN REPAYMENT AND CONTRIBUTION TO BANK CAPITAL

Mozambique owes no Bank loan repayment arrears and is up to date with equity subscription. As of September 2005, the Bank's contribution to Mozambique under the enhanced HIPC initiative is estimated in nominal value terms at US\$ 13.6 million, that is, US\$ 11.8 million in NPV terms. This HIPC assistance, in NPV terms accounts for 53% of the total debt relief assistance committed by the Bank Group of US\$ 22.3 million, in NPV terms. This total amount is equivalent to US\$ 29.3 million, in nominal terms, to be spread over a period of 11 years (up to September 2010).

## **VI. PROBLEMS AND MEASURES TO BE TAKEN TO IMPROVE THE QUALITY OF THE PORTFOLIO**

### **6.1 Problems Encountered in the Implementation of Projects**

6.1.1 Since the last review, the Bank's portfolio has faced several problems:

- (i) Delays in the effectiveness of loans and grants (average 10 months after approval);
- (ii) Absence of a suitable review mechanism by GoM of disbursement and procurement documents submitted to the Bank;
- (iii) Inadequate documentation, by the executing agencies, of payment and non-conformity of payment requests with payment modalities specified in contract clauses;
- (iv) Non-compliance with Bank deadlines concerning the processing of disbursement requests;
- (v) Delays above peer countries to clear large consultancy and construction contracts;
- (vi) Poor mastery of Bank rules and procedures by the project executing agencies;
- (vii) PIU inadequately staffed and often with weak technical capacity;
- (viii) Weak communication channels between the Bank, BoM, MF and PIUs. Some delays are also caused to the non familiarity of some GoM officials in the Bank's official languages;
- (ix) Unsystematic inflow of GoM counterpart funds as well as the lengthy internal clearance and approval process within the government ministries;
- (x) Reimbursement of TVA is delayed and has even leading contractors and suppliers to cancel their services;
- (xi) Absence or delay in the preparation of audit and progress reports as well as their transmission to the Bank;
- (xii) Weak transmission by the MF to governmental audit bodies of audit reports of projects financed by the Bank;
- (xiii) Weak transmission of Bank's observations on Progress and Audit reports to Mozambican authorities in order to really sustain dialogue, to ensure better monitoring of the various projects and programmes;
- (xiv) Changes on initial project design;
- (xv) Frequent shift of Bank's task managers and PIU's staff;
- (xvi) Delays in the examination of documents by the Bank, particularly when they are in Portuguese. Often long delays in payments and non-objection opinions and in tender award procedures;

6.1.2 More detailed and specific problems together with respective action plan of each on-going project are presented in Annex IV. Implementation of this action plan will help strengthen the service delivery of Bank Group-financed projects, and in turn improve portfolio performance.

## 6.2 Solutions and Plan of Action

6.2.1 To improve the quality of the portfolio, solutions and a plan of action have been prepared, in accordance with reference indicators, namely compliance with conditions precedent/commitments, procurement of goods and services, financial performance, activities and outputs and impact of projects on development. The plan of action is summarized as follows.

### 6.2.2 Compliance with Conditions Precedent/Commitments

Actions	Period/ Deadline	Responsible Body
1. The project design (staffing, costs, timeline, outputs) should be more realistic and incorporate lessons learned from previous projects in order to minimize future design changes that cause delays and increased costs;	1. At appraisal	1. Government/Bank
2. Reduce complexity and range of the project activities and focus on sectors where institutional capacity has already been built;	2. At appraisal	2. Government/Bank
3. At appraisal be aware of actions that need to take place before compliance with conditions that are often not considered and therefore not budgeted;	3. At appraisal	3. Government/Bank
4. Discuss loan conditions and project design during the preparation phase with all relevant stakeholders (GoM, beneficiaries). The technical staff of BoM and MF should be more involved in the project design;	4. At the time of loan negotiation	4. Government/Bank
5. Streamline Loan Conditions: In spite of the need to retain their primary role as technical tools to achieve project quality, it is also important to note that their design should increasingly take into account Government's capacity to implement them in a timely fashion;	5. At the time of loan negotiation	5. Government/Bank
6. Where possible, appoint project officers before the negotiation of loan agreements ;	6. At the time of loan negotiation	6. Government/Bank
7. Put in place a performance chart for compliance with loan and grant conditions.	7. On going	7. BoM/Govt

### 6.2.3 Procurement of Goods and Services

Action	Period/ Deadline	Responsible Body
1. The Executing Agency will draw up a performance chart indicating the type of procurement chosen and the deadlines for launching the procedures for selection of external auditors;	1. On going	1.Executing Agency/Govt
2. Reinforce mechanism for reviewing procurement documents (use procedures checklists) submitted to the BoM to ensure conformity with Bank procedures before they are forward to the Bank for clearance;	2. On going	2. BoM
3. Reinforce human resources allocated to contracts analysis and clearance to speed up approval;	3. On going	3. MF/BoM
4. Enlisting the assistance of specialists for important contracts;	4. On going	4. Executing Agency/Govt
5. The executing agencies should speed up the preparation and	5. 1 month	5. Executing

transmission of financial bids evaluation reports;		Agency/Govt
6. The executing agencies should comply with Bank procedures relating to procurement;	6. 1 month	6. Bank
7. Notwithstanding the previous points, the Bank should also analyse the new national procurement code in order to access the possibility of the Bank adopting some of its procedures. Some of the existing Bank procedures are found unsuitable to the specificities of the country and projects;	7. 1 year	7. Bank
8. Harmonize when possible with other donors procurement procedures that are found to be more simple and clear than the Bank's ones;	8. On going	8. Bank
9. The Bank should organize training session in procurement for the executing agencies of projects;	9. Every two years	9. Bank
10. Expedite the issuing of non-objection opinions on financial bids.	10. 1 month	10. Bank

#### 6.2.4 Financial Performance

<b>Actions</b>	<b>Period/ Deadline</b>	<b>Responsible Body</b>
1. Reinforce mechanism for reviewing disbursement documents (use checklists and updated control sheets) submitted to the BoM to ensure conformity with Bank procedures before they are forward to the Bank for payment;	1. On going	1. BoM
2. The BoM should constantly update its loan/disbursement records to serve as a control for the processing and approval of disbursement applications;	2. On going	2. BoM
3. Systematize the preparation of accounting and financial reports;	3. On going	3. Executing Agency/BoM
4. Harmonizing reporting requirements. Non compliance with reporting requirements is a common complaint of the donor community given the capacity limitations of GoM dealing with a large number of donors with different requirements;	4. On going	4. GoM / Donor Community / Bank
5. The executing agencies should transmit regularly to the Bank the list of requests pending for more than two months;	5. On going	5. Executing Agency/BoM
6. The Bank should keep deadline with respect to the processing of disbursement requests;	6. 1 month	6. Bank
7. The Bank should transmit the statement of disbursements to the executing agencies of projects and to the BoM;	7. Monthly	7. Bank
8. Systematic cleaning up of portfolio. The Bank should be more vigorous in enforcing its cancellation policy. Many projects show repeated delays, low disbursement ratios and multiple extensions that are jeopardizing the Bank's lending ability;	8. Every Year	8. Bank
9. The Bank should organize training session in disbursement for the executing agencies of projects;	9. Every two years	9. Bank
10. Communicate in advance likely projects pipeline for GoM financing planning purposes;	10. Every Year	10. Bank

11. Intensify dialogue with GoM regarding the timely release of counterpart payments;	11. On going	11. Bank/GoM
12. Prepare a document forecasting the tax costs (TVA and custom) previewed for the following year;	12. Every Year	12. MF
13. Negotiate in advance tax exemptions or alternative scenarios with the GoM to reduce project tax burden. When applicable project patrimony could be used as tax warrants.	13. Every Year	13. MF

### 6.2.5 Implementation and Monitoring of Activities

<b>Actions</b>	<b>Period/ Deadline</b>	<b>Responsible Body</b>
1. Organize internal portfolio reviews and transmit the review reports to the Bank for information;	1. Quarterly	1. Government
2. Set up a regular dialogue mechanism with task managers. These could include a monthly conference or videoconference call from the Regional Office;	2. Monthly	2. PIU / Bank
3. Improve quality and frequency of desk supervision missions particularly for projects with implementation problems. The GoM has capacity limitations to properly monitor the Bank's field missions (on average 50 per year). The regional office and its videoconference facilities should play an essential role in increasing the quality of desk supervision missions;	3. On going	3. Bank
4. All the information exchange between BoM and the Bank should include the relevant PIU;	4. On going	4. BoM / Govt / PIU / Bank
5. ADB's comments on audit and progress reports should be timely communicated to the BoM and relevant PIU;	5. 1 Month	5. Bank
6. Ensure a minimum task managers turnover rate;	6. On going	6. Bank
7. The MF in collaboration with BoM should develop a system to monitor and follow up all project related observations and recommendations contained in supervision missions aide memoirs. Presently the MF sends copies of the Aide-memoirs to the PIU but does not follow up properly to ensure implementation of the recommendations;	7. Every semester	7. MF / BoM
8. In the area of auditing and quarterly reporting, the BoM should register, number and classify the existing reports and draw up a performance chart indicating, for each project, the date of closure of the fiscal year;	8. On going	8. BoM
9. The Government should ensure that the audit reports of the Bank's projects are transmitted to the Tribunal Administrativo (TA) and Inspecção Geral de Finanças (IGF) and other audit organs ;	9. On going	9. Government
10. Review the status of compliance with other conditions in the quarterly progress reports;	10. Quarterly	10. MF
11. Improve the quality of data in SAP system;	11. On going	11. Bank
12. Increase staff fluent in Portuguese;	12. On going	12. Bank

### 6.2.6 Impact on Development

Actions	Period/Deadline	Responsible Body
1. During implementation, ensure conditions for transfer of skills from the TAs to the Mozambican staff before the end of the TA contract;	1. On going	1. Technical Ministries/Executing Agencies/Bank
2. Increase capacity of DNIC with a view to ensuring a better coordination of external aid; Many GoM officials from MF and BoM who acquired large experience working with the Bank could reinforce DNIC;	2. On going	2. Bank and PIU Government
3. Enhance the role of PSDU division on operations. PSDU could submit (together or not with OPEV) periodic reports on poverty reduction impact of ADB projects.	3. On going	3. Bank & GoM

### 6.3 Lessons for the CSP and Future Portfolio Reviews

6.3.1 The review took place during the preparation of the new RBCSP for 2006-2010. Experiences from portfolio reviews, supervision and other missions, PCRs, post-evaluation reports, and consultations with stakeholders and donors, have pointed out the need to put strong emphasis on:

- i) **Project Size.** Increasing the size of operations in order to reduce transaction costs and reduce administrative burden. ADB projects size is below peer group.
- ii) **Selectivity.** Concentrate efforts on sectors with higher implementation track record.
- iii) **Adequate project design.** This may imply a rationalisation of the loan conditions in order to take into consideration the countries/projects specificities instead of “one format fits all approach”. The Government’s low implementation capacity is a given and the ADB should be able to design projects accordingly. Another aspect to consider is to, as most donors are doing, increasingly channel resources through budget support type of projects in order not to undermine already weak existing capacity that result from temporary PIUs set ups. This approach would also improve coordination within overall donor support.
- iv) **Increasing cooperation, harmonization and coordination with the donor community.** The Bank may have to review its procedures to take into account more fully the requirement to harmonise and coordinate its interventions with other donors in line with the Paris and Rome declarations the Bank has signed.
- v) **Strengthening implementation capacity.** A recurrent and permanent issue that should be take into consideration for the future lending program. Projects should include capacity strengthening components to enhance implementation and guarantee its sustainability.
- vi) **Field presence.** Local Bank Group staff should be able to manage day-to-day issues that affect projects’ implementation, rather than passing queries to head quarters. For this purpose the present delegation of authority should be reviewed to accommodate these expectations over the RO performance.
- vii) **Results based standards.** Results based culture should be embodied in ADB projects with definition of specific output and later assessment of their implementation. This culture also requires a rigorous fulfilment of Quality at Entry conditions.

## **VII. CONCLUSIONS AND RECOMMENDATIONS**

### **7.1 Conclusions**

The performance of the Bank Group Portfolio in Mozambique is generally satisfactory, with an overall rating of 2.0 although there is significant scope for improvement. It is necessary for Government, with assistance from the Bank Group, to ensure that central and local government and executing agencies observe and implement the changes advised in this report.

### **7.2 Recommendations**

7.2.1 The recommendations made in this memorandum concern issues of a general nature raised during the review. Recommendations on issues specific to projects are in the actions monitoring matrix (Annex IV). Hence, the review recommends:

#### *For the Government:*

- a) Reinforce mechanism for reviewing procurement and payment documents (use procedures checklists) submitted to the BoM to ensure conformity with Bank procedures before they are forward to the Bank for clearance;
- b) Timely transmission to the Bank of quarterly internal review, financial bids evaluation, and audit reports;
- c) Guarantee extensive participation of PIU on Bank's training initiatives on procurement and disbursement;
- d) Reinforce human resources allocated to contracts analysis and clearance at the MF and BoM to speed up approval process that is presently below peer group average;
- e) Transmit regularly to the Bank the list of requests pending for more than two months;
- f) Organize internal portfolio reviews and transmit the review reports to the Bank for information; PIUs should share their experiences among themselves by organising internal seminars promoted by the GoM;
- g) Set up a system to monitor and follow up all project related observations and recommendations contained in supervision missions aide memoirs;
- h) Ensure that all the information exchange between BoM and the Bank includes the relevant PIU;
- i) Enforce timely release of counterpart payments;
- j) Ensure that the audit reports of the Bank's projects are transmitted to the Tribunal Administrativo (TA) and Inspeccao Geral de Financas (IGF) and other audit organs;
- k) Increase capacity of DNIC with a view to ensuring a better coordination of external aid;

For the Bank:

- a) Systematic application of the Bank's rules of procedure regarding the automatic suspension of disbursements where the general lending conditions are not met, in particular the timely transmission of quarterly progress reports and audit reports;
- b) The project design (staffing, costs, timeline, outputs) should be more realistic and focus on areas/sectors where institutional capacity has already been built. Discuss loan conditions and project design more extensively with all relevant stakeholders (GoM, beneficiaries, if possible the likely PIU);
- c) Related to the previous point, the Bank should make an effort to streamline loan conditions and take into account countries specificities. The Bank should revise the new Procurement Code of Mozambique;
- d) Notwithstanding the need for executing agencies to comply with Bank procedures, the Bank should also analyse the new national procurement code in order to access the possibility of the Bank adopting some of its procedures;
- e) Organize more often training session in procurement and financial management in the country;
- f) Ensure a minimum task managers turnover rate;
- g) Increase number of ADB staff fluent in Portuguese;
- h) Expedite the issuing of non-objection opinions on financial bids and comments on audit and progress reports received;
- i) Transmit the statement of disbursements to the executing agencies of projects and to the BoM;
- j) Systematic cleaning up of portfolio. The Bank should be more vigorous in enforcing its cancellation policy. Many projects show repeated delays, low disbursement ratios and multiple extensions that are jeopardizing the Bank's lending ability;
- k) Intensify dialogue with GoM regarding the projects pipeline. Analyse possibility to abolish counterpart funds requirement;
- l) Set up a regular dialogue mechanism with task managers. These could include a monthly videoconference call from the Regional Office. Improve quality and frequency of desk supervision missions by using the regional office videoconference facilities.

7.2.2 The Boards of Directors are requested to consider and approve these recommendations, which seek to help improve the Bank Group's on-going portfolio in Mozambique.

## Annex I – Mozambique Administrative Map



This map was provided by the African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.

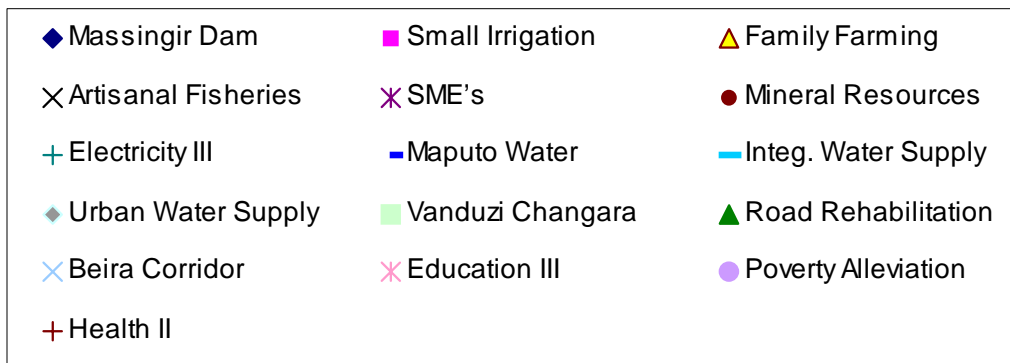
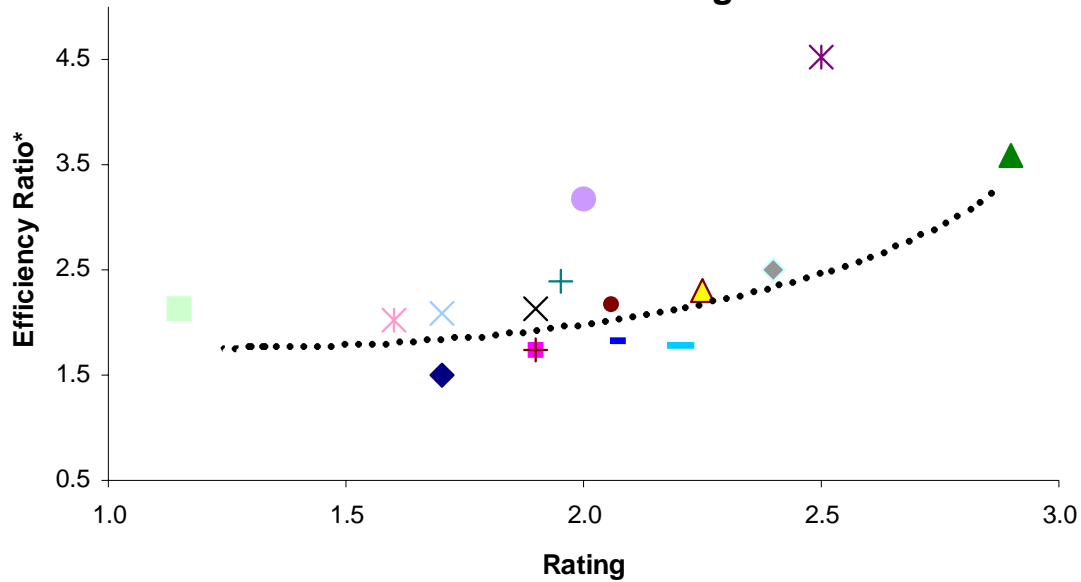
## Annex II – Bank Group Operations

Project title	Source	Approval date	Signature	Effectiveness	Amount Approved	Cumulative Disbursements	% Disbursed
<i>(Unit UA Millions)</i>							
<b>Agriculture</b>							
Pequenos-Libombos Irrigation Studies	ADF	10-Feb-78	22-Mar-78	9-Mar-79	0.46	0.46	100.0%
Tea Rehabilitation (i)	ADB	21-Nov-78	16-May-79	13-Aug-79	5.00	4.93	100.0%
Lioma Agricultural Development	ADB	27-Nov-79	21-Jan-80	31-Jul-80	8.00	7.86	100.0%
Lioma Agricultural Development	ADF	29-Nov-79	21-Jan-80	31-Jul-80	7.37	6.66	100.0%
Inhassane Rural Development	ADF	30-Oct-80	10-Dec-80	11-Sep-81	7.37	7.15	100.0%
Citrus Development	ADF	18-Dec-80	11-May-81	22-Jun-82	8.20	6.47	100.0%
Tea Rehabilitation (ii)	ADB	9-Jun-81	3-Jul-81	31-Mar-82	10.00	9.87	100.0%
Pequenos libombos dam	ADB	16-Feb-82	8-May-82	22-Dec-82	9.80	6.93	100.0%
Pequenos-libombos irrigation	ADF	18-Mar-82	8-May-82	10-Dec-82	9.49	9.49	100.0%
Health (foot - mouth disease control)	ADF	26-May-82	20-Dec-82	29-Sep-83	3.68	3.60	100.0%
Anacard rehabilitation	ADB	8-Feb-84	3-Sep-85	7-Jan-87	9.60	4.29	100.0%
Anacard rehabilitation	ADF	9-Feb-84	3-Sep-85	7-Jan-87	8.43	6.92	100.0%
Umbeluzi valley irrigation study	ADF	24-Aug-84	3-Dec-84	21-Oct-85	1.34	1.26	100.0%
Mafambisse sugar rehabilitation	ADB	23-Aug-88	31-Oct-88	21-Mar-89	13.06	11.57	100.0%
Mafinbisse sugar rehabilitation	ADF	23-Aug-88	31-May-89	08-Mar-90	21.99	19.54	100.0%
Family farming livestock rehabilitation	ADF	28-Aug-90	28-Nov-90	19-Jul-91	13.70	12.10	100.0%
Dev. project of green areas	ADF	23-Mar-92	7-Oct-92	21-Jan-94	7.37	7.33	99.4%
Buzico sugar study	TAF	12-May-93	13-May-93	10-Jun-93	0.64	0.64	99.9%
Forestry and wildlife resources projects	ADF	24-Nov-93	4-Feb-94	5-Jul-95	8.90	7.24	81.4%
Special programme for food security (pilot project)	TAF	19-Jun-00	16-Nov-00	6-Jul-01	0.75	0.75	99.9%
Massingir dam and smallholder agricultural rehab.	ADF	24-Nov-93	4-Feb-94	30-May-96	55.00	33.08	60.1%
Small scale irrigation project	TAF	2-Dec-98	5-Mar-99	29-Oct-99	1.21	0.67	55.2%
Small scale irrigation project	ADF	2-Dec-98	5-Mar-99	29-Oct-99	12.43	3.32	26.7%
Family sector income enhancement project	TAF	31-Oct-00	14-Dec-00	27-Jul-01	1.00	0.46	45.5%
Family sector income enhancement project	ADF	31-Oct-00	14-Dec-00	27-Jul-01	12.46	3.84	30.8%
Artisanal fisheries development project	TAF	14-Nov-01			1.73	0.18	10.1%
Artisanal fisheries development project	ADF	14-Nov-01	20-Dec-01	4-Apr-02	14.17	0.71	5.0%
Rural finance intern.support project	TAF	12-Nov-03			3.84	-	0.0%
Rural finance intern.support project	ADF	12-Nov-03	7-Feb-04	N/A	11.52	-	0.0%
<b>Agriculture Total</b>	<b>23</b>				<b>283.99</b>	<b>177.32</b>	<b>70.9%</b>
<b>Communications</b>							
Maputo-beira telecommunications	NTF	24-Mar-78	9-May-78	30-Jun-79	1.90	1.90	100.0%
Telecommunication ii	ADB	8-Feb-84	6-Jun-84	13-Mar-85	25.90	24.71	100.0%
Telecommunication ii	NTF	8-Feb-84	6-Jun-84	13-Mar-85	4.99	4.75	100.0%
Institut.support to tdm (telecomm.)	TAF	27-Aug-91	29-Jan-92	2-Jun-93	1.80	1.79	100.0%
Telecommunication network feasibility	TAF	2-Jun-93	17-Aug-93	1-Jul-94	0.64	0.38	100.0%
<b>Communications Total</b>	<b>4</b>				<b>35.23</b>	<b>33.53</b>	<b>100%</b>
<b>Finance</b>							
B.p.d. institutional support (grant)	TAF	20-Sep-88	18-May-89	18-May-89	0.21	0.14	100.0%
Institutional support to b.p.d.(grant)	TAF	30-Oct-91	29-Jan-92	14-Oct-92	1.97	1.71	86.5%
Institutional support to b.p.d. (loan)	ADF	30-Oct-91	29-Jan-92	14-Oct-92	1.48	0.44	100.0%
Support to smes dev. in Mozambique	ADF	16-Jan-02	23-May-02	7-May-03	3.50	2.84	81.3%
Financial Sector TA Project	ADF	4-Oct-05			6.80		0.0%
<b>Finance Total</b>	<b>4</b>				<b>13.96</b>	<b>5.13</b>	<b>39.9%</b>
<b>Industry</b>							
Credit facility for small scale interprises study	TAF	10-Jul-93	17-Aug-93	15-Mar-94	0.40	0.16	41.3%
Minerals resources managt cap. building	ADF	3-Sep-01	6-Nov-01	22-Mar-02	3.29	0.43	13.2%
Moma mineral sands project	ADB	21-May-03	15-Jun-04	N/A	25.76	25.76	100.0%
Sasol Regional (Moz/SAF) Project	PS	22-Oct-03	15-Mar-04	N/A	59.65	59.65	100.0%
<b>Industry Total</b>	<b>3</b>				<b>29.44</b>	<b>26.36</b>	<b>89.5%</b>

Project title	Source	Approval date	Signature	Effectiveness	Amount Approved	Cumulative Disbursements	% Disbursed
<i>(Unit UA Millions)</i>							
<b>Multi-sector</b>							
Economic rehabilitation programmation	ADF	28-Apr-88	22-Nov-88	21-Mar-89	32.24	31.94	100.0%
Social dimensions of adjustment project	TAF	29-Oct-92	12-Dec-92	1-Oct-93	0.46	0.03	100.0%
Economic and social rehabilitation programme	ADF	29-Oct-92	12-Dec-92	6-May-93	53.42	53.41	100.0%
Social dimensions of adjustment project	ADF	29-Oct-92	12-Dec-92	1-Oct-93	4.61	2.52	100.0%
Third adf economic rehabilitation loan	ADF	2-Jul-97	25-Sep-97	17-Dec-97	50.00	50.00	100.0%
Program of econ. reform & good governance	ADF	16-Nov-00	29-Dec-00	26-Jun-01	50.00	48.36	96.7%
Second prog. of economic ref- ISPSR	ADF	1-Dec-04	10-Dec-04	30-Dec-04	30.00	29.03	96.8%
ISPSR	ADF	22-Jun-04			2.13	-	0.0%
<b>Multi-Sector Total</b>	<b>7</b>				<b>222.85</b>	<b>215.29</b>	<b>97.8%</b>
<b>Power</b>							
Massingir dam rehabilitation project	ADF	29-Oct-86	16-Dec-86	6-Jul-87	1.81	1.76	100.0%
Electricity i	ADF	27-Aug-91	14-May-92	13-Jan-94	14.55	12.93	100.0%
Electricity ii project	ADF	12-Dec-96	15-Apr-97	30-Apr-98	16.65	14.75	88.6%
Electricity masterplan and feasibility study	TAF	15-Jun-00	29-Dec-00	29/12/2000	0.99	0.82	82.5%
Rural electrif.project (elect iii)	ADF	3-Sep-01	6-Nov-01	28-Mar-02	11.12	1.70	15.2%
Energy Reform and Access Program	TAF	5-Nov-03	2-Apr-04	N/A	1.97	-	0.0%
Energy Reform and Access Program	ADF	5-Nov-03	2-Apr-04	N/A	9.02	-	0.0%
<b>Power Total</b>	<b>6</b>				<b>56.10</b>	<b>31.96</b>	<b>58.7%</b>
<b>Social</b>							
Ed&tech studies of the teach train cent	ADF	21-Jan-86	7-May-86	3-Feb-87	1.24	0.92	100.0%
Health study	TAF	21-May-91	29-Jan-92	13-Jul-92	0.47	0.20	100.0%
Projet education ii	TAF	23-Mar-92	7-Oct-92	16-Sep-93	0.37	0.19	100.0%
Projet education ii	ADF	23-Mar-92	7-Oct-92	16-Sep-93	17.13	13.65	100.0%
Primary teachers training	ADF	18-Apr-89	31-May-89	25-Mar-91	9.21	8.06	100.0%
Beira corridor health project	ADF	18-Oct-96	16-Apr-97	23-Dec-97	7.71	4.91	63.7%
Education iii project	TAF	15-Jul-98	13-Oct-98	17-Nov-99	1.63	0.15	9.1%
Education iii project	ADF	15-Jul-98	13-Oct-98	17-Nov-99	10.69	4.88	45.7%
Poverty reduction	TAF	10-Dec-98	5-Mar-99	30-Dec-00	2.34	2.03	86.9%
Health ii project	TAF	21-Dec-00	29-Dec-00	29-Dec-00	0.60	0.08	13.1%
Health ii project	ADF	21-Dec-00	29-Dec-00	31-May-01	9.00	0.85	9.4%
Education iv project	ADF	13-Sep-01	6-Nov-01	17-Apr-02	10.00	-	0.0%
<b>Social Total</b>	<b>9</b>				<b>70.39</b>	<b>35.92</b>	<b>55.3%</b>
<b>Transport</b>							
Nampevo-alto-molocue road constuction	ADF	29-Apr-77	4-May-77	30-May-78	7.37	7.37	100.0%
Alto-molocue-ligouba road cnostruction	ADF	30-May-79	12-Sep-79	23-Nov-79	7.37	4.70	100.0%
Beira-mashipanda road (grant)	TAF	27-May-88	18-May-89	7-Nov-89	0.83	0.78	100.0%
Beira corridor transport system	ADF	27-May-88	30-May-89	7-Nov-89	17.45	16.80	100.0%
Transport programme	TAF	1-Dec-92	13-May-93	30-Sep-93	2.49	1.62	100.0%
Transport programme.	ADF	1-Dec-92	13-May-93	17-Jan-94	23.95	18.99	100.0%
Pemba-montepuez road rehabilitation	ADF	25-Jun-97	29-Dec-00	13-Jun-01	26.00	22.28	100.0%
Road transport studies	TAF	17-May-00	31-May-00	13-Jun-01	1.61	1.36	84.5%
Vanduzi-changara road rehabilitation project	TAF	15-Dec-99	31-Mar-00	7-Jul-00	0.80	0.33	40.7%
Vanduzi-changara road rehabilitation project	ADF	15-Dec-99	31-Mar-00	11-Aug-00	16.79	7.56	45.0%
Roads rehabilitation and upgrading project	ADF	8-Dec-00	29-Dec-00	3-Apr-02	25.01	15.79	63.1%
<b>Transport Total</b>	<b>8</b>				<b>129.66</b>	<b>97.58</b>	<b>83.6%</b>
<b>Water Sup/Sanit</b>							
Maputo water supply	ADB	27-Oct-81	14-Nov-81	10-Nov-82	10.00	9.97	100.0%
District centers water supply rehabilitation	TAF	9-Sep-98	13-Oct-98	3-Sep-99	1.80	0.82	45.7%
Maputo water supply augmentation project	TAF	17-Jun-99	23-Nov-99	29-Feb-00	2.16	-	0.0%
Maputo water supply augmentation project	ADF	17-Jun-99	23-Nov-99	29-Feb-00	17.50	6.00	34.3%
Integrated water supply and sanitation project	TAF	8-Dec-00	29-Dec-00	29-Aug-01	1.00	-	0.0%
Integrated water supply and sanitation project	ADF	8-Dec-00	29-Dec-00	29-Aug-01	15.77	1.83	11.6%
Urban water supply, san.& inst. support	TAF	20-Dec-02	3-Jun-03	17-Dec-03	2.31	-	0.0%
Urban water supply, san.& inst. support	ADF	20-Dec-02	3-Jun-03	17-Dec-03	19.06	-	0.0%
<b>Water Sup/Sanit Total</b>	<b>5</b>				<b>69.60</b>	<b>18.62</b>	<b>26.8%</b>
<b>Grand Total</b>					<b>911.23</b>	<b>641.71</b>	<b>75.3%</b>

**Annex III - Ratings vs Implementation Indicators Analysis**

**Correlation Efficiency Ratio and Overall Assessment Rating**



\* Compound average of implementation deviation (years) and disbursement rate

## Annex IV - Matrix of Ongoing Portfolio Improvement Actions

### Matrix of Actions of the Agriculture Sector

Problems Identified	Actions To Be Taken	Schedule	Responsible Body
<p><b>Massingir Dam and Smallholder Agriculture Rehabilitation</b></p> <p>1. Untimely payment of Value Added Tax – there is the risk that contractors would leave site for breach of contract by the client</p> <p>2. Regular and timely payment of Government Contribution the project</p> <p>3. Outsource management of inputs for the Casas agrarias beginning 2006 crop season</p> <p>4. Supplementary loan for construction of auxiliary spillway and rehabilitation of irrigation infrastructure at Xai-Xai irrigation scheme</p>	<p>1. Timely payment of Value Added Tax on works, goods, and services procured by the project is critical</p> <p>2. Government is reminded that its expected contribution to the project is 10%.</p> <p>3. PIMU to commence consultations immediately</p> <p>4. Raise disbursements on the current loan to at least as shown in the disbursement schedule presented to the mission</p>	<p>On-going</p> <p>On-going</p> <p>2005/2006 crop season</p> <p>December 2005</p>	<p>MF</p>
<p><b>Small Scale Irrigation Project</b></p> <p>1. Legalisation of Farmer Associations, and access to title deeds for land earmarked for irrigation development – implications on credit component</p> <p>2. Timely payment of Value Added Tax on works, goods, and services procured by the project is affecting the timely delivery of inputs to the project</p> <p>3. Timely payment of Government Contribution the project</p>	<p>1. PMU to follow up</p> <p>2. PMU to discuss with the government</p> <p>3. Government is reminded that its expected contribution to the project is 10%, however is has so far contribute 6% of the total</p>	<p>On-going</p> <p>On-going</p> <p>On-going</p>	<p>MF</p>

<p>4. Revision of the Work Programme and Budget of the project</p> <p>5. Submission of proposal for the utilisation of the 3 MSc Irrigation Fellowships</p>	<p>expenditure. This must be corrected to ensure smooth implementation of project activities.</p> <p>4. To ensure that the schemes are fully completed within the two-year extension granted to the project the work programme and budget must be revised</p> <p>5. It is imperative that the proposal be submitted without any further delay to ensure the fellowships can be administered within the project's life</p>	<p>End January 2006</p> <p>End December 2005</p>	
<p><b>Family Farming Income Enhancement Project</b></p> <p>1. Payment of Value Added Tax on works, goods, and services procured by the project,</p> <p>2. Submission of draft tender documents for the expansion of the breeder farm,</p> <p>3. Need to determine amount of funds to be deposited into the revolving fund and the related timeline,</p>	<p>1. PMU to work with the GoM to address this issue. PMU is discussing with the GoM the possibility of some tax exemption for the construction and equipping the breeder farm,</p> <p>2. Draft tender documents to be submitted to the Bank.</p> <p>3. Remaining balance of MZM 4.45 billion to be deposited into the revolving fund account through 6 monthly installments of MZM 741,865,080 commencing October 2005.</p>	<p>Must be concluded before commencement of the works in 2006</p> <p>Dec. 30, 2005</p> <p>Monthly payments to start in Oct. 2005</p>	<p>MF</p>
<p><b>Artisanal Fisheries Development Project</b></p> <p>1. Procurement of training services for community mobilization and rural entrepreneurship ,</p> <p>2. Problems with the accounting system – financial data not updated. - project is still learning functionality of accounting system,</p>	<p>1. Submit request for no objection with estimated budgets to the Bank,</p> <p>2. Fix the problems with the FIMPRO system, and update the financial data - project to assess if they need additional training in FIMPRO and/or a short consultancy to design customized reports,</p>	<p>On going</p> <p>On going</p>	<p>MF</p>

**Matrix of Actions of Infrastructure Sector**

Problems Identified	Actions To Be Taken	Schedule	Responsible Body
<p><b>Electricity III Project</b></p> <p>1. It will not be possible to complete the project within the deadline of last disbursement for the project loan, namely 31 December 2005 due to slip in the major construction contract, which is scheduled to be completed by September 2007.</p>	<p>1. Extension of the deadline for last disbursement from 1 January 2006 to 31 December 2007 based on the revised implementation schedule.</p> <p>2. Enhance supervision and monitoring both by the Operation Complex and by the Mozambique Country Office.</p>	<p>2006</p> <p>On going</p>	<p>ME</p>
<p><b>Energy Reform and Access Program</b></p> <p>1. No disbursement on the Bank funded components,</p>	<p>1. GoM, namely the Ministry of Energy to open a Special Account and submit to the Bank: the details of the Special Account opened, the authorized signatures for purposes of transactions and submit disbursement request at the same time.</p>	<p>2006</p>	<p>ME</p>
<p><b>Maputo Water Supply Augmentation Project</b></p> <p>1. Need for closer supervision of the contractors so that the works will be completed according to time schedule.</p>	<p>1. Extra effort required by FIPAG and DNA to stay within the agreed implementation time schedule and complete the project by mid 2006.</p>	<p>On going</p>	<p>FIPAG/DNA</p>
<p><b>Integrated Water Supply &amp; Sanitation</b></p> <p>1. Need for closer supervision of the project by DNA so that the project will be completed according to time schedule.</p>	<p>1. Extra effort required by DNA to coordinate and supervise the project.</p>	<p>On going</p>	<p>FIPAG/DNA</p>

<p><b>Urban Water Supply, Sanitation &amp; Institutional Support Project</b></p> <p>1. Delayed procuring of supervision consultants services which might affect the beginning of works.</p>	<p>1. Extra effort required by FIPAG and DNA to comply with the agreed implementation time schedule and complete the project by 2007.</p>	<p>On going</p>	<p>FIPAG/DNA</p>
<p><b>Vanduzi Changara Road Rehabilitation Project</b></p> <p>1. Securing of finance to finance the Lot 2 of the remaining works.</p> <p>2. The extension of deadlines for the loan and grant.</p>	<p>1. GoM to contact donors. So far BADEA and IDB contacted. However due to long time lag, GoM has decided to use Road Funs for this.</p> <p>2. This is to be done by the GOM.</p>	<p>End 2005</p> <p>End 2005</p>	<p>MF</p>
<p><b>Road Rehabilitation and Upgrading Project</b></p> <p>1. Payment of certificates on time and payment of VAT for 2003.</p> <p>2. The formal request by the GoM to use the loan savings.</p>	<p>1. The GoM to pay all outstanding VAT and submission of certificates to Bank on time for payment.</p> <p>2. To be submitted by the MF.</p>	<p>End 2005</p>	<p>MF</p>

**Matrix of Actions of the Social Sector**

Problems Identified	Actions To Be Taken	Schedule	Responsible Body
<b>Beira Corridor Health Project</b>			
1. Long delays in procuring goods and services and in submitting to the Bank acceptable documents;	1. Submit to the Bank all pending bid evaluation reports and bidding documents after carefully revised by MoH or BoM;	On going	MOH/GACOPI
2. Long delays in the approval process of project documents from GoM and from ADB;	2. Expedite the civil works of Ponta Gea;	On going	GACOPI/Contractor
3. Poor coordination/communication between GACOPI/Maputo and Provincial PIUs;	3. Improve the coordination/ communication mechanism between GACOPI/Maputo and the projects' PIUs,	On going	MOH/GACOPI
4. Delays by BoM in signing and submitting of disbursement requests to ADB.	4. Expedite the signing and submission of disbursement requests to ADB;	On going	GACOPI
<b>Education III</b>			
1. Lack of counterpart funds, with only 26% made available to-date, needs serious attention by ME and MF. It also affects the maintenance of the recently completed Teacher Professional Development (IMAPs) provincial centres.	1. The GoM must prioritize these investments not to further jeopardize the ADB projects.	Before next supervision	Executing agency
2. The location of the PIU at the ME, Department for School Construction, makes it impossible for the staff to devote their time exclusively to the project. There are other donor-funded projects that also require a certain amount of attention.	2. The recruitment of staff under Education IV could improve Education III implementation.		

<p><b>Capacity Building for Poverty Alleviation Project</b></p> <p>1. Poor financial management and non-compliance with standard financial management (based on the findings of the Bank Audit).</p>	<p>1. The Bank Audit gave recommendations for improvement and the Government has responded and addressed most of the issues with exception of payment of ineligible expenses to INAS and DNDR. The Bank requested the estimates of these expenses and their repayment to the project.</p>	<p>End 2005</p>	<p>MF</p>
<p><b>Health II</b></p>	<p>1. Submit to the Bank evidence of the establishment of a steering committee for the coordination of project activities in the 3 provinces (Nampula, Niassa and Cabo Delgado);</p> <p>3. Recruit a project manager and an accountant for Health II project and submit to the Bank the TOR and shortlist of candidates;</p> <p>4. Submit to the Bank the training plan for the utilization of the balance of USD 57,239.24 from the Humanitarian Emergency Support;</p>	<p>2006</p> <p>2006</p> <p>2006</p>	<p>ACOPI</p> <p>GACOPI/MOH</p> <p>GACOPI</p>

**Matrix of Actions of Finance and Industry Projects**

Problems Identified	Actions To Be Taken	Schedule	Responsible Body
<p><b>Support to SME's Development</b></p> <p>1. Good performance in danger of being undermined due to the institutional problems of one of the project implementing agencies, FFPI.</p> <p>2. The FFPI is having operational and financial difficulties; its operations cannot be sustained under the current conditions.</p>	<p>1. The last Bank supervision mission of the LOC in June 2005 impressed the GoM to come up with a firm position on the situation and future direction of FFPI.</p> <p>2. The agency will require a large injection of new equity funds if it is to remain viable. While efforts are being made to get some private investors to put in the required equity, the mission was not very confident that this could be achieved.</p> <p>An option suggested to the GoM is to encourage FFPI to merge with another financial institution. If this cannot be arranged, and fresh equity cannot be provided, then the GoM should consider winding up the institution, rather than allowing it to continue to be a drain on public funds.</p>	<p>It is expected that the end of 2005 would decide a position on the FFPI</p>	
<p><b>Mineral Resources Management Capacity Building</b></p> <p>1. It is expected that the end of 2005 would decide a position on the FFPI.</p>	<p>1. Solving the disbursement delays requires more conscientious work by the Executing Agency and the Bank of Mozambique. This has also been discussed with the two agencies and the GoM.</p>	<p>Project Implementation Course organized by the Bank in Maputo in September 2005</p>	

## Annex V - Matrix of Common Problems

	Govrt. Counterpart Funds	Procurement Issues	Management Problems	Capacity of Executing Units	Delays in Physical Implementation
<b>Massingir Dam and Smallholder Agriculture Rehabilitation</b>	X	X	X		X
<b>Small Scale Irrigation Project</b>	X			X	X
<b>Family Farming Income Enhancement Project</b>	X			X	X
<b>Artisanal Fisheries Development Project</b>		X			X
<b>Support to SME's Development</b>	X		X		
<b>Mineral Resources Man. Capacity Building</b>	X	X			
<b>Electricity III Project</b>		X	X		
<b>Energy Reform and Access Program</b>			X		
<b>Maputo Water Supply Augmentation</b>			X	X	X
<b>Integrated Water Supply &amp; Sanitation Project</b>			X	X	X
<b>Urban Water Supply, Sanitation &amp; IS Project</b>				X	X
<b>M. Vanduzi Changara Road Rehabilitation Project</b>	X		X		X
<b>N. Road Rehabilitation and Upgrading Project</b>	X				
<b>Beira Corridor Health Project</b>	X	X	X	X	X
<b>Education III</b>	X	X		X	
<b>Capacity Build. Poverty Alleviation Project</b>				X	X
<b>Health II</b>	X	X	X	X	X
<b>Education IV</b>		X		X	

**Annex VI - Cross-cutting issues and ongoing projects**

	<b>Governance</b>	<b>Gender</b>	<b>Regional Integration</b>	<b>Environment</b>	<b>Population</b>	<b>Microcredit</b>	<b>Poverty Reduction</b>
<b>Massingir Dam and Smallholder Agriculture Rehabilitation</b>				X	X		X
<b>Small Scale Irrigation Project</b>		X		X			X
<b>Family Farming Income Enhancement P</b>		X				X	X
<b>Artisanal Fisheries Development Project</b>				X		X	X
<b>Support to SME's Development</b>	X					X	
<b>Mineral Resour. Man. Capacity Building</b>				X			X
<b>Electricity III Project</b>			X				
<b>Energy Reform and Access Program</b>			X				
<b>Maputo Water Supply Augmentation</b>				X			X
<b>Integrated Water Supply &amp; Sanitation</b>				X			X
<b>Urban Water Supply, Sanitation &amp; IS</b>				X			X
<b>M. Vanduzi Changara Road Rehabilitation</b>			X				X
<b>N. Road Rehabilitation and Upgrading</b>			X				
<b>Beira Corridor Health Project</b>		X		X			
<b>Education III</b>		X					X
<b>Capacity Build. Poverty Alleviation</b>							X
<b>Health II</b>		X		X			
<b>Education IV</b>		X					X











<b>[MINERAL RESOURCES MAN. CAPACITY BUILDING]</b>		
INDICATORS	RATING	
	Previous Review 1999	Present Review
A COMPLIANCE WITH LOAN CONDITIONS 1. Compliance with loan conditions precedents to effectiveness 2. Compliance with commitments made in the loan agreement 3. Compliance with other conditions	-	2.3
B. PROCUREMENT PERFORMANCE 1. Procurement of services 2. Procurement of goods	-	2
C. FINANCIAL PERFORMANCE 1. Availability of foreign exchange 2. Availability of local currency 3. Disbursement flows 4. Cost management/recovery 5. Performance of co-financiers	-	2
D. ACTIVITIES AND OUTPUTS 1. Adherence to implementation schedule 2. Capacity of consultants and technical assistants 3. Efficiency of contractors. 4. Efficiency of project management	-	2
E. IMPACT ON DEVELOPMENT 1. Likelihood of achieving project goal 2. Likelihood that benefits will be realize and sustained beyond the investment stage of the project 3. Likely contribution of the project towards inst. capacity building 4. Expected rate of return	-	2
F. OVERALL ASSESSMENT 1. At present 2. Trend over time	-	2.1
Code : 3 = Highly satisfactory 2 = Satisfactory : occasional problems, Bank should monitor 1 = Unsatisfactory: problems, Bank should monitor closely but no immediate action required. 0 = Highly unsatisfactory : serious problems, Bank action required N/A. = Not applicable		

















<b>[EDUCATION III]</b>		
INDICATORS	RATING	
	Previous Review 1999	Present Review
A. COMPLIANCE WITH LOAN CONDITIONS 1. Compliance with loan conditions precedents to effectiveness 2. Compliance with commitments made in the loan agreement 3. Compliance with other conditions	-	2.0
B. PROCUREMENT PERFORMANCE 1. Procurement of services 2. Procurement of goods	-	1.5
C. FINANCIAL PERFORMANCE 1. Availability of foreign exchange 2. Availability of local currency 3. Disbursement flows 4. Cost management/recovery 5. Performance of co-financiers	-	1.7
D. ACTIVITIES AND OUTPUTS 1. Adherence to implementation schedule 2. Capacity of consultants and technical assistants 3. Efficiency of contractors. 4. Efficiency of project management	-	1.5
E. IMPACT ON DEVELOPMENT 1. Likelihood of achieving project goal 2. Likelihood that benefits will be realize and sustained beyond the investment stage of the project 3. Likely contribution of the project towards inst. capacity building 4. Expected rate of return	-	1.5
F. OVERALL ASSESSMENT 1. At present 2. Trend over time	-	1.61 1.62
Code	3 = Highly satisfactory 2 = Satisfactory : occasional problems, Bank should monitor 1 = Unsatisfactory: problems, Bank should monitor closely but no immediate action required. 0 = Highly unsatisfactory : serious problems, Bank action required N/A. = Not applicable	



