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**Republic of Mozambique**

**Evaluation of the Poverty Reduction Strategy Paper (PRSP)  
Process and Arrangements Under the Poverty Reduction and  
Growth Facility (PRGF)**

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This case study was prepared jointly by the independent evaluation units of the World Bank and IMF, as background to separate but complementary evaluation reports available at [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp) and [www.imf.org/ieo](http://www.imf.org/ieo). The other country case studies conducted in support of these evaluations are also available on-line at the above addresses.

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## Abbreviations and Acronyms

AAA	Analytical and Advisory Assistance
CAR	Country Assistance Review
CAS	Country Assistance Strategy
CCR	CAS Completion Report
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CPAR	Country Procurement Assessment Report
CPPR	Country Portfolio Performance Reviews
CSO	Civil Society Organization
DANIDA	Danish International Development Agency
DFID	Department for International Development (United Kingdom)
EMPSO	Economic Management and Private Sector Operation
EMRO	Economic Management Reform Operation
ERP	Economic Rehabilitation Program
ESAF	Enhanced Structural Adjustment Facility
ESRP	Economic and Social Rehabilitation Program
ESW	Economic and Sector Work
EU	European Union
FAO	Food and Agriculture Organization
FRELIMO	Liberation Front of Mozambique
G-11	Group of Eleven Donors
GDP	Gross Domestic Product
GDDS	General Data Dissemination System
GNI	Gross National Income
GOM	Government of Mozambique
HIPC	Heavily Indebted Poor Country
IEO	Independent Evaluation Office (IMF)
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MPF	Ministry of Planning and Finance
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NGOs	Nongovernmental Organizations
OED	Operations Evaluation Department (World Bank)
PAF	Performance Assessment Framework
PARPA	Action Plan for the Reduction of Absolute Poverty
PEM	Public Expenditure Management
PEMR	Public Expenditure and Management Review
PES	Economic and Social Plan

PFPs	Policy Framework Papers
PRGF	Poverty Reduction and Growth Facility
PROAGRI	The National Programme for Agricultural Development
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
RENAMO	Mozambique National Resistance
ROSC	Reports on the Observance of Standards and Codes
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SB	State Budget
SWAps	Sector Wide Approaches
UNDP	United Nations Development Program
VAT	Value-Added Tax

## EXECUTIVE SUMMARY

### Overview

In Mozambique, poverty reduction as a key objective of government policy predates the introduction of the PRSP approach by the IMF and the World Bank. PARPA—Mozambique's PRSP—drew heavily on existing sectoral policies and programs, but it also put more firmly on the public agenda issues related to participation in domestic policy processes (including the role of parliament and political parties), and has brought greater attention to implementation constraints through a focus on monitoring results. It has become the common point of reference on poverty reduction policies within government—across line ministries and between central and provincial levels of government—and for dialogue between the government, other national stakeholders, and international development partners.

The principal objective in the PARPA is reduction in the incidence of poverty from 70 percent in 1997 to less than 60 percent in 2005, and to less than 50 percent by 2010. Six priority, and 11 complementary, areas are identified to promote human development and create a favorable environment for rapid, inclusive and broad-based growth. The priority areas are: (i) education; (ii) health; (iii) agriculture and rural development; (iv) basic infrastructure; (v) governance; and (vi) macroeconomic and financial policies.

### Application of underlying principles

The PRSP approach has proved to be relevant to Mozambique, and the underlying principles have been applied to varying degrees in the PARPA process. Initially, the authorities resented what they saw as an additional externally-driven procedural requirement. Overall, however, the process has been *country-driven with strong government ownership*. A draft of the PARPA was subjected to a consultation process that involved the participation of business associations, labor unions, religious bodies, nongovernmental organizations, media, central and provincial government institutions and donors. Even though the consultation process had its shortcomings—for example, representatives of civil society organizations have pointed to insufficient time for preparation (e.g., materials were distributed late, and there was insufficient time for CSOs to consult members at grassroot levels)—the consultations did lead to significant changes to the draft, most notably the inclusion of good governance as one of the “fundamental priority” areas. However, after approval by the government, little has been done to disseminate PARPA (including preparing popular versions in main local languages); it is largely unknown in any detail outside Maputo and provincial capitals.

The PARPA process is *partnership-oriented* and builds on existing mechanisms for government-donor relations. The PARPA process was launched at a time when there was broad consensus between government and donors on key priorities for poverty reduction. Most of the sector policies around which PARPA was built had been developed by the government in close cooperation with donors. This relatively harmonious process reflected the fact that Mozambique already had a comparatively well developed donor coordination

mechanism. A number of Sector Wide Approaches (SWAs)—including in health and agriculture—have existed since the mid-1990s. Also, several donors in Mozambique were coordinating their balance of payments support prior to the PARPA process.

The PARPA recognizes the *multi-dimensional nature of poverty* and adopts a comprehensive approach to poverty reduction. It employs a wide range of indicators for measuring poverty; e.g., in addition to income- and consumption-based indicators, it also used available data on illiteracy, mortality and water access rates, and drew on the results of a qualitative participatory poverty assessment. Reflecting its broad definition of poverty, the PARPA adopts a comprehensive approach to poverty reduction that includes broad-based growth in a framework of macro-economic stability, actions to enable market-based rural development, and social service delivery. Although it provides a good description of regional differences of poverty incidence, it does not provide provincial- and district-level targets. There is a need for greater clarity on how national average targets relate to provincial and district priorities.

The PARPA is based on a *long-term perspective*, but its operational framework is appropriately medium-term oriented. The medium-term nature of PARPA is underlined by two additional factors: government intention to link future versions of PARPA to the election cycle (specifically, the economic program presented to parliament by a newly elected government), and ongoing work towards defining a “Vision 2025.”

The PARPA is *results-oriented*, but institutional weaknesses pose a challenge for translating plans into action. The operational targets are largely taken from sectoral plans, and vary considerably in scope and precision: some are set at the output level (e.g., enrolment rates in primary education), others are input-oriented (e.g., curriculum reform, teacher training), while others are set on intermediate outcomes (e.g., mortality rates). In a few areas, targets were not yet specified (e.g., anti-corruption).

### **Implementation, monitoring, and preliminary results**

Integration of PARPA into the government’s planning, budgeting and reporting processes is underway but at a slow pace. The annually updated five-year medium-term budget framework (MTBF) is the principal instrument for translating the public expenditure priorities in PARPA into budgetary allocations. Weaknesses in Mozambique’s public expenditure management system need to be addressed to ensure that budgeted funds are available to spending units and that the funds are spent as budgeted. Quality control (i.e., ensuring quality of spending) and monitoring and reporting functions in government also need to be enhanced. Senior officials emphasized to the evaluation team that procedures for monitoring and reporting on progress in implementation should be oriented around the strengthening of domestic processes, rather than fulfilling BWI procedural requirements. In this regard, the recent merging of the annual PRSP process report and the review of the 2003 Economic and Social Plan (submitted to Parliament) is an important step forward.



A high level forum—the Poverty Observatory—has been established to bring together the government, a broad range of national stakeholders and Mozambique’s international development partners to review PARPA implementation on an annual basis. The focus is intended to be on drawing lessons from experience and coming up with recommendations for improving implementation and monitoring.

Evidence on progress towards meeting PARPA targets and objectives is mixed, with significant progress in some areas (e.g., education and health), and less progress in others (e.g., agriculture). But in most areas, there is uncertainty about the extent to which progress is being made in improving quality of service delivery. These uncertainties reflect system weaknesses in budget execution, monitoring and reporting, and are being addressed as part of the reforms of the public expenditure management system.

### **Enhancing capacity**

There is a wide range of ongoing reforms in the public sector aimed at addressing capacity weaknesses related to implementation and monitoring of the PARPA. Although these reforms are meant to address capacity constraints, they appear to be taxing current capacity to the limit. At the same time, different levels of government (i.e., central, provincial and district) are putting great stock in these reforms—especially aspects dealing with decentralization of the planning and monitoring system—to improve the implementation of government policies and programs.

The PARPA process seems to have enhanced policy discussions on poverty issues within the government (especially between central and provincial government officials), and to a lesser extent, between the government and non-government stakeholders. However, a broad range of those met by the evaluation team stressed the need to strengthen policy analysis capacity in and outside government for a more meaningful and sustainable participatory process.

### **IMF effectiveness**

Reflecting the wishes of the authorities, IMF staff did not participate directly in the preparation of the PARPA. In particular, there was no IMF staff participation in the government-led consultations with stakeholders.

When the ESAF was transformed to the PRGF in 1999, this was supposed to signal a new way of doing business for the IMF. In particular a number of “key features” were supposed to distinguish PRGF-supported programs from those supported under the ESAF: (i) broad participation and greater country ownership; (ii) embedding the program in an overall strategy for growth and poverty reduction; (iii) government budgets that are more pro-poor and pro-growth; (iv) appropriate flexibility in fiscal targets; (v) more selective structural conditionality; (vi) emphasis on measures to improve public resource management and accountability; and (vii) social impact analysis of major macroeconomic adjustment and structural reforms.

The evaluation's findings on the application of the "key features" in Mozambique's PRGF-supported programs are as follows:

- Participation in the formulation and monitoring of IMF-supported programs has remained narrow, but there is some indication of greater country ownership of the program.
- The macroeconomic framework of the pre-existing PRGF-supported program influenced the PARPA's macroeconomic framework, but the PRGF objectives have become broadly aligned to PARPA goals.
- The PRGF emphasizes poverty reduction interventions (e.g., pro-poor, and pro-growth government budgets) and measures to improve public resource management and accountability (in line with PARPA objectives on good governance).
- The envisaged fiscal stance in programs continues to reflect an "objective" of significant reduction in aid dependence over a relatively short time horizon, but in reality, programs have become more flexible in dealing with aid inflows.
- There has been significant streamlining in structural conditionality under the PRGF-supported program. In practice this has meant transferring responsibility for areas vacated by the IMF to the World Bank. Thus, "streamlining" has been interpreted by the staff in terms of the division of labor with the World Bank rather than reducing the burden of aggregate conditionality on the country.
- Not much has happened with respect to undertaking social impact analysis of major macroeconomic adjustment and structural reforms. One exception was PSIA of a proposed fuel tax increase, where the policy decision was postponed until the assessment was completed.

There was little public discussion of the macroeconomic policy content of the PARPA, and more generally, there continues to be little public discussion of macroeconomic policy issues. Broader participation would be facilitated by the establishment of a government-led macroeconomic working group open to representatives from all stakeholder groups. The IMF can contribute towards broadening participation in the discussion of macroeconomic policies in the country by facilitating wider dissemination and discussion of the analytical work that forms the basis for its policy recommendations, including the work of TA missions.

Feedback from the authorities and donors on the role of IMF resident representatives was very positive. However, CSOs indicated that the IMF was invisible to them reflecting its low profile outside official circles. The office of the IMF resident representative needs strengthening to be able to effectively play all the roles expected of it.

## **World Bank effectiveness**

The Bank supported PARPA formulation the way the government wanted, with appropriate support without being intrusive. Preparation of the PARPA was strongly country-driven, with the Bank providing comprehensive informal and formal comments as well as offering relevant analytical inputs. There was also considerable work by the Bank preceding the PARPA process that authorities drew from, including development of sector-wide approaches, a Country Economic Memorandum, the participatory activities conducted in preparation of the 2001 CAS, and preparation of a Public Expenditure Management Review starting in September 2000 that was recognized by government as aiding the costing of sector strategies. The end product of the formulation phase was clearly country-owned, with several areas of continued differing viewpoints between the Bank and government. These included the scope of the strategy, which the Bank feared was too broad, too sector focused, and included public policies which were not core to poverty reduction. On specific issues, Bank staff wanted more focus on the quality of primary education, a stronger separate focus on HIV/AIDS, and changes to the land rights regime.

The government expressed satisfaction with its relations with the Bank, with discussions now more linked to the realities of Mozambique. The Bank has broadened its contacts with civil society actors, including the business community, with relations with these stakeholders also notably improved. It is important to note, however, these assessments did not relate the perceived change to the advent of the PARPA process per se, but to a broader improvement over the past five years. Some of this improvement was noted to be a result of the significant decentralization of Bank staff including the country director to Maputo. Donors expressed a more ambivalent opinion of their relations with the Bank, painting a mixed picture of the quality of sectoral dialogue. On the one hand, the Bank is perceived to be more participative and sensitive to other donors, by seeking dialogue and participation in joint donor groups (e.g., agriculture). On the other hand, the Bank is still seen as too driven by Washington-based task managers who occasionally overrule country office staff who participate in regular donor working group meetings (e.g., the social sectors and infrastructure).

The evaluation's findings on the alignment of the Bank's work with the PARPA initiative include:

- Bank lending and non-lending assistance since the PARPA have largely been in line with its priorities. Significant adjustments have been made to the analytical work program, in line with government priorities, including work on decentralization as well as shifts to procurement and financial accountability analyses in line with furthering the governance objectives of the PARPA. However, activities dropped or delayed have resulted in gaps in the Bank's support for building on important pieces of the PARPA strategy, most notably the critical rural development area.
- A new CAS was discussed by the Bank's Board in November 2003, and the planned assistance is broadly aligned with the PARPA. In addition, the results framework of the CAS is linked to PARPA and PAF goals.

- The Bank intends to move with other donors towards providing assistance through budget support linked directly to the PRSP, via a Poverty Reduction Support Credit (PRSC), in spite of cautionary signals from its own analytical work regarding the use of government procedures and systems. Fiduciary risks may be partially offset by linking the PRSC directly to performance indicators related to progress in enhancing public expenditure management capacity (and targets in PARPA). While risky, the move to budget support the signals a strong vote of confidence in the ability of Mozambique to implement the PARPA agenda. Preliminary planning for the PRSC has involved discussions with the G-11 group of donors. This new direction, in conjunction with decentralization by the Bank of key staff to the field, has provided the framework for improved coordination with other external partners.
- The Bank's experience with the PARPA process has implications for the way the Bank operates. First, a qualified local presence of the Bank in key strategic areas is highly appreciated by government, national stakeholders and other donors. It is also a sine qua non for continuous participation in policy dialogue processes, which are becoming less dependent on timing priorities of donors and more linked to domestic needs and events. Second, Bank presence can be of special importance not only as an additional voice among many, but also as a voice that may have a balancing, unifying or if needed mediating function in the donor community. Third, the ability of the Bank to play this role is closely linked to the ability to deliver timely and high quality analytical and advisory inputs. It is important that the Bank ensure adequate resources to provide knowledge services.

### **IMF-World Bank collaboration**

The JSAs for Mozambique have been candid in their assessments; they have pointed out strengths and areas of significant improvement without glossing over weaknesses. However, they have tended to understate the challenges to implementation posed by capacity weaknesses. In terms of their role in providing a road map for future improvements, the JSAs have contained suggestions of areas in need of improvement, and the full PRSP (PARPA) did respond to many of the issues highlighted in the JSA of the I-PRSP. The JSAs do not seem to have contributed much to enhancing partnership; donors saw it as geared almost exclusively to the Executive Boards of the IMF and the World Bank. A number of donors would like to participate in the assessment rather than merely provide input to Bank and Fund staff.

Problems associated with the production of the first PARPA progress report reflected weaknesses in monitoring and reporting arrangements, but also raised important issues of temporal alignment between government processes and requirements of external development partners (including the IMF, the World Bank). Assisting the authorities to strengthen the analytical content of the national reporting instruments that are subject to parliament scrutiny would enhance the prospect for closer alignment.

The transfer of responsibility from the IMF to the World Bank for structural conditionality in areas that the Bank is expected to take the lead in has been facilitated by the existence of

Bank adjustment lending. During periods when there has been no such Bank instrument in place, the PRGF has provided the main vehicle for exercising conditionality by the BWIs (e.g., banking sector conditionality during most of 2000-2002).

## I. INTRODUCTION

1. The International Monetary Fund (IMF) and the World Bank introduced the Poverty Reduction Strategy Paper (PRSP) process in 1999 to strengthen the poverty alleviation focus of their assistance to low-income countries. At the IMF, the introduction of the PRSP was accompanied by the transformation of the Enhanced Structural Adjustment Facility (ESAF)—the concessional lending window—into the Poverty Reduction and Growth Facility (PRGF), with a view to giving a more central role to poverty reduction and pro-poor growth considerations in the design of IMF-supported programs in low-income countries.

2. This case study on Mozambique reviews the country's experience with the PRSP process, focusing on the effectiveness of IMF and World Bank support to the process, including alignment of the institutions' lending and non-lending activities in Mozambique to the objectives of the PRSP and PRGF initiatives. The case study has been undertaken jointly by the IMF's Independent Evaluation Office (IEO) and the World Bank's Operations Evaluation Office (OED), and will provide input to separate reports that IEO and OED will prepare for their respective Executive Boards.<sup>1</sup>

3. We have drawn on materials from a variety of sources, including: (i) previous studies on various aspects of the PRSP process in Mozambique; (ii) official documents of the Government of Mozambique; (iii) published and internal documents of the IMF and World Bank; (iv) interviews with staffs of the IMF and the World Bank; and (v) interviews with a wide range of national stakeholders and representatives of Mozambique's international development partners during a joint IEO/OED mission to Mozambique in April/May 2003. The findings of the mission were supplemented by the results of a stakeholder survey administered in Mozambique.<sup>2</sup>

4. Poverty reduction as a key objective of government policy in Mozambique predates the introduction of the PRSP approach. A succession of Policy Framework Papers (PFPs) from the mid-1990s outlined a three-part poverty reduction strategy: (i) growth-promoting

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<sup>1</sup> For the terms of reference of the evaluations, see the IEO's "Issues Paper" (available at [www.imf.org/external/np/2002/prsp](http://www.imf.org/external/np/2002/prsp)) and the OED's "Approach Paper" (available at [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp)).

<sup>2</sup> The mission team comprised Mr. Tsidi Tsikata (IEO), Mr. Nils Boesen (Consultant, OED), and Professor Paulo Mole (Consultant, OED). The survey was conducted under the supervision of Professor Mole; a summary of the results is presented in Appendix III. The report, which was transmitted for comments to the Government of Mozambique on January 3, 2004, covers the experience of Mozambique with the PRSP/PRGF process through mid-2003, with the exception of including analysis of the Bank's 2003 CAS, completed in October 2003, in section V covering World Bank Effectiveness.

policies with a focus on smallholder agriculture; (ii) development of human resources through increased provision of social services, especially in education and health; and (iii) strengthening social safety nets to assist the most vulnerable groups.<sup>3</sup> The PFP for 1999-2002 highlighted sustained and broad-based real GDP growth, low inflation, and improved delivery of social services as being central to the government's medium-term poverty reduction strategy.

5. Initially, the PRSP process in Mozambique was closely linked to debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. Although the country had reached "completion point" under the original HIPC Initiative in June 1999, it was required to prepare an "interim PRSP" (I-PRSP) and a full PRSP for new "decision" and "completion" points, respectively, under the "enhanced" HIPC Initiative. Mozambique submitted its I-PRSP to the IMF and the World Bank in March 2000, and the full PRSP in August 2001. The first annual progress report on PRSP implementation, covering the period through September 2002 was prepared for the IMF and the World Bank in late 2002; an updated version covering the whole of 2002 was presented to a "Poverty Observatory" held in Maputo in April 2003.<sup>4</sup>

6. The rest of the report is organized as follows. Part II provides background information on poverty incidence in Mozambique, as well as on political and economic developments since the early 1990s. The relevance of the PRSP approach to Mozambique's situation, application of the underlying principles, and preliminary evidence on results, are examined in Part III. The effectiveness of IMF assistance, including alignment of the PRGF and technical assistance to PRSP objectives is assessed in Part IV. Part V considers the effectiveness of World Bank support, also including alignment of that support to the objectives of the PRSP approach. Part VI reviews IMF-World Bank collaboration in relation to the PRSP process, and Part VII presents the main conclusions and lessons.

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<sup>3</sup> See, for example, the PFPs for 1996-98, 1997-99, and 1998-2000. The PFP was a rolling 3-year policy framework document required for each annual arrangement under the ESAF. It was produced jointly by the authorities and staffs of the IMF and World Bank.

<sup>4</sup> The Poverty Observatory is intended to be a high level forum of national stakeholders and international development partners which reviews progress in implementation of the government's poverty reduction strategy and makes recommendations for improving all aspects of the PRSP process.

7. Mozambique's PRSP is called PARPA, the Portuguese acronym for "Action Plan for the Reduction of Absolute Poverty."<sup>5</sup> In this report, we use PRSP and PARPA interchangeably.

## II. COUNTRY BACKGROUND

### A. Poverty

8. Mozambique is one of the poorest countries in sub-Saharan Africa and in the world, with a gross national income (GNI) per capita of about US\$210 in 2001.<sup>6</sup> The UNDP's Human Development Index ranks Mozambique 170<sup>th</sup> out of 175 countries.<sup>7</sup> Nearly 70 percent of the population (over 11 million people) lived below the poverty line of US\$ 0.40 per day in 1997, according to the 1996-1997 Household Survey which was the first comprehensive poverty assessment undertaken in Mozambique. About 38 percent of the population was considered to live in abject poverty or destitution with a consumption expenditure of 60 percent or less of the poverty line.

9. Poverty incidence was found to be somewhat higher in rural (71 percent) than in urban areas (62 percent), although the difference fell sharply when Maputo city was excluded (71 percent rural against 68 percent urban). The incidence of abject poverty was estimated at 17 percent in Maputo City and 39 percent outside the city. There was also significant variation in poverty incidence across regions (Table 1). The rate of poverty is significantly higher in the central provinces (Inhambane, Sofala) and in the far north (Niassa, Tete) than in the far south (Gaza, Maputo).

10. Though severe poverty is still the plight of the majority of Mozambicans, indicators of growth, life expectancy, education and health suggest a decrease of poverty levels over the last decade. Production of cereals has increased in the smallholder sector due to population resettlements following the end of the civil war, but food security is still weak as demonstrated by the devastating effects of floods in 2000.

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<sup>5</sup> The PRSP was actually the second PARPA; an earlier PARPA produced at the end of 1999 (PARPA 2000-04) became part of the I-PRSP. The two are usually distinguished by the period they cover. The PRSP is PARPA 2001-05.

<sup>6</sup> World Bank (2002).

<sup>7</sup> UNDP (2003). The index is based on indicators of life expectancy, educational attainment and real income.



Table 1: Average Consumption and Estimates of Poverty and Destitution by Province, 1997

Province	Proportion of the population (In percent)	Average consumption (US\$/day)	Poverty Head Count Index	Abject Poverty Head Count Index
Sofala	8.8	0.28	87.9	65.2
Inhambane	7.1	0.37	82.6	53.7
Tete	7.3	0.34	82.3	53.6
Niassa	4.9	0.43	70.6	40.5
Nampula	19.5	0.47	68.9	37.1
Maputo Province	5.1	0.51	65.6	35.4
Zambezia	20.3	0.45	68.1	34.4
Manica	6.2	0.55	62.6	27.0
Gaza	6.6	0.53	64.7	26.5
Cabo Delgado	8.2	0.56	57.4	23.1
Maputo City	6.1	0.73	47.8	17.0
<b>National</b>	<b>100</b>	<b>0.46</b>	<b>69.4</b>	<b>37.8</b>

Source: Calculated from Table 2.2 in Government of Mozambique (2001).

## B. Political Context

11. Mozambique won independence from Portugal in 1975, and under the one-party rule of FRELIMO (the Liberation Front of Mozambique), embarked on constructing a centrally planned, state-led economy. Basic education and health services expanded substantially, but these gains were soon undermined by civil war and economic collapse. The war grew in intensity in the early 1980s, as RENAMO (the Mozambique National Resistance) contested FRELIMO's hegemony, initially with support from the apartheid regime in South Africa. The war exacted a devastating social and economic toll on the population. Casualties—largely civilian—have been estimated as high as 1 million. In addition, more than 4 million Mozambicans were displaced internally or in neighboring countries, and a large part of the limited social and economic infrastructure was destroyed.

12. FRELIMO formally abandoned Marxism in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. A UN-mediated peace agreement ended the fighting in 1992 and paved the way for the country's first ever general elections in 1994, which FRELIMO won. In the second general elections in 1999, FRELIMO again got the majority of votes (52 percent against 48 percent to RENAMO), but the results revealed a country deeply divided politically: FRELIMO won convincingly in the South (Maputo, Gaza, Inhambane) and in Cabo Delgado in the North, while RENAMO got a solid majority of votes in the central provinces. With the exception of Inhambane, RENAMO performed better than FRELIMO in the relatively poorer provinces of the country. Uneven regional development, with growth concentrated in the Maputo area, and poor quality of

essential public services (in health, education and infrastructure) in poor rural areas, appears to have fuelled strong discontent in the centre and north of the country.

13. Power in Mozambique's political system is highly centralized, with senior government officials—including the powerful provincial governors—appointed by the President in a winner-takes-all system. After the 1999 elections, RENAMO boycotted parliament for a while claiming that it should have the right to appoint governors in the provinces where it had won. FRELIMO rejected this, arguing that it would threaten the national unity and political stability of Mozambique.

14. The first steps towards decentralization were taken with the introduction of elections in 33 urban municipalities in 1998. The 128 rural districts are still subject to state administration, with no plans to introduce elected councils. However, the government has committed itself to increasing both administrative decentralization and grassroot participation in public affairs, including the participation of traditional community authorities.

15. A number of governance challenges, partly linked to uneven distribution of growth over the last decade, threaten to undermine the social and political stability of the country. Organized crime is reportedly on the rise, with the judicial system unable or unwilling to take effective action, and petty corruption seems to have become a generalized coping strategy for underpaid civil servants.<sup>8</sup> Commentators have also suggested that “grand corruption” involving senior ruling party and government officials is a significant problem.<sup>9</sup>

### **C. Economic Performance and Policies**<sup>10</sup>

16. Mozambique has been implementing economic reform programs with the support of the IMF and the World Bank since the introduction of the Government's Economic Rehabilitation Program (ERP) in 1987. IMF-supported programs have been in the context of four multiyear arrangements—a Structural Adjustment Facility (SAF) arrangement (1987-1990), two ESAF arrangements (1990-1995, and 1996-1999), and a PRGF arrangement (1999 to 2003). World Bank assistance has included seven adjustment operations—two Rehabilitation credits (1988, 1989), three Economic Recovery credits (1992-1996, 1994-1997, and 1997-98), an Economic Management Reform operation (1998-1999), and an Economic Management and Private Sector operation (approved in

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<sup>8</sup> In launching the Public Sector Reform Program on National Day in 2001, President Chissano said there was “a generalized trend for civil servants to demand illicit payments for the services that are the job of the civil service.”

<sup>9</sup> See, for example, Gastrow and Mosse (2002) and the story entitled “Corruption in Mozambique: Who Killed the Fly” in the *Economist* of November 23, 2002.

<sup>10</sup> This section is based largely on IMF and World Bank reports, but also draws on other material such as Arndt et al (2000), Falck (2001), and White and Dijkstra (2003).

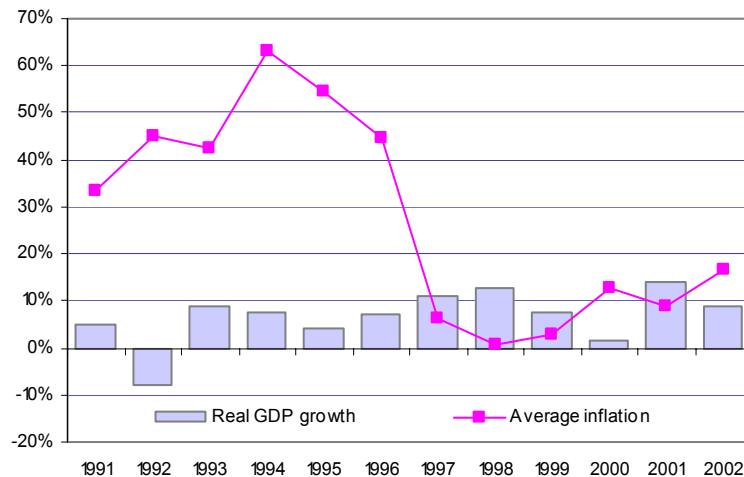
2002). This section’s overview of economic polices and performance focuses on the period since the end of the civil war in 1992.

### Macroeconomic performance and policies

17. Real GDP growth has been strong, averaging over 8 percent per annum between 1993 and 2002. After a sharp drop in 2000 due to adverse weather shocks (extensive flooding), growth rebounded in 2001-2002 (Figure 1). Underpinning the growth performance has been a steady rise in domestic investment from 22 percent of GDP in 1993 to over 40 percent in 2002, financed in large part by foreign savings. A few foreign-financed “mega” projects— e.g., the Mozal aluminium smelter—have contributed to boosting the share of the industry sector in GDP from 16 percent in the mid-1990s to 25 percent in 2002. Over the same period, the share of agriculture dropped from about 30 percent to less than 20 percent, while services remain the dominant sector accounting for around half of GDP.

18. The privatization of two state-owned commercial banks and associated improvement in monetary control was an important factor in the successful disinflation achieved in the second-half of the 1990s (Figure 1). More recently, weaknesses in the commercial banking system appear to have constrained monetary policy, and contributed to the resurgence in inflation.

Figure 1. Real GDP Growth and Inflation



Source: IMF (WETA database).

19. The government budget has been heavily dependent on external aid. On average, grants and net external concessional borrowing were equivalent to 56 percent of annual total expenditures and net lending (or 18 percent of GDP) during 1994-2002. The overall fiscal deficit, including grants, fell from 5 percent of GDP in 1994 to 1 percent in 1999, before rising sharply to 4 percent in 2000 and to nearly 8 percent in 2002. Revenue performance has improved gradually in recent years, going from 12 percent of GDP in 1999 to 14 percent in

2002. Over that same period, total expenditures and net lending increased from about 25 percent of GDP to 34 percent.<sup>11</sup>

20. The external current account deficit has fluctuated around 20 percent of GDP in recent years. Movements since 1998 have reflected different phases in the implementation of “mega projects” and changes in the external terms of trade. The real effective exchange rate has depreciated steadily since 1999, reversing a real appreciation that occurred in the preceding three years.

21. Debt relief has had a substantial impact on Mozambique’s debt and debt service burden. The external debt to GDP ratio fell from 240 percent in 1993 to about 65 percent in 1999 and then rose to nearly 80 percent in 2002. The ratio of scheduled debt service to exports fell from about 50 percent in the mid-1990s to 15 percent in 1999 and to 4 percent in 2002. At the completion point under the enhanced HIPC initiative, staffs of the IMF and the World Bank estimated that debt relief had reduced the net present value of Mozambique’s total outstanding external debt at end-2000 by about two-thirds (from US\$3.4 billion to US\$1.1 billion).

### **Structural reforms**

22. Mozambique has undertaken a wide range of structural reforms since the early 1990s. By mid-1996, the liberalization of the exchange rate, prices, and interest rates was almost complete. Subsequently, progress was also achieved in the areas of privatization and restructuring of public enterprises, financial sector reform, strengthening tax and customs administration, improving public expenditure management, and trade liberalization.

23. A program of privatization and restructuring of over 1200 enterprises was completed in 1999, and obstacles to private sector participation were eliminated in the transport, communications, energy, and water sectors. Reforms are continuing in the areas of the legal system and the regulatory framework to improve the business environment in the country.

24. Financial sector reforms have included the privatization of state-owned commercial banks, the establishment of interbank foreign exchange and money markets, and the strengthening of banking supervision. Since 2000, the authorities have intervened to recapitalize/restructure two partly state-owned commercial bank at substantial cost to the budget. In early 2003, the IMF and the World Bank conducted a review of Mozambique’s financial sector under the Financial Sector Assessment Program (FSAP). The review highlighted lending risk as a major factor holding back growth of the sector and pointed to areas requiring further reforms (e.g., land title for use as collateral, inefficient judicial system).

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<sup>11</sup> Selected economic and financial statistics for the period 1996-2002 are presented in Appendix I, Table A1.

25. Since the mid-1990s, Mozambique has simplified the structure of its import tariffs and reduced the average rate substantially, producing a relatively open international trade regime. However, there are two areas that have spawned a lot of controversy: export tax on unprocessed cashew exports (this replaced a total ban on such exports that was aimed at protecting domestic processors), and protectionist import tariffs on sugar.

#### **D. National Strategies and Their Formulation**

26. Mozambique has a long tradition of planning in the public sector, with the core of planning processes concentrated at central level in a sector-oriented approach. There has been little tradition of effective involvement of civil society, and the scope for cross-sectoral bottom-up planning has been limited until recently. Mozambique had a separate Planning Commission until 1994, when it was merged with the Ministry of Finance to form the Ministry of Planning and Finance (MPF).

27. The basic document that guides public planning is a five-year Government Program submitted to Parliament soon after the formation of a new government after general elections. This program is supplemented by three- or five-year sectoral and provincial strategic plans (the latter have only recently been introduced). On an annual basis, the key operational instruments are the Economic and Social Plan (PES) and the State Budget, both of which have to be approved by parliament. In addition, a rolling medium-term fiscal scenario or budget framework (MTBF) and a three-year public investment program are prepared as part of the annual government budget process, with the investment program required to be approved by parliament.

28. Poverty reduction was a key objective of government policy in Mozambique before the advent of the PRSP process. PRSP antecedents include: (i) the transformation of the Economic Rehabilitation Program (ERP) into the Economic and Social Rehabilitation Program (ESRP) in 1989, and with it the establishment of the Social Dimensions of Adjustment project in the Planning Commission; (ii) a poverty reduction strategy presented to the meeting of the Consultative Group (CG) in 1990; (iii) the 1993 National Reconstruction Plan; (iv) the 1995 Poverty Reduction Strategy; and (v) the 1999 Action Guidelines for the Eradication of Absolute Poverty. A timeline of events and processes related to poverty reduction in Mozambique is presented in Appendix I, Table A2.

29. The content of the strategies has evolved. The first poverty strategy in 1990 identified three priorities: employment creation, access to basic social services, and creation of safety nets for the poor. The government's sphere of influence was at that point in time largely restricted to urban areas. In the 1995 strategy, emphasis changed to rural areas rather than urban, focusing on stimulating productive activity through revitalizing of market mechanisms, and investing in education and health, with less emphasis on establishing safety nets.

30. Only with the preparation of PARPA 2000-2004 (which became part of the I-PRSP) did poverty reduction strategies move towards becoming detailed plans, with targets,

timeframes and—to a certain degree—resource requirements; thus moving a step beyond being just a policy statement to being linked to the wider mainstream system of policy planning and resource allocation instruments.

### III. THE PRSP/PARPA, 2001-2005

31. The full PRSP (PARPA 2001-2005) was approved by the Council of Ministers in April 2001 and endorsed by the Executive Boards of the IMF and World Bank in September 2001. Key features of the PARPA are presented in Box 1.

#### Box 1. PARPA 2001-2005 at a Glance

*Overall goal:* To reduce the incidence of poverty from 70 percent in 1997 to less than 60 percent in 2005, and to less than 50 percent by 2010.

*Six priority areas and eleven complementary areas are identified to promote human development and create a favorable environment for rapid, inclusive and broad-based growth (at an average rate of 8 percent per annum).*

The six priority areas:

- Education, with targets related to adult literacy, rural female literacy, and gross primary enrolment
- Health, with targets related to infant and child mortality, maternal mortality, birth weight, malaria mortality, and HIV prevalence
- Agriculture and rural development, with targets related to annual growth in agricultural production, cereals and cashew nut production, and incidence of food insecurity
- Basic infrastructure, with targets related to coverage and quality of roads, access to electricity, and access to potable water
- Governance, with targets related to administrative decentralization, and improvement in justice sector services
- Macroeconomic and financial policies, with targets related to inflation rate, and fiscal revenue as percentage of GDP.

*Complementary areas:* Employment and business development, social action, housing, mines, fisheries, tourism, industry, transport and communications, technology, environment, and protection against natural disasters. Targets are defined in relation to expansion of social safety net and increase in access to housing for low-income households.

Public expenditures on poverty reduction priority programs are projected to increase from 60 percent of all expenditures in 1999 to a peak of 67 percent in 2003, and then fall to 65 percent in 2005. Health, education and basic infrastructure will account for 80 percent of these expenditures.

#### A. Relevance

32. The Mozambican authorities initially viewed the introduction of the PRSP as additional conditionality being imposed on the country by the IMF and World Bank under the HIPC Initiative.<sup>12</sup> However, they soon embraced the approach, linking it to existing

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<sup>12</sup> This was a consistent message that the evaluation team heard from senior government officials in Mozambique as well as from IMF and World Bank staff.

poverty reduction policies and ongoing analytical work on poverty assessment (based on the results of the 1996-97 Household Survey). The poor performance of the ruling party in the 1999 general elections in the poorest areas of the country brought poverty reduction issues to the fore on the government's policy agenda.

33. PARPA drew heavily on existing sectoral policies and programs (e.g. in health, education, infrastructure, and agriculture). Although, it did not represent a major reshuffling of priorities, most people contacted by the evaluation team thought it had brought greater coherence to government's poverty reduction policies and had served as a useful common point of reference for all stakeholders. PARPA was also widely perceived to have put on the public agenda issues related to participation in domestic policy processes (including the role of parliament and political parties), and to have brought greater attention to implementation constraints through a focus on monitoring results (e.g., resource flows to districts, increased service levels, etc.). Respondents to the OED-IEO survey of PRSP stakeholders agreed that the PRSP provides a relevant model for poverty reduction in Mozambique and that it improved on past modalities for poverty reduction. Relevance received the second highest rating among the underlying principles of the Initiative.<sup>13</sup>

### **B. Application of the Underlying Principles of the PRSP Approach**

34. Five underlying principles of the PRSP process were defined when the PRSP initiative was launched in 1999 (Box 2). This section reviews the application of these principles in Mozambique.

#### **Box 2: Underlying Principles of the PRSP Process**

1. *Country-driven* involving broad-based participation.
2. *Results-oriented* and focused on outcomes that benefit the poor.
3. *Comprehensive* in recognizing the multi-dimensional nature of poverty.
4. *Partnership-oriented* involving coordinated participation of development partners.
5. Based on a *long-term perspective* for poverty reduction.

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Source: International Monetary Fund and International Development Association (1999).

#### **a) Country driven with broad based participation**

35. There is strong central government ownership of the PARPA. Its preparation was led by civil servants in the Ministry of Planning and Finance (MPF), with virtually no external

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<sup>13</sup> See Appendix III, section B. The group of four questions on Relevance received a composite mean score of 3.14 out of 5, where a score of 5 represents complete agreement with the statement.

support—reflecting an explicit decision by the government. Planning officers from key sector ministries participated actively in the preparation of the draft PARPA, which, as indicated above, drew heavily on already existing sector plans. Since sector plans are increasingly being developed through participatory processes involving national stakeholders and international partners, and since annual planning cycles include consultations with officials from provinces and districts, the government felt that the production of a draft PARPA for the broader national consultative process already involved a participatory process.

36. There was not much discussion of macroeconomic policies during the PARPA consultation process. However, a few stakeholder groups registered comments which had macroeconomic content. For example, representatives of organized labor are reported to have complained about the “restrictive nature of the macroeconomic measures contained in government programs and their social consequences (e.g., greater unemployment),” and to have called for an analysis of the macroeconomic underpinnings of the PARPA. Some members of the private sector called for protection and state support of the “production sectors.” Other topics on which participants expressed views included: access to credit, tax evasion, management of the country’s foreign debt, and monetization of the rural economy.<sup>14</sup>

37. When the first draft of PARPA 2001-2005 was ready in November 2000, a three-month consultation process was launched which involved the participation of business associations, labor unions, religious bodies, NGOs, media, central and provincial government institutions and donors. In discussions with the evaluation team, representatives of CSOs characterized the process as inadequate, since it excluded the poor, and did not allow sufficient time for preparation (e.g., materials were distributed late, and there was insufficient time for CSOs to consult members at grassroot levels). The quality of consultations was also questioned by respondents to the OED-IEO survey of PRSP stakeholders. The country driven nature of the process received the joint-lowest ratings of all underlying PRSP principles (along with results orientation). In particular, the majority of respondents disagreed that their group had been adequately consulted during formulation of the PRSP.<sup>15</sup> However, many acknowledged that the PARPA process represented an opening up of the policy making process to non-government stakeholders, and that the limited CSO impact on the PARPA

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<sup>14</sup> Chapter V in Government of Mozambique (2001).

<sup>15</sup> Appendix III, section B shows the average for the group of four questions on Country-driven relative to the other underlying principles. Country-driven received a mean score of 2.70 out of 5, where a score of 5 represents complete agreement with the statement. Results Orientation also received a mean score of 2.70. Appendix III, section D shows the particular question, “The group of stakeholders you belong to was adequately consulted in formulating the PRSP strategy,” received the highest share of negative responses, defined as ‘disagree’ or ‘completely disagree’ responses (52.6%).



partly reflected their own lack of capacity to engage in detailed policy analysis (e.g., with respect to macroeconomic policy issues).

38. While the government claims strong ownership of the PARPA and the policies in it, many of the representatives of civil society and the private sector met by the evaluation team expressed the view that the PARPA was too strongly influenced by policies supported by the IMF and the World Bank, with what they perceived to be excessive attention to macroeconomic stability, privatizations, and premature exposure of key production sectors to foreign competition. They also saw the requirement for endorsement by the BWIs as limiting country ownership, and suggested that PARPA was more of an instrument for negotiations with international partners than a core domestic policy process and product.

39. Parliament and political parties were not substantially involved in the consultation process, and PARPA was exclusively approved by the Council of Ministers and not taken to the Assembly. This may reflect that peace and democracy are yet to be firmly established in Mozambique, and that the legislative branch of government has not yet asserted a strong role compared to the executive branch.

40. Even though the consultation process for the PARPA had its shortcomings, it should be noted that the strong voices raised demanding transparent governance, stronger measures against corruption and more focus on public safety, led to changes in the final version of the PARPA; for example, good governance issues were raised to become one of the fundamental priority areas. The attention to this area was demonstrated by the President in June 2001, when he launched the government's public sector reform initiative with an unprecedented attack on corrupt practices in government. The PARPA process—combined with other events—may therefore have opened a sensitive policy area for broader dialogue between civil society and the government. Viewed as a dynamic process, therefore, it has had some impact on the nature and content of the debate.

41. After approval by the government, little has been done to disseminate PARPA (including preparing popular versions in main local languages). Discussions of PARPA in academic circles have taken place, and civil society organizations have used PARPA to rally support for pro-poor local initiatives. But, PARPA is largely unknown in any detail outside very small circles in Maputo and provincial capitals (Box 3).<sup>16</sup>

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<sup>16</sup> The evaluation team's findings on this are consistent with those in McGee (2002), which reported that provincial civil society sectors' awareness of the PARPA was very low.

### **Box 3. PARPA in Inhambane**

The evaluation mission visited Inhambane province in southern Mozambique. The province has approximately 1.25 million inhabitants and is the second poorest province in the country.

Officials in the Provincial Directorate of Planning and Finance indicated that PARPA reflected the priorities of people in the province, and that it has clarified goals and facilitated dialogue between the province and Maputo, and between provincial and district authorities.

For sector representatives in agriculture and education, PARPA is synonymous with the respective sectoral plans (in agriculture PROAGRI, in education the Strategic Sector Plan).

In the Inharrime district, the evaluation mission found that PARPA was known by district officials, but not broadly disseminated. It is seen to set overall goals and priorities, but has not implied changed routines. The district officials indicated that the overall sectoral budget distribution—fundamentally decided in Maputo—did not necessarily reflect their priorities. They said they had room to influence allocations within a sector, but could not reallocate resources across sectors.

In the Inhambane Province, a first strategic plan has been prepared based on PARPA. The annual Economic and Social Plan (PES) also refers to PARPA. Participative district strategic plans are being prepared in three pilot districts, replacing the territorial action plans which were part of the five-year government plan.

At provincial level, a progress report for achievements in relation to PARPA goals for 2002 has been prepared which compare indicators for Inhambane with the national (average) level PARPA indicators, in the absence of specific targets for Inhambane. The report concludes that there was in general a positive development from 2001 to 2002. It also presents a number of recommendations related to PARPA, including:

- More systematic integration of PARPA in sector plans and in the provincial government, especially regarding monitoring.
- Harmonization of participatory territorial district plans and vertical sector plans.
- Consolidate the changes of the PES to strengthen the relation between PARPA, PES and budget allocation—transforming PES from a “wish list” to an effective work plan.
- Production of a popular and accessible version of PARPA.
- Strengthening of provincial capacity especially related to socio-economic analysis, where the province has no specialized staff at all at present.

#### **b) Comprehensive and based on long-term perspective**

42. The PARPA summarizes the first detailed assessment of quantitative aspects of poverty in Mozambique, based on the 1996-97 household survey. It provides a good description of the strong regional differences of poverty incidence, but being the first study it does not analyze the causes of these disparities and offers limited opportunities to assess the impact of policies on poverty reduction. PARPA recognizes that poverty indicators not related to consumption are important, and includes available data on illiteracy, mortality and water access rates. It also uses to the qualitative results of a participatory poverty appraisal carried out by the Eduardo Mondlane University in 1995/6.

43. The PARPA defines poverty as “the inability of individuals to ensure for themselves and their dependants a set of basic minimum conditions necessary for their subsistence and

well-being in accordance with the norms of society.” This broad definition is reflected in PARPA’s comprehensive approach to poverty reduction, including social service delivery, actions to enable market-based rural development, and broad-based growth in a framework of macro-economic stability. PARPA is thus comprehensive in the sense that it includes and seeks to combine social and economic policies, and describes key objectives and measures in priority areas covering some three quarters of budget resources. Thus, it is far from a narrowly targeted safety-net type of poverty alleviation approach—actions of this kind are actually getting low priority in PARPA.<sup>17</sup>

44. Since it is largely based on existing policies, but now linking them to a better poverty diagnosis, PARPA provides a snapshot of policies in early 2001. Subsequent dialogue around PARPA—including in the work of sector working groups—has highlighted areas that need strengthening (e.g. more specific policies for pro-poor growth), as well as areas where underlying important policy choices still have to be made (e.g. specification of the role of the state and other actors in education).

45. A weakness of PARPA, yet to be addressed in a comprehensive manner, is that it does not include a breakdown of targets at provincial (and district) levels. The evaluation team met provincial and district officials who referred to PARPA’s national targets (e.g. in education, health and agriculture) as “their” targets, claiming to have already reached targets in certain areas and lagging behind in others. There is a need for greater clarity on how national average targets relate to provincial and district priorities. Ideally, local targets would be defined through bottom-up, participatory planning processes.

46. PARPA defines an overall poverty reduction target up to 2010, but it is clearly, in other targets and in its more operational parts, a medium term rather than a long-term framework. But, government officials emphasized to the evaluation team that firstly, the general priorities had been government policy for a long time, and secondly, that the broad objectives were unlikely to change even if specific elements would be modified quantitatively or qualitatively.

47. The medium-term nature of PARPA is underlined by two additional factors. Firstly, the government sees future revisions/updates of PARPA as intimately linked to the election cycle and to the government program presented by the newly elected government. Secondly, with the support of UNDP, a process is underway to define a “Vision 2025,” where government has tasked a group of individuals (from government, political parties, civil society etc) to prepare a longer term vision and development strategy for Mozambique which

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<sup>17</sup> PARPA argues that targeted social programmes should be a “fundamental area” of the poverty reduction strategy, but that it is not the case because “resources available are still very limited” making them effectively a second order priority (See footnote to paragraph 24 in Government of Mozambique (2001)).

is hoped to transcend party and interest group differences.<sup>18</sup> However, it is too early to evaluate the extent to which vision 2025 will complement the PARPA.

### **c) Results-oriented and focused on outcomes that benefit the poor**

#### ***Targets***

48. The PARPA includes about 60 “outcome” and “intermediate” indicators at macro and sectoral level.<sup>19</sup> In addition, it includes an operational matrix showing principal actions to be undertaken as well as annual targets for several indicators during 2001-2005. The operational targets are largely taken from sectoral plans, and vary considerably in scope and precision. For example, targets regarding access to primary education are set at the output-level (enrolment rates), while quality targets are input-oriented (curriculum reform, training of school directors). Targets for all other areas in education focus on inputs (school construction, teacher training, etc.). In health, impact-level targets on mortality rates are included as well as targets related to service delivery. In some areas there are not yet specific targets (e.g., anti-corruption). On the input side, the PARPA envisages increased allocation of funds to the priority areas from 13 percent of GDP to 17 percent in 2005.

49. PARPA does not compare or relate its targets directly to the Millennium Development Goals (MDGs). A comparison of relevant 2005 indicators of PARPA to the 2015 indicators of the MDGs shows considerable variation between the two sets of targets.<sup>20</sup> In several areas, notably related to mother-child health indicators, the PARPA targets are far below the ambitions of the MDG. A report on the progress of achieving the MDGs prepared by the office of the UN Resident Coordinator in August 2002 found that targets related to five areas could potentially be met while those related to five others were unlikely to be met.<sup>21</sup>

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<sup>18</sup> A first draft was expected to be published in the second half of 2003.

<sup>19</sup> Government of Mozambique (2001), Annex to Chapter VI.

<sup>20</sup> See Appendix I, Table A3.

<sup>21</sup> See United Nations (2002). The targets that could potentially be met were: reducing extreme poverty; halting the spread of HIV/AIDS; eliminating of gender disparity in education; reducing maternal mortality; and integrating the principles of sustainable development into national policies. Those that were unlikely to be met were: reducing hunger; increasing access to safe water; universal primary education; reducing child mortality; and reducing the incidence of malaria.

***Links to the budget, implementation capacity, and monitoring***

50. The annually updated five-year medium-term budget framework (MTBF) is the principal instrument for translating the public expenditure priorities in PARPA into budgetary allocations. According to the PARPA, the MTBF reflects strategic choices made by the government in the allocation of public resources and is used to ensure consistency between public expenditure and the projected availability of funds in the medium term.<sup>22</sup>

51. Most stakeholders agree that the poverty focus of government policies predates the PRSP, and that production of new policies and plans is not the key issue in Mozambique.<sup>23</sup> The key challenge is to ensure implementation of public policies and plans, and to reach district and community levels in poor areas. Capacity development and changed incentives are needed to translate plans into budgets, to make budgeted funds available, to ensure that they are spent as budgeted, to ensure quality of spending and to enhance monitoring and reporting. Weaknesses in Mozambique's public expenditure management system were highlighted in an assessment by staffs of the IMF and World Bank in early 2002 (Box 4). In a recent analysis, the World Bank concluded that capacity constraints in Mozambique are severe even by African standards.<sup>24</sup>

52. The size of the implementation challenges can be illustrated by the qualifications of staff in the MPF in 1999. Even being one of the better endowed ministries, only 6 percent—141 out of a total staff of 2370—had a university degree and only 17 of these were deployed in the provinces.<sup>25</sup> At district level, the district administration may count on only a few staff with more than 9 years education.

53. The recently approved World Bank supported Public Sector Reform project notes that the public sector is working on a paradigm of centralism and hierarchy, that it is staffed with poorly qualified, badly paid civil servants, that over-regulation and red tape flourish, and that neither the culture nor the practice of the executive branch of government being effectively accountable to the legislative branch has taken root.<sup>26</sup>

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<sup>22</sup> Government of Mozambique (2001), Chapter VII (Section on “medium-term budgetary programming.”).

<sup>23</sup> See, for example, the discussion of “Stakeholder views on the new conditionality” in Falk and Landfald (2003).

<sup>24</sup> World Bank (2003).

<sup>25</sup> See Table 8 in Fozzard (2002).

<sup>26</sup> World Bank (2003a).

#### **Box 4. Public Expenditure Management System**

Mozambique's public expenditure system is weak and in need of substantial upgrading, according to an assessment in late 2001 by staffs of the IMF and World Bank (IMF and IDA, 2002). The budget was found to offer an incomplete view of government revenues and expenditures, and the functional classification of expenditures was judged to be too aggregative to allow analysis of resource allocation across sectors. With respect to budget execution, the system was found to employ an accounting system that provided only a partial view of financial transactions.

Some progress was reported in the area of budget reporting, where audited accounts for 1998 and 1999 had recently been issued and a system of quarterly reports on budget execution had been instituted. However, even here, the assessment was that coverage was not comprehensive enough and the reports were not yet an effective tool of policy planning, formulation, and monitoring.

An interim expenditure tracking system was developed to monitor poverty-reducing expenditures at a disaggregated level and an action plan to improve budget transparency and accountability in the short run was agreed with the authorities in late 2001 in the context of a Public Expenditure Management Review (led by the World Bank).

54. Public sector reform initiatives intended to address implementation constraints have been on the agenda since the early 1990s, including civil service reform, public financial management reform and decentralization. In 2001, anti-corruption and good governance reforms were added to the key areas of reform. Partial progress has been achieved in many areas, but it is recognized by most informants that broad and sustained impact of the different reform initiatives can only be expected over the long-term (say a 10-year horizon).

55. The monitoring of the PARPA builds on three principles: (i) integration of PARPA monitoring into existing mechanisms for monitoring government programs; (ii) differentiation between process and impact indicators; and (iii) use of monitoring to revise targets and plans. Process indicators (e.g. input and service delivery output indicators) were to be incorporated into the annual report on the execution of the PES, and in budget execution reports produced quarterly (since 2002). The main tool for poverty impact monitoring is to be the Core Welfare Indicators Questionnaire. Weak institutional capacity is affecting the quality of monitoring. Slow progress in integrating the PARPA monitoring indicators into the "normal" reporting system for the PES and the government budget suggests that for the foreseeable future, effective monitoring of PARPA will continue to rely on special exercises and studies tailored to that specific purpose. Results from the survey of PRSP stakeholders point to perceived weaknesses in the institutional system for monitoring,

with a large proportion of respondents questioning the adequacy of systems in place to monitor PRSP results.<sup>27</sup>

56. In April 2003, the President inaugurated the Poverty Observatory, a high level forum designed to bring together the government, a broad range of national stakeholders and Mozambique's international development partners to review PARPA implementation. The focus is intended to be on drawing lessons from experience and coming up with recommendations for improving implementation and monitoring. It is meant to draw on work from other consultative processes (e.g., sector working groups) and on material presented to it directly by stakeholders. It will be assisted by a Secretariat in the MPF, with no independent capacity from government. The details of how non-governmental actors will participate in monitoring of the PARPA are still to be developed, but current draft descriptions point to a purely ex-post consultative role at the national level. Parliamentarians have initially not been included in the Poverty Observatory, reflecting continued ambiguity about the role of the legislature in the policy formulation process.

#### **d) Partnership oriented involving coordinated participation of development partners**

57. The PARPA process was launched at a time when there was broad consensus between government and donors on key priorities for poverty reduction. As noted above, PARPA built on existing sector policies, most of which had been developed in close dialogue between the government and donors. Donors were consulted in the PARPA preparation process, but did not impose themselves. Both bilateral and multilateral donors offered assistance to prepare the PARPA, but the MPF declined these offers—and donors accepted being turned down. This relatively harmonious process reflected the fact that Mozambique already had a comparatively well developed donor coordination mechanism. A number of Sector Wide Approaches (SWAs)—including in health and agriculture—have developed since the mid-1990s. Cross-sector donor groups have existed for a while but have become more effective with the introduction of SWAs. Also, several donors in Mozambique were coordinating their balance of payments support prior to the PARPA process.

58. Project financing is still the dominant form of aid in Mozambique, and although a shift in the composition of actual aid disbursements has not yet materialized,<sup>28</sup> peer pressure among donors to move away from stand-alone projects seems to have increased because of PARPA. The donors that were already coordinating their balance of payments support before

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<sup>27</sup> Appendix III, section D shows that survey questions regarding the Results Oriented principle had a high share of negative responses, defined as either 'disagree' or 'completely disagree'. Over 40 percent of respondents answered negatively to the question, "An effective structure to monitor and evaluate results has been established."

<sup>28</sup> See Appendix I, Table A4 for a breakdown of external aid into "project" and "nonproject" components.

the PARPA process indicated to the evaluation team that there is increased interest in the donor community in moving towards general budget support modalities and linking such support to spending targets in PARPA. This increased interest is demonstrated by the rise in the number of these “like-minded” donors from 7 in early 2000 to 11 in 2003. They see budget support as promoting government ownership through the full integration of aid into the government budget.

59. The willingness to consider budget support is a remarkable vote of confidence by donors given that fiduciary diagnostic work by the World Bank, including a CFAA and PEMR, pointed to high fiduciary risks associated with using the government budget system.<sup>29</sup> This may explain the intensive focus on public expenditure management (PEM) issues by the group of donors that provide budget support. This group, currently made up of 11 donors (G-11), has formed a “macroeconomic working group,” in which the IMF and the World Bank participate as observers. Economists of the eleven donors meet weekly to discuss overall macroeconomic and reform issues, and have subgroups dealing with detailed aspects of PEM reform.

60. The G-11, which includes the EU, is developing a joint Performance Assessment Framework (PAF). The objectives of PAF include greater alignment with PARPA, reducing transactions costs through increasing harmonization of donor conditions, and making more transparent the links between government policy implementation and the disbursement of budget support assistance. They intend to coordinate the PAF with the conditionalities in the PRGF arrangement and the PRSC.

61. PARPA, the related willingness of donors to move to budget support, and the consequent strong focus on PEM issues is a positive story, but it is not without risks. First, though much needed, the reforms of PEM must advance at a pace compatible with continued government commitment and ownership. If donors—directly or indirectly—push hard for quick wins in this area to be able to justify the provision of budget support in spite of quite serious warnings, then sustainability and effectiveness of the reform may be at risk, since it will only work with continued strong political backing.

62. Second, both the PARPA itself and the related PEM issues point to a concentration of donor attention on the MPF. This is positive in so far as this focuses attention on the need for coherence of government policies, and on their translation into budget formulation, execution and reporting. PRSPs are precisely intended to counteract the fragmentation of government actions and institutions which has been driven by and driven donors’ choice of stand-alone projects rather than budget support approaches. But, the MPF, while asserting a stronger coordinating role, has limited capacity, and now has to bear a comparatively higher share of the transaction costs involved in donor assistance.

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<sup>29</sup> See World Bank (2001).



63. Third, the government expressed to the evaluation team a concern that the harmonization of triggers and conditionalities of a considerable number of donors may lead to joint stop-go decisions by the donor group related to short-term political events, and thereby posing the risk of serious disruption in the flow of external finance to the budget. In the previous fragmented system, one donor might suddenly halt budget support, but it would be unlikely that all others would follow, thereby making the damage manageable. While a sustained joint holding back of aid flows has not yet happened, the authorities were concerned that donors' trust in government was not yet sufficiently developed to avoid such a risk coming to pass.<sup>30</sup> A few donors delayed disbursements for a short period during 2001, pending the resolution of differences between the government and the BWIs over how to deal with problem banks.

64. The potential role of the World Bank and the IMF to counteract the risk of such negative effects of donor alignment—for example through the signals they convey to donors—was highlighted by government. It also underlines the crucial importance of how the group of donors organize decision making, and balances the concerns that constituencies in donor countries will have if, for example, a corruption scandal occurs, with the concerns for stability and predictability for the Mozambican government.

### **C. Preliminary Evidence on Results**

65. In this section, we draw on the first annual PARPA progress report to review progress on some of the PARPA's "outcome" and "intermediate" indicators for which recent data is available. We also examine the broad pattern of public spending in the PARPA priority areas, and briefly review the impact on domestic institutions of the PARPA process and related reforms.

#### **Preparation of the first annual PARPA progress report**

66. The first annual PARPA progress report was prepared by the MPF, with inputs from other central ministries but with no involvement of either parliament or CSOs. The production of the first annual progress report highlighted weaknesses in monitoring and reporting arrangements, but also raised important issues of temporal alignment between government processes and the requirements of external development partners. The drafting of the progress report was driven by a time table that revolved around completion of a PRGF

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<sup>30</sup> Some of the views the evaluation mission heard from government officials are well captured in a summary of comments attributed to the Finance Minister in a report to DFID prepared by Oxford Policy Management (OPM) and Overseas Development Institute (ODI) in 2002. Support was expressed for increasing the share of aid provided in the form of budget support, but two concerns were raised: (i) potential disruptive consequences from donors acting in unison to cut support; and (ii) increased burden of conditionality associated with budget support to Mozambique.

review scheduled for late 2002 (approximately one year after the Executive Boards of the IMF and the World Bank had endorsed the PARPA), and to some extent by the requirements contained in the guidelines for Joint Staff Assessments of PRSP Annual Progress Reports.<sup>31</sup>

67. The focus of the progress report was on measuring performance against PARPA targets, with little discussion of links between measures and outcomes, or of how policies might be adapted to enhance performance. In discussions with the evaluation team, senior government officials conceded analytical weaknesses in the current reports submitted to parliament which were to form the basis for the progress report. In particular, they accepted a need to relate budget outturns to PARPA objectives and to include some analysis of the effects of policies being implemented. They said they would welcome assistance to improve the contents—including generating information needed to satisfy the reporting requirements of the IMF and the World Bank; in their view, this was preferable to burdening the system with the preparation of “ad hoc” reports primarily for an external audience.<sup>32</sup>

68. Work continued on the report after it was submitted to the IMF and the World Bank in February 2003, and an updated version was presented to the Poverty Observatory at the end of April 2003. To the extent that the Poverty Observatory becomes institutionalized, the progress report can become a key input to its deliberations.

### **Performance against selected PARPA indicative targets**

69. A key objective of PARPA is the expansion in the access to basic social services as well as improved quality of those services. In education, specific sectoral goals include universal primary school enrolment, gender equity, and reduction in repeat and dropout rates. Available data indicates that gross enrolment rates in primary schools have not only gone up significantly compared to the levels in the mid-1990s, but that the PARPA targets for 2005 are likely to be met (Table 2). For example, after increasing from 57 percent in 1995 to 91 percent in 2000, the gross enrolment rate for EP1 is estimated to have exceeded 100 percent in 2002, and the target of 108 percent in 2005 appears to be within reach. Similarly, developments with respect to the proportion of students who are girls also seem to be broadly in line with the PARPA target. The increased access to primary schools has been achieved mainly through the construction of additional school buildings and an increase in

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<sup>31</sup> In particular, the JSA is expected to pronounce on the extent to which the progress report provides “sufficient information and analysis regarding the achievements and shortfalls experienced to date with respect to the poverty targets, priority public actions, and the monitoring and evaluation systems set forth in the PRSP.”

<sup>32</sup> A second annual progress report was issued in 2004 after this evaluation report had been completed. The progress report was subsumed in a restructured report on the Social and Economic Plan for 2003 prepared for parliament. This represents an important step forward.

the number of teachers. However, indicators of the quality of education, such as repeat and dropout rates have not yet shown much improvement.

Table 2. Progress Towards Selected PARPA "Result" and "Intermediate" Targets

Sector/Indicator	Actual			PARPA target for 2005
	1995	2000	2002	
<b>Education</b>				
1. Gross rate of enrolment -- EP1 1/	57%	91%	104%	108%
2. Gross rate of enrolment -- EP2 1/		23%	31%	36%
3. Percentage of girls in EP1	42%	43%	45%	48%
<b>Health</b>				
4. Infant mortality rate 2/	146	126	129	<130
5. Maternal mortality rate per 100,000 live births 3/	184	175	160	100
6. Rate of low birth weight	13%	12%	11%	<11%
7. Proportion of children under 1 with complete vaccinations (DPT3)	57%	82%		>90%
8. Institutional birth coverage rate	28%	40%	42%	>46%

Source: Government of Mozambique (2001), and MPF.

1/ The gross enrolment rate is the ratio of the total number of students enrolled to the population in the official age group for that level. EP1 refers to primary grades 1 to 5; and EP2 refers to primary grades 6-7.

2/ The data reported under "1995" and "2002" are for 1997 and 2001, respectively.

3/ The PRPA target for 2005 in the PARPA itself is "less than 170." The target reported here (100) is from the 1st annual PRSP progress report.

70. In the health sector, specified targets included some that reflected goals of lowering maternal and infant mortality and increasing the effectiveness of immunization programs for infants. The available data suggest that the goal of increasing access to healthcare services is being met. But as is the case with education, there is uncertainty about the extent to which progress is being made in improving quality. The uncertainty about the quality of service delivery recurs in the first annual PARPA progress report's discussion of progress in other areas, including agriculture and rural development, and basic infrastructure. These uncertainties reflect system weaknesses in budget execution, monitoring and reporting, and are being addressed as part of the reforms of the public expenditure management system.

71. The PARPA goals in agriculture focused on increasing agricultural output and productivity, access to land, improving the marketing of surplus crops, and reducing food insecurity. In 2001 and 2002, targets for cereal crops were achieved, but only 70 to 75 percent of targeted outputs for cashew and cotton seed were achieved. Measuring agricultural productivity has proved hard because of the lack of information on what activities have been carried out in this area. Targets, a plan of action or costs and funding

were not specified in the PARPA for the other three goals therefore making it near impossible to measure progress.

72. In infrastructure, PARPA targets for rehabilitation and maintenance of roads in 2001 were disrupted by the floods resulting in about 60 percent of the targeted rehabilitation being carried out on average. Objectives in energy provision were not clearly defined resulting in difficulties in measuring whether they were met. In water and sanitation, although the PARPA did not set specific annual targets for evaluating progress towards the 2005 goals, the progress report suggests that the country will probably achieve coverage of about 45 percent in water supply at a national level in 2005—against a target of 50 percent in urban areas and 40 percent in rural areas.

73. The progress report identifies actions that have been taken to fulfill the PARPA objectives in governance. Progress has been made in the area of decentralization and deconcentration with the Local State Institutions Bill to be sent to the Assembly of the Republic later in the year, a new Decentralization Strategy being considered, and pilot schemes being launched. The Integrated Strategic Plan for the justice sector was completed in 2002, and some skills training and rehabilitation work in prisons and for the police is being carried out. Efforts to improve the speed and transparency in processing legal cases are underway. But the progress report notes that there remain several lapses, insufficiencies and deficiencies in the area of good governance.

74. Performance in relation to macroeconomic and financial management targets was broadly satisfactory, with some important steps taken in improving budget programming and its transparency.

75. Under the current policies and aid flows, data from the Bank's World Development Indicators 2003 suggests that Mozambique is only likely to meet MDG targets for 2015 in income poverty, hunger and primary enrolment (World Bank 2003, table 6). With significant enhancements in resources and further reforms in policies, Mozambique could reach goals in primary completion, HIV/AIDS and access to water. Unfortunately, gender equality and child and maternal mortality rates are not likely to be met even under this favorable scenario.

### **Public spending in PARPA priority areas**

76. Sectors and activities deemed the most important for achieving PARPA's poverty reduction goals have been designated to receive priority in the allocation of public expenditures. Although the share of total spending accounted for by these priority areas has increased since 1999, it fell short of the PARPA targets for 2001 and 2002, including in the areas of education, health and basic infrastructure (Table 3). The JSA of the first annual PARPA progress report draws attention to the shortfalls but argues for a re-examination of the PARPA targets to take account of strains on the nonpriority sectors and implementation

capacity in the priority sectors.<sup>33</sup> Table 3 shows a substantial increase in the share of total expenditure allocated to education and health between 1997 and 1999.<sup>34</sup>

**Table 3. Public Spending in PARPA Priority Areas**

	1997	1999	2000	2001		2002			2005
				PARPA	Actual	PARPA	Budget	Actual	PARPA
	(In percent of GDP)								
Total expenditure		22.1	28.1	28.7	30.1	29.0	27.5	30.0	26.3
Spending on PARPA priority areas		13.3	19.0	19.4	19.4	18.9	18.3	18.4	17.0
	(In percent of total expenditure)								
Spending on PARPA priority areas		60.1	67.6	67.4	64.3	65.0	66.5	61.3	64.5
Education	8.4	15.6	19.7	24.5	22.8	19.5	17.5	16.4	19.7
Health	4.3	13.0	12.8	11.4	9.7	12.9	13.8	11.9	13.3
HIV/AIDS		--	0.0		0.5		0.7	0.8	
Basic infrastructure		12.9	15.6	18.0	17.0	18.8	17.1	16.1	17.2
Agriculture and rural development		5.1	6.2	3.5	3.3	3.9	5.4	5.0	3.9
Governance, law and judicial system reform		8.6	7.8	8.1	7.5	7.6	7.5	7.0	7.7
Other priority areas		4.9	5.5	1.8	3.5	2.4	4.4	4.2	2.7

Sources: Calculated from Government of Mozambique (2001) and data obtained from MFP. Data for 1997 are from the International Monetary Fund (2000).

### Impact on domestic institutions

77. There is a wide range of ongoing reforms in the public sector aimed at addressing capacity weaknesses related to implementation and monitoring of the PARPA. Although these reforms are meant to address capacity constraints, they appear to be taxing current capacity to the limit. During its visit to Mozambique, the evaluation team heard concerns about “reform overload,” and the risk that this may be undermining ownership of some key reforms. At the same time, the team found that at different levels of government (i.e., central, provincial and district) great stock was being put in local government reform—especially aspects dealing with decentralization of the planning and monitoring system—to improve the implementation of government policies and programs.

78. The PARPA process seems to have enhanced policy discussions on poverty issues within the government (especially between central and provincial government officials), and to a lesser extent, between the government and non-government stakeholders. However, a broad range of those met by the evaluation team (including government officials and

<sup>33</sup> See discussions of JSAs in Part VIB below.

<sup>34</sup> Heltberg et al (2001) find that in Mozambique, increased public expenditures on health and education—two sectors that have been receiving priority attention in government programs since the early 1990s—are likely to have significant poverty reducing effects.

representatives of CSOs) stressed the need to strengthen policy analysis capacity in and outside government for a more meaningful and sustainable participatory process. Within the government, it was pointed out that this need was not limited to MPF; it extended to sector ministries and to provinces. CSOs acknowledged that capacity constraints limited their current ability to contribute to some aspects of policy discussions (e.g., macroeconomic policies) and that they needed to find ways of attracting support for capacity building in their organizations (e.g., through the support of donors and collaboration with “northern” NGOs).

#### IV. IMF EFFECTIVENESS

79. Two principal questions are addressed here: (1) How effective has the IMF been in promoting the objectives of the PRSP/PRGF approach in Mozambique? (2) Has the new approach made a difference to the achievement of goals in the country’s IMF-supported programs? We employ a range of indicators of program implementation to answer the second question. The main yardsticks used to address the first question are the “key features” that are supposed to distinguish PRGF-supported programs from those supported under the ESAF, namely:

- Broad participation and greater country ownership;
- Embedding the program in an overall strategy for growth and poverty reduction;
- Government budgets that are more pro-poor and pro-growth;
- Appropriate flexibility in fiscal targets;
- More selective structural conditionality;
- Emphasis on measures to improve public resource management and accountability;  
and
- Social impact analysis of major macroeconomic adjustment and structural reforms.

80. The first two “key features” are covered in Sections A and B below. The remaining ones are covered in Section C. The discussion is organized around four topics: (i) IMF inputs to the PRSP process; (ii) program formulation process; (iii) program content; and (iv) program implementation. A chronology of key events under the ESAF/PRGF arrangement and the PRSP process is presented in Table 4. The time between completion of PRGF reviews exceeded the scheduled 6-monthly intervals in all cases, with a gap of 12 months between the fourth and fifth reviews. Most of these delays reflected noncompliance or delays in compliance with conditionality related to bank restructuring.

### A. The PRSP Process and IMF Inputs

81. By all accounts, IMF staff did not participate directly in the preparation of the PARPA.<sup>35</sup> In particular, there was no IMF staff participation in the government-led consultations with stakeholders. Apparently, the authorities felt that, at least in the early stages of the PRSP process, such participation would have been perceived by the general public as undermining country ownership. However, when Mozambique embarked on the PRSP process, there was in place a recently approved IMF-supported program (under an ESAF arrangement). A question that arises is the extent to which that program influenced, and in turn was subsequently influenced by, the PARPA.<sup>36</sup>

Table 4. Key Events Under the PRGF Arrangement and the PARPA Process

Date	Event
June 1999	New 3-year ESAF (PRGF) arrangement approved; Completion Point under HIPC Initiative
February 2000	Completion of Interim PRSP
March 2000	Completion of PRGF first review
April 2000	Decision Point under Enhanced HIPC Initiative
December 2000	Completion of PRGF second review
April 2001	Cabinet approves PRSP (PARPA 2001-05)
September 2001	Completion of PRGF third review; and Completion Point under Enhanced HIPC Initiative
June 2002	Completion of PRGF fourth review and extension of arrangement by one year.
February 2003	First annual PRSP Progress Report submitted to IMF and World Bank
June 2003	Completion of PRGF fifth review; arrangement expires without completion of sixth review (because of long delay in completing fifth review).

Source: IMF staff reports.

82. In this section, we first examine what the IMF did or could have done to promote broader participation in macroeconomic policy discussions in-country. Next, we compare medium-term macroeconomic frameworks at different stages of the ESAF/PRGF-supported

<sup>35</sup> IMF and World Bank staffs contributed comments on successive drafts of the PARPA document. Their joint inputs to the PRSP process in Mozambique are discussed below in the chapter on “IMF-World Bank Collaboration.”

<sup>36</sup> Mozambique’s new ESAF arrangement was approved in June 1999. In November 1999, the IMF transformed the ESAF into the PRGF, and Mozambique’s ESAF arrangement was converted to a PRGF arrangement at the time of the first review (see Table 4).

program with that in the full PRSP (PARPA 2001-2005), with a view to gauging the direction and extent of influence between the IMF-supported program and the PARPA. Finally, we assess IMF technical assistance for relevance in supporting the achievement of PARPA objectives.

### **Contribution to broadening participation in policy discussions**

83. What role does the IMF expect its staff to play in broadening participation in macroeconomic policy discussion in a country? During discussions on operationalizing the PRGF, IMF Executive Directors “agreed that Fund staff will need to participate in broad-based consultations on the policy framework and expected that this would help increase ownership of prudent macroeconomic policies.”<sup>37</sup> The evaluation team sought the views of various stakeholder groups outside of government on the extent of IMF staff engagement in policy discussions in-country. Representatives of the group of donors providing general budget support (G-11) gave a highly favorable account of IMF staff (mainly the Resident Representative) participation in weekly meetings of their “macroeconomic working group.”<sup>38</sup> An evaluation report commissioned by Nordic Embassies in Mozambique on the role of the IMF and the World Bank in the PRSP process praised the IMF Resident Representative for becoming an “open and active participant in PARPA-related discussions.”<sup>39</sup> It reported a strong sense of trust between the G-11 and the IMF staff working on Mozambique, and attributed this to the IMF becoming “much more transparent,” and showing that it takes the discussions at the G-11 meetings seriously, and “commits to common positions.”

84. In sharp contrast, representatives of NGOs told the evaluation mission that the IMF was “invisible” to them, and that they would welcome opportunities to learn more about IMF activities in the country, including the rationale for the macroeconomic policy advice provided by the IMF to the authorities. Representatives of the business community welcomed recent opportunities to hold broad ranging discussions with visiting IMF missions but were unsure of the extent to which their views would influence the policy advice provided by the IMF to the government. They cited ongoing tax reforms (e.g., related to income taxes and making VAT more effective) as an area where they were capable of providing valuable input if given a chance (and adequate time to prepare their input).

85. What can IMF staff do to foster broader discussion of macroeconomic issues? One potential avenue would be through the development of a forum similar to, but with broader participation than, the donors-only macroeconomic working group. Initially, discussions

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<sup>37</sup> See International Monetary Fund (1999).

<sup>38</sup> Unlike other “sectoral” working groups which have government participation, membership of the macroeconomic working group is limited to donors that provide budget support, with the IMF and the World Bank (and a few other bilateral donors and UNDP) as observers.

<sup>39</sup> Scanteam (2003).



could be organized around links between PARPA and the budget (e.g., the MTBF, including issues related to the projected resource envelope and expenditure priorities), and the deliberations of the forum would feed into the Poverty Observatory. The absence of such a forum has meant that macroeconomic policy discussions continue to involve mainly the IMF and a handful of officials from the MPF and the central bank, and to a large extent to revolve around PRGF negotiations. Even without a formal forum, there is scope for IMF staff to reach out to CSOs, including business and economist associations, to inform them about IMF activities in the country and to discuss relevant policy issues. However, this would have to be done with due sensitivity in order not to undermine relations with the authorities.

86. The “different way of doing business” implied by the PRSP/PRGF approach also raises questions about the allocation of resources between headquarters and the field. In particular, it is unlikely that one person seconded from headquarters (plus limited local staff) can effectively play all the roles expected of the IMF Resident Representative: active participation in a wide range of government- and donor-led technical and policy discussions on the ground, management of IMF relations with the authorities (including providing policy advice, monitoring the implementation of the IMF-supported program, and facilitating technical assistance), managing IMF relations with donors in the country (including Bank-Fund collaboration), and outreach activities. In effect, decisions on how extensively the IMF staff should be expected to participate in the broader policy debate are closely related to how it organizes its country work.

#### **Macroeconomic frameworks in the ESAF/PRGF and the PARPA<sup>40</sup>**

87. In terms of its broad objectives, the 1999 ESAF/PRGF-supported program reflected the government’s economic objectives and priorities, which already included poverty reduction as a key element. The program drew on the results of the 1998 National Poverty Assessment and outlined a strategy for achieving poverty reduction that was based largely on fostering broad-based growth in real GDP and on improving access to and the delivery of social services, especially in education and health care.

88. Macroeconomic objectives included average real GDP growth of 8 percent per year and inflation at about 5 percent per year. A sharp reduction in the external current account was expected, though the fiscal balance was projected to worsen slightly. The fiscal outlook (measured in relation to GDP) was for a modest increase in revenue, some reduction in expenditures, and a significant reduction in external financing—grants and foreign borrowing—measured in relation to GDP and in U.S. dollars.

89. The I-PRSP, which was completed in February 2000, did not contain much of a discussion on the macroeconomic framework underlying it. Instead, it indicated that it was

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<sup>40</sup> For a summary of the main macroeconomic frameworks discussed in this section, see Appendix I, Table A5.

based on the medium-term macroeconomic framework of the Policy Framework Paper (PFP) for the 1999 ESAF arrangement. Extensive floods in early 2000 rendered the macroeconomic assumptions out of date and an updated macroeconomic framework was formulated under the second review (completed in December 2000). The main changes were a temporary but substantial downturn in real GDP growth and higher inflation, and significantly higher expenditure financed by additional external financing (reflecting international support to post-flood reconstruction).

90. PARPA was finalized shortly after completion of the PRGF second review, but there were a few notable differences in the macroeconomic frameworks of the two. In particular, PARPA projected higher medium-term growth rates (9-10 percent per annum, compared to 6-7 percent in the PRGF), and for 2001, significantly higher total expenditures (35 percent of GDP vs. 30 percent) and foreign financing (US\$730 million vs. US\$640 million). It is noteworthy that the PARPA indicates that because of various uncertainties—including those related to natural disasters and unpredictable aid flows—the macroeconomic projections would be revised annually to incorporate “the best and latest information” and to reflect changes in key variables.

91. In June 2001, only a few months after cabinet approval of the PARPA, IMF staff indicated in their preparations for the PRGF third review discussions, that PARPA macro framework needed to be updated. In the event, the macro framework for the PRGF third review (completed in September 2001), was broadly similar to that in the PARPA.

92. The PRGF macro framework in the fourth review (completed in June 2002), was slightly different from that in PARPA. The main difference was a slight reduction in growth assumptions in the PRGF to take account of the impact of HIV/AIDS (which had not been reflected in the PARPA macroeconomic framework). The outlook for the fiscal balance remained broadly unchanged in spite of the inclusion (in the PRGF) of the costs of recapitalization of banks in which the state held shares (estimated at ½ of 1 percent of GDP a year through 2010); expenditures on nonpriority activities were to be adjusted to accommodate these costs.

93. Macroeconomic stability and reducing aid dependence were prominent themes in the third and fourth reviews under the PRGF arrangement. With inflation reaching 22 percent per annum at the end of 2001 (foreshadowed by rapid monetary expansion earlier on), the reviews invoked PARPA to justify their disinflation objectives (i.e, a return to single digit inflation in the range of 5-7 percent per annum). The reviews also referred to the “PARPA objective” of reducing aid-dependence in support of measures designed to enhance domestic revenue mobilization. In our view, staff made more out of this “objective” than the PARPA.<sup>41</sup>

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<sup>41</sup> Part of the strategy for achieving the PARPA’s macroeconomic objectives included “continued support from international partners, maintaining the recent high level of net

(continued)

94. On balance, we conclude that there has been a two-way relationship between the macro frameworks of the PARPA and the PRGF arrangement. We return to some aspects of alignment of the macro frameworks, especially the projected levels of foreign financing, in the section on “Program content” below.

### **Technical assistance**

95. The IMF has provided a wide range of technical assistance to Mozambique. The assistance has taken a variety of forms, ranging from short-term missions to analyze and flesh out policy issues (e.g., in the areas of tax policy and bank restructuring), to assistance geared to building analytical and administrative/implementation capacity using consultants as resident experts. Areas of focus have included tax policy and administration, customs reform, public expenditure management, integrated financial management of public finances, banking supervision, foreign exchange management, payment system, and statistics. These priorities appear to be in line with those established in the PARPA.

96. In discussions with the evaluation mission, the authorities expressed overall satisfaction with IMF technical assistance and, in general, gave a highly positive assessment of the extent to which such assistance has been geared to support critical PARPA objectives. They noted that, at their request, the IMF was playing a lead/coordination role among providers of technical assistance in the areas of tax reforms and reform of the public financial management system. However, there has been some contention over the pace of implementing some recommendations (usually in the context of conditionality under the IMF-supported program), and in a few cases over the substance of recommendations.<sup>42</sup> Also, a few officials raised questions about quality control in the selection of resident experts and called for giving the country more say in the selection of these experts.

97. Donors providing technical assistance in the same (or complementary) areas as the IMF expressed general satisfaction with collaboration with the IMF, although a few expressed concern about IMF staff heavy-handedness in pushing through aspects of the reforms of the public financial management system.<sup>43</sup>

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transfers.” Also, in its discussion of measures for mobilizing budget resources, the PARPA highlighted the need to “strengthen coordination with international partners to ensure that the flow of external finance remains at US\$600 million per annum.”

<sup>42</sup> In one case, the authorities wrote to the IMF to complain that a mission’s recommendations on rationalization of tax incentives and exemptions were “unhelpful” to Mozambique. They were subsequently persuaded to implement the measures.

<sup>43</sup> Scanteam (2003) noted that staff of the Nordic embassies in Mozambique were divided in their view on this issue, but some thought the IMF had brought its “considerable institutional weight” to bear in a dispute between Swedish experts and an IMF-sponsored expert.

## **B. Program Formulation Process**

98. Has anything changed in the process by which Mozambique's IMF-supported program is formulated and updated? Specifically, is there more country-ownership of the program, in terms of greater space for consideration of homegrown policy options? To what extent has the IMF's internal review process encouraged a more country-driven process?

### **Participation and country ownership**

99. Participation in the formulation of IMF-supported programs has remained limited to IMF staff and a relatively small group of officials from the MPF and the Bank of Mozambique. Nevertheless, participants on both sides interviewed by the evaluation team suggested that the PRSP/PRGF approach has enhanced country ownership, compared to earlier approaches. Officials involved in negotiations with the IMF indicated that the range of issues and areas open to negotiation has increased—including in the choice of measures specified as performance criteria—and that IMF staff have become more willing to discuss distributional impacts of proposed measures and to allow time for analytical work to be undertaken to inform policy choices.<sup>44</sup> Examples of this increased room for negotiation and analyses include the dropping of conditionality on phasing out protectionist tariffs on sugar imports following a Government-commissioned study conducted by FAO, and postponement of a decision on increasing the fuel tax (pending the outcome of a PSIA).

100. On their part, IMF staff expressed the view that the combination of strong government ownership of the PARPA and a PRGF that is geared towards meeting PARPA goals, has made it easier to reach understandings with the authorities on macroeconomic objectives and to hold them to policy measures that they commit to under the program. For example, key components of fiscal reforms (e.g., in the areas of tax policy and administration, and public expenditure management) covered under recent PRGF reviews are in some form also contained in the PARPA.

101. There have been a number of instances where IMF staff and the authorities have differed on structural reforms. An example that illustrates differences on the pace of implementation relates to the establishment of a central revenue authority. During the negotiations for the 1999 ESAF, one of the measures suggested by IMF staff to strengthen tax administration was the creation of a central revenue authority to oversee the operations of both the customs department and the internal revenue office and which would also act as an advisory body on tax policy issues to MPF. The (June 1999) report to the Executive Board on the request for the new arrangement noted that the authorities expressed skepticism about the usefulness of such an authority, but nevertheless agreed to study the options for setting one

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<sup>44</sup> Some senior government officials told the evaluation team that the Social Development Officer who was part of the IMF team during 2000-2001, played a constructive role in bringing this about.

up. The possibility of establishing such an agency was included in the PARPA with a time-frame of 3-5 years for implementing it.

102. Issues related to the resolution of weaknesses in large partially state-owned banks have featured prominently in the authorities' program negotiations with the IMF over the last few years, and illustrate the tension that can arise between country ownership and conditionality. In 2000, in a case that predates PARPA, the authorities went against the advice of IMF and World Bank staffs and took over a bank (Bank Austral) when the private partner decided not to participate in recapitalizing it. This led to a delay in completing a PRGF review while the staff and the authorities worked out a plan of action which eventually resulted in a re-privatization of the bank.

103. The PARPA sets as one of the objectives for the financial sector, "minimize risk of financial crises," including through strengthening supervision "in conformity with Basle principles." Banking system problems have persisted after PARPA and were behind drawn out negotiations and a long delay in completing the fifth PRGF review. These problems have also raised the prospect of some donors acting together to withhold aid disbursements if they conclude that the authorities are not doing enough to address governance related aspects of the problems. During 2002, a few donors temporarily delayed their disbursements while the authorities and IMF staff were negotiating measures to be undertaken for the completion of the PRGF fifth review.

#### **IMF internal policy formulation process**

104. In order to assess the extent to which internal IMF processes have adapted to the PRSP and PRGF approach, we undertook a systematic review of a set of internal briefing papers (and review department comments thereon) for Mozambique from the ESAF and PRGF periods. An illustrative example comparing internal policy formulation based on the briefing paper process for the request for a new ESAF arrangement in early 1999, and that for conducting the PRGF fourth review in early 2002 is summarized in Appendix I, Table A6.<sup>45</sup>

105. The briefing paper for the post-PRSP period linked the PRGF arrangement to the PRSP. It did not clearly provide room for engaging the authorities in discussing alternative

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<sup>45</sup> Prior to every negotiating mission, the area department responsible for the country in question prepares an internal document ("briefing paper") which is commented upon by other relevant departments in the IMF and eventually approved by management. The assessment of this process was made against a series of specific criteria derived from the objectives and key features of the PRSP and PRGF. For each criteria, the processes were ranked according to a four-scale range (Highly inconsistent, Inconsistent, Consistent, Highly Consistent). A detailed description of the assessment criteria will be provided as an annex to the main IEO evaluation report.

ways of meeting major goals, but did anticipate undertaking a PSIA prior to implementing a proposed revenue measure (increase in taxes on petroleum products). An area where practices remain “highly inconsistent” with the PRSP/PRGF approach is consideration of alternative macroeconomic frameworks (and the tradeoffs between them); there is no such discussion in either briefing paper.

106. With respect to comments by review departments, there was not much change in terms of allowing countries more “policy space” for homegrown options, comments on the policy content of briefing papers remained highly prescriptive, including when offering alternatives to proposed measures. However, one area where both briefing papers exhibited consistency with the PRSP/PRGF approach was with respect to highlighting poverty issues or drawing attention to their absence. One review department called for the pre-PRSP brief to spell out more clearly measures to be proposed for meeting the government’s objectives of poverty alleviation and provision of a social safety net. The later brief was also asked to give a lot more prominence to issues related to the implementation of PARPA.

107. A reading of a larger sample of briefing papers and comments thereon conveyed broadly similar messages. As work on the PARPA progressed (during 2000 and early 2001), the review process stressed the importance of the authorities producing an “endorsable” PRSP, with a more substantive macroeconomic framework than was contained in the I-PRSP. Following the issuance of guidelines on streamlining structural conditionality, the review process has (since early 2001) emphasized the new policy of limiting structural conditionality to reforms that are critical for the achievement of macroeconomic objectives, and has also sought to clarify the division of labor between the IMF and the World Bank.<sup>46</sup>

108. More recently, the internal review process has raised questions about the extent to which the authorities discuss macroeconomic framework issues and policy choices with domestic stakeholders. However, this has been done entirely with reference to what the authorities are doing, without any discussion of how IMF staff might contribute to the process of broadening participation in macroeconomic policy discussions in the country.

109. Trade policy is an area where there has been a noticeable change in tone in both briefing papers and review department comments on them. In 1999 and early 2000, addressing “setbacks to trade liberalization” (especially in the cashew and sugar sectors) featured very prominently in policy advice and conditionality. More recently, discussion and comments have revolved around the trade policies contained in PARPA—for example, (i) lowering the maximum import duty rate and other reforms of customs duties to create an

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<sup>46</sup> See, for example, Box 1 in International Monetary Fund (2003).

environment that stimulates growth; (ii) creating conditions for stimulating exports; or (iii) implementation of the SADC trade protocol.<sup>47</sup>

110. In summary, the internal policy formulation process does not seem to have fully adapted to the PRSP/PRGF approach. There is more of an attempt to link programs to growth and poverty reduction objectives, and in limiting the coverage of structural conditionality to areas within the Fund's competence. However, not much has changed in terms of considering alternative macroeconomic frameworks and the trade-offs between them.

### **C. Program Content**

111. The preceding two sections focused on the first two "key features" of the PRGF approach. In this section, we examine how the evolution of Mozambique's IMF-supported program measures up against the remaining "key features." We consider the extent to which the program is emphasizing pro-poor and pro-growth budget policies, and whether the fiscal stance has become more flexible especially in dealing with aid inflows. We highlight issues of external financing of the budget partly because of external criticisms of Mozambique's IMF-supported programs on this score.<sup>48</sup> We also assess the extent of streamlining that has occurred with respect to structural conditionality, and briefly discuss poverty and social impact analyses (PSIA).

#### **Government budget orientation and external financing**

112. Since the early-1990s, the authorities in Mozambique have sought to give a pro-poor orientation to their budgets mainly through increasing allocations to social sectors (mainly education and health), basic infrastructure (e.g., potable water and rural roads). This pattern has continued under the PARPA and the PRGF-supported program. Pro-growth policies have taken the form of improving the environment for the development of the private sector through specific measures such as the simplification and lowering of the rates for personal and corporate income tax (1998), and reductions in the top import tariff rate (1999 and 2003).

113. In order to see what changes may have occurred in the programming of the fiscal stance and its financing between the ESAF (1996-99) and the PRGF (1999-2003), we first examined the evolution of the projected fiscal deficit excluding grants, measured in relation to GDP. Since domestic financing has been minimal under these programs, this measure of

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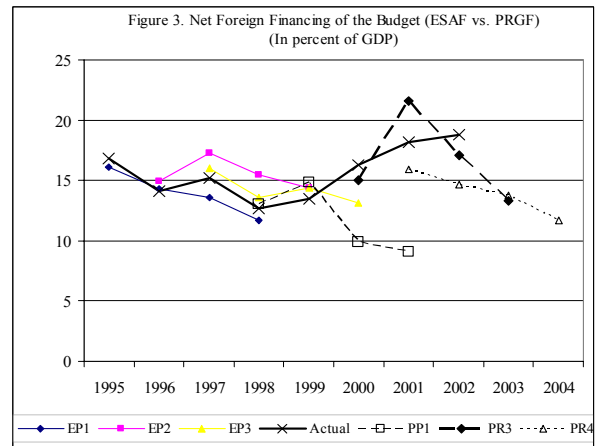
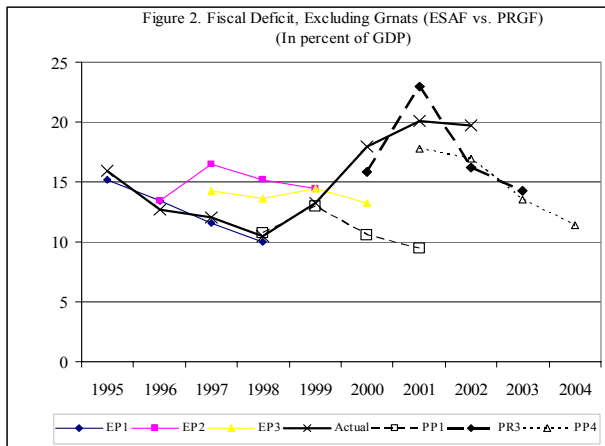
<sup>47</sup> It is not clear how much of this can be attributed to the PRSP/PRGF approach per se. A visit by the Managing Director of the IMF to Mozambique in July 2000 seems to have been a turning point, leading to the staff backing off from trade conditionality, especially in relation to removal of protectionist policies in the cashew and sugar sectors.

<sup>48</sup> Internal guidelines issued in October 2000 on features of PRGF-supported programs also called for the presentation of "normative (often stable or increasing) projections of grants and concessional loans based on growth and poverty reduction objectives."

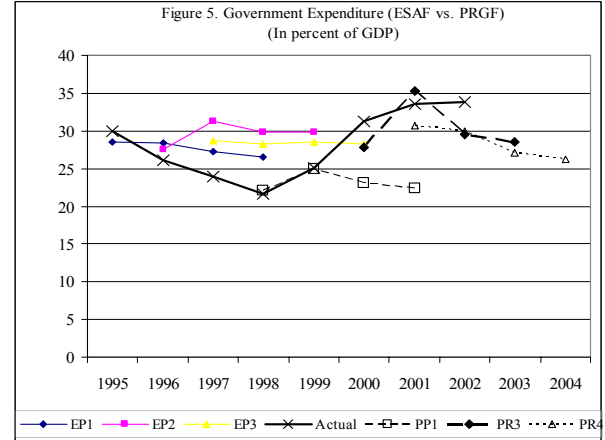
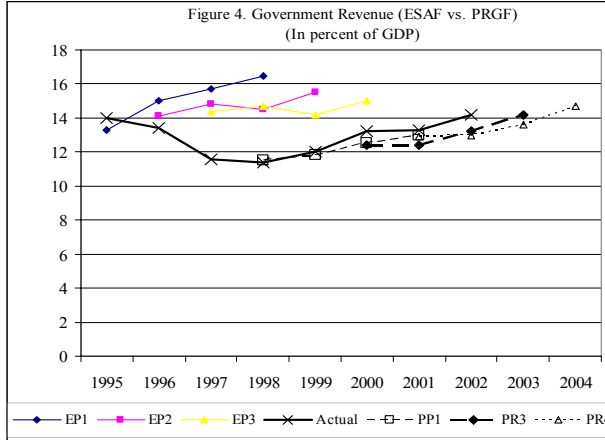
the deficit essentially reflects the extent of foreign financing—grants and concessional loans—expected to be available. Under both arrangements, the initial programs envisaged sharp declines in the deficit and net external financing over the three year program period. In each case, the initial projections of the deficit were substantially revised upwards in the course of annual arrangements or program reviews, to reflect improved outlook for external financing (Figure 2 and 3).

114. The upward revisions under the ESAF turned out to have been optimistic, as the actual path of the deficit and net external financing broadly followed the originally envisaged path between 1996 and 1998, and then increased in 1999. By contrast, under the PRGF, outturns generally followed more closely the more optimistic revised projections. A better than anticipated response to requests for foreign assistance after the floods of early 2000 boosted aid flows in dollar terms as well as in relation to GDP. The steady increase in the actual fiscal deficit before grants since 1999 indicates that the fiscal stance has in fact been accommodating increased aid flows, even when initial projections displayed some “aid pessimism.”

115. A comparison of revenue and expenditure projections under the ESAF and PRGF also shows marked contrasts (Figure 4 and 5). Under the ESAF, revenue projections tended to be optimistic (in relation to outturns), and contributed to a pattern of expenditures bearing the brunt of fiscal adjustment. By contrast, under the PRGF, revenue performance exceeded projections (which were more modest than under the ESAF) and actual expenditures not only tended to exceed projections, but actually increased significantly. Interestingly, growth performance under the ESAF was much better than projected (Figure 6), suggesting that optimism about the impact of revenue measures rather than optimistic growth projections lie behind the underperformance of revenue indicated above.

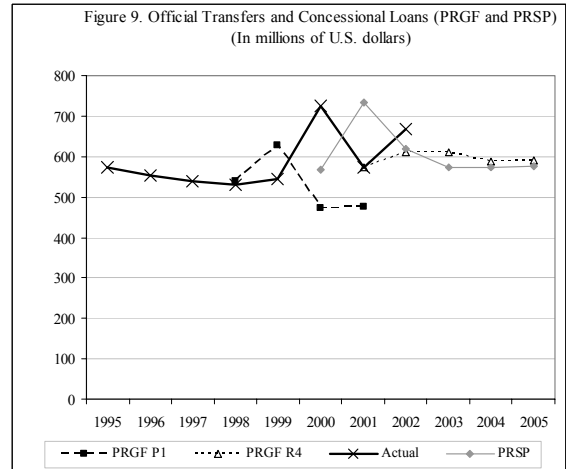
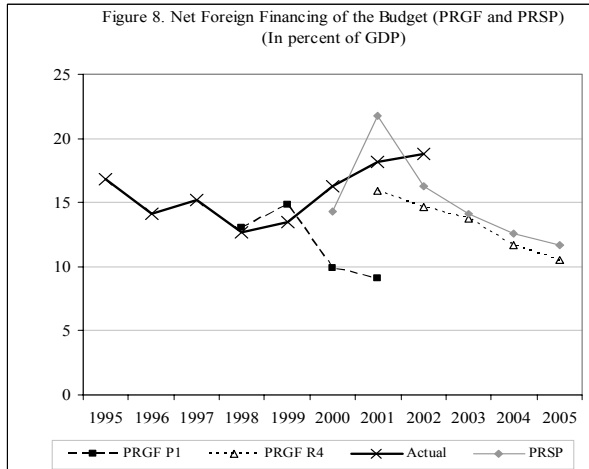
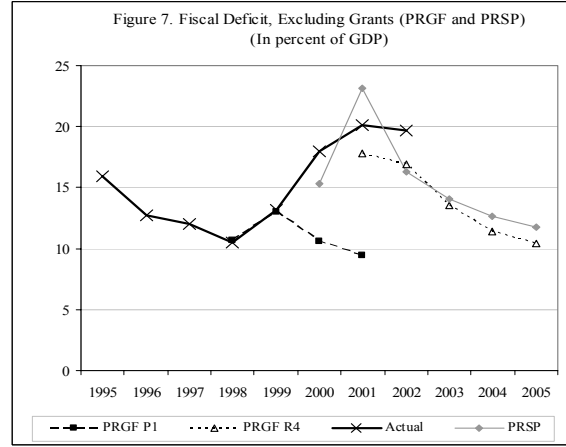
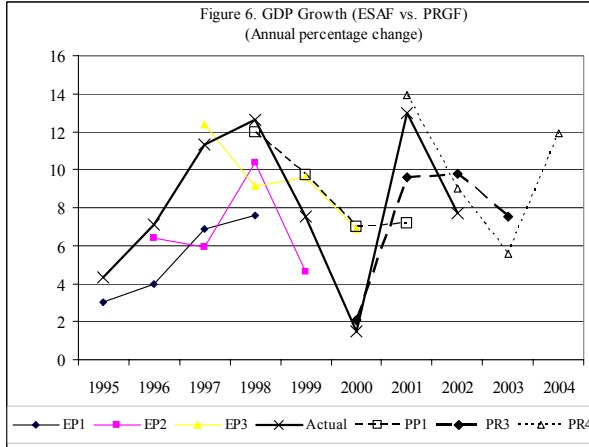






116. What influence if any has PARPA had on the projections of the fiscal outlook under the PRGF? Figure 7 compares the projections of the fiscal deficit (excluding grants) in the initial PRGF, the PARPA, and the fourth IMF review under the PRGF. The PRGF projected a somewhat sharper decline in the fiscal deficit and in net foreign financing of the deficit (in relation to GDP) than the PARPA (Figures 7 and 8). The PARPA’s macroeconomic framework projected a declining trend in the external financing/GDP ratio (driven largely by projected high real growth rates), but it indicated that efforts would be made to maintain the U.S. dollar value of gross aid flows at around US\$600 million a year—somewhat lower than the unusually high level reached in 2000 (Figure 8 and 9). While the pre-PARPA projections in the PRGF shows a sharp decline in the U.S. dollar value of aid flows, the post-PARPA projection contained in the PRGF fourth review is broadly consistent with the PARPA. Thus, the evidence suggests that the PRGF-supported program did adapt to the PARPA framework. However, the above comparisons do not address the much more difficult counterfactual question of whether, if the program had targeted a higher level of external financing, donors would have been “catalyzed” to provide more financing.<sup>49</sup> In our view, an over-emphasis on reducing aid-dependency as an “objective,” has contributed to a perception that the PRGF is more “aid-pessimistic” than it is. We recommend that in analyzing the role and impact of high reliance on aid flows, the staff cast the issues in terms of fiscal sustainability rather than the way it now comes across—as a mechanical adherence to an “objective” of reducing aid dependence.

<sup>49</sup> Oxfam International (2003) criticizes the IMF for not doing enough to mobilize donor funds to help Mozambique attain the MDGs.



117. Given potential uncertainties in the disbursement of external aid flows, how program targets are adjusted in response to shortfalls and excesses (measured against projected levels) is an important issue in program design for countries like Mozambique that are heavily dependent on aid flows.<sup>50</sup> Indeed, in discussions with the evaluation team, a few senior government officials suggested that targets under the PRGF-supported program were constraining the government's ability to spend available external resources.<sup>51</sup> The

<sup>50</sup> For an empirical analysis of the predictability of aid flows and policy implications, see Bulir and Hamann (2001).

<sup>51</sup> The arrangement contains projections of the amount of external non-project (i.e., "program") assistance that will be available over time. Targets on international reserves and net domestic assets are adjusted in the light of actual flows of such assistance. Excesses are expected to be "saved," while shortfalls are "compensated" for by domestic financing (or drawing down of previously saved amounts). The limits can be revisited at the next program review.

adjustments to program targets in question are calibrated on “program assistance” (i.e., “non-project” aid); there is no restriction on the use of “project” aid.

118. A comparison of projected and actual amounts received indicated that shortfalls were the norm, except in 2000 when a projected sharp reduction in program assistance (from the 1999 level which was characterized by IMF staff as “unusually high”) failed to materialize (Appendix I, Table A7). On the face of it, the evidence of a tendency for actuals to fall short of projections suggests that the program limits on the amount of program assistance that can be “spent” were usually not binding. Moreover, program assistance accounts for less than half of total grants and concessional borrowing and since there is no restriction on spending additional “project” aid, we conclude that there is nothing inherent in the way the program is designed that has constrained the spending of available external resources.

119. Nevertheless, this example suggests that, as general budget support by donors becomes more significant, improvements in the accuracy of projections of such support, and a clear understanding by all parties on how the program will respond to any deviations, are likely to be of increasing importance.

### **Structural conditionality**

120. The internal guidelines on “streamlining” structural conditionality employ a simple count of conditions as a measure of the extent of conditionality. This is an imperfect yardstick—given the heterogeneity of structural measures—hence caution is required in interpreting results. Structural conditionality under the initial ESAF/PRGF-supported program was somewhat more extensive than the average under the preceding ESAF; the number of structural performance criteria was about the same but there was a much larger number of structural benchmarks (Appendix II). However, this changed fairly quickly, especially with respect to performance criteria, the number of which was halved (from 4 to 2) at the time of the first review, and remained at 2 or less under subsequent reviews. The number of structural benchmarks also fell during the course of the arrangement (from a high of 10 in the original program to a low of 3 at the time of the third review, but has remained at levels comparable to those under the ESAF. The third review saw a bulge in prior actions, all of which were related to resolving banking system problems that delayed the completion of the review.

121. Also striking has been the narrowing in the range of sectors/areas in which structural conditionality has been specified. From the third review, conditionality has been limited to the government budget and the financial sector; with nothing on previously “popular” areas such as public enterprise reform (including privatization) and reform of the international trade regime.<sup>52</sup> A factor that has facilitated this degree of “streamlining” has been the World

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<sup>52</sup> Adam and Bevan (2001) cite Mozambique as an example of IMF structural conditionality becoming more selective.

Bank taking over responsibility for some of the areas that were previously the subject of IMF conditionality.

### **Poverty and social impact analysis (PSIA)**

122. The PRGF “key features” raised expectations that “social impact analysis of major macroeconomic adjustment and structural reforms” would become a regular feature of PRGF-supported programs. In addition to highlighting the distributional impact of policy changes, PSIA can play a number of other roles, including: (i) helping to define compensatory and complementary measures; (ii) inform decisions on the timing and sequencing of reforms; and (iii) inform public debate on policy options and tradeoffs between them.<sup>53</sup>

123. In Mozambique, a PSIA on the impact of raising taxes on petroleum products was undertaken in 2002 with the support of DFID. The results of that exercise provided input to the government decision to increase petroleum product prices in early 2003. There have also been at least two other PSIA-like studies that influenced government policy choices: one was a cost-benefit analysis of protection to the sugar industry prepared by FAO in 2000 at the request of the government, and the other was a World Bank-sponsored study on restructuring the cashew-processing industry which formed the basis for a government transfer payment to various companies to pay for accumulated liabilities to the labor force. We understand that the staffs of the IMF and the World Bank did not agree with the analysis of the sugar study but did not insist on additional conditionality in this area when the government decided to protect the sector based on the recommendation of the FAO study.

### **D. Program Implementation**

124. One of the expectations of the PRSP/PRGF approach was that with greater country-ownership of IMF-supported programs will come a higher level of commitment by the authorities to measures envisaged under the program, and that this would translate into a better record of implementation and outcomes. We employ a range of indicators to compare the pace of program implementation under the ESAF (1996-99) and the ESAF/PRGF (1999-2003).

125. A widely used but crude indicator of program implementation is the rate of disbursement of the approved amount under an arrangement. This measure assumes that disbursements are made only when program implementation is satisfactory, or when there are extenuating circumstances for poor or non-implementation. By this measure, program implementation under the ESAF was more satisfactory than under the ESAF/PRGF. The ESAF was fully disbursed within the 3-year span envisaged under the original arrangement, while for the ESAF/PRGF only 90 percent of the approved amount was disbursed in spite of

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<sup>53</sup> On the potential role PSIA can play in PRGF-supported programs and assessments of the early experience, see Inchauste (2002) and Robb (2003).

a 12-month extension (i.e., the arrangement expired after 4 years instead of the 3 years envisaged under the original arrangement).

126. Two other measures—related to timeliness of reaching key points in arrangements—may be used to distinguish between relatively short delays in implementing measures and more lengthy pauses which may signify more serious problems with program implementation (i.e., program “interruption”).<sup>54</sup> The first indicates that on average, program reviews under the ESAF were completed with a short delay of less than a month, while those under the ESAF/PRGF were completed with an average delay of nearly 4 months (Appendix I, Table A8).

127. The second measure attempts to correct for the different architectures of the two arrangements by focusing on key events—program reviews and approval of new annual arrangements—that were scheduled to occur at approximately six-monthly intervals.<sup>55</sup> A comparison of the time between these key events indicates an average of nearly 7 months for the ESAF and about 10 months for the ESAF/PRGF. The two “timeliness” indicators, thus suggest that program implementation has not improved under the most recent arrangement.

128. Completion of all three mid-term reviews associated with the annual arrangements under the ESAF required at least one waiver on account of non-observance of performance criteria; these were in relation to quantitative financial targets and structural measures in about equal measure. The magnitudes of the deviations from quantitative financial targets were relatively minor, and overall macroeconomic performance under the program was judged by IMF staff to have been very good—growth reached double digit levels and inflation fell to single digit levels.

129. Under the ESAF/PRGF, waivers were required for three of the five reviews that were completed. Waivers tended to be more for non-observance of structural performance criteria (mostly related to bank restructuring) than for breaches of quantitative financial targets. There was substantial “over performance” with respect to quantitative financial targets on a couple of occasions. Overall, macroeconomic performance under the program was not as good as under the ESAF, but this reflected, at least in part, exogenous shocks; growth fell on account of flooding in early 2000. On the other hand, inflation returned to double digit levels partly on account of a loosening of monetary policy.

130. The evidence presented here, though limited, suggests that the PRSP/PRGF approach has not been associated with smoother implementation of the IMF-supported program in Mozambique. But this seems to reflect the difficulties of resolving the tension between ownership and conditionality as it related to problems in the banking sector, which required

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<sup>54</sup> See Mecagni (1999) for an analysis of factors that contribute to program interruptions.

<sup>55</sup> The ESAF was made up of three annual arrangements, each with a mid-term review; while the PRGF was one three-year arrangement designed to have six reviews.

extensive negotiations and resulted in lengthy delays in the completion of reviews but did not result in a formal interruption of the program. Implementation of other aspects of the program proceeded much more smoothly. Interestingly, banking sector restructuring is an area where the PARPA provided limited guidance on the strategy to be pursued. (The issue was mentioned, but not in a manner that provided an operational guide to decision-making.)

## V. WORLD BANK EFFECTIVENESS

131. This section discusses the role and effectiveness of the World Bank in supporting the PRSP process in Mozambique. The analysis focuses on two areas: (i) support during PRSP formulation, and (ii) alignment during implementation. Specifically, the first section discusses the role of the Bank during PRSP formulation including the importance of preceding involvement in SWAs and of analytical inputs during the formulation process. The second section looks at alignment of the institution's activities following adoption of the PRSP by reviewing Bank behavioral alignment with the principles of country ownership and partnership and the match between the Bank's financial and non-financial assistance with the priorities of the PRSP.

### A. World Bank Support to PARPA Formulation Process

132. Overall, the Bank played a positive and appropriate role in the PARPA formulation process. This was confirmed by government representatives and donors. Preparation of the PARPA was country-driven, with authorities requesting "hands off" involvement by the Bank from May 2000 to August 2001. Early in this period the Bank offered technical assistance support and also offered to present general recommendations on how to organize a PRSP process, through presentation of the PRSP Sourcebook materials and video conferencing. The technical secretariat in MPF responsible for the preparation of the PARPA declined these offers and chose to use the Bank (and IMF) primarily as reviewers rather than as providers of direct technical inputs.<sup>56</sup>

133. The Bank supported PARPA formulation the way the government wanted. The Bank provided comprehensive informal and formal comments during PRSP preparation. Informal feedback was provided early on during joint missions conducted with the Fund (discussed in more detail in the next section on Bank/Fund collaboration). Extensive formal comments were provided on the first draft. The authorities considered the comments and took in those to which they agreed, reportedly *inter alia* adding to the analysis of the macroeconomic framework. But the process remained country-driven, evidenced by continued areas of disagreement. Areas of differing viewpoints included the scope of the strategy, which the Bank feared was too broad, too sector focused, and included public policies which were not

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<sup>56</sup> In Mozambique, staff costs totaled US\$243,000 against the average cost of a PRSP approved in FY2002 in the Africa region of US\$106,000. The total of US\$243,000 includes US\$72,000, US\$58,000 and US\$113,000 in FY2001, FY2002 and FY2003 respectively.

core to poverty reduction. On specific issues, Bank staff wanted more focus on the quality of primary education, a stronger separate focus on HIV/AIDS, and changes to the land rights regime. These issues were raised in the comments on the draft PRSP in early 2001—and, demonstrating that the government did not follow the advice given—were repeated in the Joint Staff Assessment of the PRSP in August that same year. The latter indicates that the Bank and the country had embraced country ownership much more strongly than in the previous PFP framework.

134. The Bank did, however, play an indirect role, beyond reviewer, in the formulation process. The Bank was active in promoting sector approaches in health, agriculture, education and infrastructure. Much of this work preceded the PRSP yet played a role in advancing the sector strategies found in the PRSP in these areas. Interviews with government and donors confirmed that the Bank, along with other external partners, contributed to the underpinnings of these sectors' policies and programs.

135. Despite having declined specific support for the PRSP process, the government had been involved in the preparation of the CAS 2001-03 and had experienced an intensive consultation process involving provincial events, participation of government, civil society, private sector and donors. The experience with the Bank's consultative process were used by the Government to inform the formulation of PARPA consultations.

136. The Bank's analytical work was a more indirect, but still very important contribution to the formulation of the PRSP.<sup>57</sup> In addition to the sector work mentioned earlier, the preparation of a Country Economic Memorandum (CEM) from late 1998 to 2000 was of special importance, making the dialogue between the Bank and authorities more comprehensive and acknowledged by government as assisting their thinking in preparing a comprehensive PRSP. The report outlined the key reform objectives (such as strengthening the macroeconomic and business environments, increasing rural incomes and investing in human resources).<sup>58</sup> A draft version of the report is listed in the PARPA along with reports produced by technical assistance consultants working in MPF. The preparation of the CEM included two workshops between the Bank and the government on strategies for growth, which also fed into the design of the PARPA.

137. The Bank's preparation of a Public Expenditure Management Review (PEMR), starting in September 2000, involved many of the same key persons from government who were responsible for the PARPA process and has been recognized by government as aiding

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<sup>57</sup> Appendix I, Table A9 provides an overview of actual and planned non-lending services for 2000-05.

<sup>58</sup> In an internal review of the Bank's analytical work in Mozambique covering FY2000-02, the CEM was rated as highly satisfactory for strategic relevance and Bank processes, and satisfactory overall.

the costing of sector strategies. Finally, the Bank has since 1998 provided support to analysis of overall Public Sector Reform issues, also a key theme in relation to the PARPA.

### **B. Bank Support and Alignment During PRSP Implementation**

138. The alignment of the World Bank during implementation of the PRSP is assessed by reviewing both its behavioral alignment with the principles of a country-driven process and effective partnerships, and the match between the Bank's assistance and the pillars of the PRSP.

#### *Decentralization and perceptions of Bank behavior*

139. The Bank has increased staff presence and decision-making authority in the local office in Maputo since the mid-1990s. The number of Bank staff has nearly tripled since 1997 and the Country Director was relocated from Washington to Maputo in 2002 (though covering the Angola and Malawi programs as well). Government and donor representatives interviewed by the evaluation team noted that the transition process created a period with weak presence of senior staff in the office. The recent addition of a senior economist in the country office has strengthened the capacity of the office to participate in the many coordination activities related to economic and fiscal issues, and is also welcomed by other donors. A Mozambican public sector reform specialist has recently been added to the Maputo team.

140. The government expressed satisfaction with its relations with the Bank. The government found that the Bank (and the IMF) had become much better listeners than when relations to the BWIs were re-established in 1984, and that the discussions were now more relevantly linked to the realities of Mozambique. This said, sector based informants still saw a considerable challenge in ensuring that Washington based task managers and teams got an adequate grip of realities also outside Maputo. Uniformly, these assessments of Bank performance did not relate the perceived change to the advent of the PRSP process, but to a broader improvement over the past 5 years.

141. Civil society and private sector representatives also found that relations with the Bank had improved over the last 5 years, and noted that the Bank had supported civil society's wish to be consulted in the PARPA-process. Representatives from civil society requested that special triangular dialogue mechanisms between the Bank, the government and civil society be established, reflecting their perception of the continued strong policy influence of the Bank.

142. Donors expressed a more ambivalent opinion of their relations with the Bank than government, civil society, and the private sector representatives interviewed by the evaluation team. On the one hand, the Bank is perceived to be more participative and more sensitive to other donors, by seeking dialogue and participation in joint donor fora; PROAGRI is mentioned as an example of this. On the other hand, in some sectors, notably the social sectors and infrastructure, the Bank is still seen as too driven by Washington-based task managers, who may occasionally overrule country office staff who participate in regular



donor working group meetings. The country office is thus not seen to sufficiently enforce coherence on task managers and missions coming from Washington. It is also noted that the Bank's continued use of own procedures and implementation units separates it from joint actions with other donors, who can more easily join pooled funding mechanisms and waive individual procedures.

143. One particularly negative feature of Bank assistance cited by the recent Nordic review of World Bank and IMF follow-up to PRSP which include a case study on Mozambique was the "business as usual" approach taken by the Bank in launching the HIV/AIDS and Fast-track for Education initiatives. This particular group of bilaterals perceived the Bank to be pushing these credits outside of the general sector working group approaches and programming.<sup>59</sup>

144. The 2001-2003 CAS clearly expressed that the Bank does not intend to provide donor leadership in all sectors, but would cede e.g. in agriculture and education, where the Bank would provide "secondary finance behind other lead donors." Consistent with this approach, Bank management indicated to the evaluation team that decentralization would not occur in all sectors; rather it would concentrate in those areas where presence is critical, where the Bank has strong comparative advantage compared to other donors, and where complexity and sensitivity would warrant continued presence. It may be worth noting that both a more selective approach to donor leadership and the relative decentralization of the Bank activities is in full accordance with the recommendations of OED's 1997 Country Assistance Review (World Bank (1997a), Box 5).

145. The Bank's role in coordinating with other donors has received mixed reviews. One donor noted "there is strong donor coordination in the Mozambique, with the Bank as an observer." The Bank did not initially join the G-11 donors' budget support group or joint donor review mechanism to support the PRSP but worked in parallel. In general, the Bank has been seen as lagging in terms of the harmonization of donor procedures and in its continued reliance on its own procedures and Project Implementation Units which prevents it from acting jointly with other donors. As mentioned in the previous section, sector teams from Washington were criticized for overruling staff in the country office who maintain a regular dialogue with other donors by participating in working group meetings.

146. On the other hand, donors did acknowledge that the Bank is more sensitive to other external partners than it has been before and does seek more dialogue and participation in joint donor forums. In the agriculture sector SWAP, PROAGRI, for example, the Bank has been commended for its flexibility and its desire to act as a partner.

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<sup>59</sup> Scanteam (2003).

**Box 5. Mozambique Country Assistance Review, OED, 12/2/97**

The CAR was prepared as an input to the CAS for 1998-2000. The CAR emphasized use of policy driven; results based sectoral programs and a move away from a large number of investment projects. Management coalitions involving all active development partners were recommended in order to coordinate sector approaches and enable the Bank to exercise strategic selectivity. The CAR also stressed tailoring the level of assistance to government capacity and using a participatory approach to put Mozambican authorities at the head of development coordination.

Key recommendations included:

- (i) Cede leadership to other donors where they have a comparative advantage; reduce lending in environment, rural, and social sectors, where other donors have a major presence.
- (ii) Use country dialogue and aid coordination mechanisms to nurture policy reform and capacity building
- (iii) Support GOM leadership in donor coordination
- (iv) Further decentralize Bank authority to the field.

147. Donors are also appreciative of the Bank's capabilities to provide analytical advice, although this is sometimes perceived as too much driven by short term external teams with insufficient time to grasp Mozambican realities. Bilateral donors would also like being more involved in some of these undertakings. The Bank has tried to accommodate some of these concerns by relying more on consultants based in Mozambique, and adoption of more participatory approaches. This has in some instances led to insufficient technical quality of studies, or unreasonable demands for supervision to ensure an acceptable quality level.

*Alignment of activities*

148. **Country Assistance Strategy FY2001-03:** The Bank's proposed assistance between fiscal years 2001 and 2003 was laid out in the June 2000 Country Assistance Strategy. Although this CAS was approved before the PRSP was completed, its objectives were in line with the priorities of the 2000-2004 PARPA, which served as the basis for its PRSP. Specifically, the Bank aimed to support the first objective of the PARPA (increasing economic opportunities) by strengthening the private sector environment and the financial sector, developing infrastructure, promoting rural development and agriculture, ensuring sound environmental management, and promoting innovation, competitiveness and employment. The second objective of improving governance and empowerment would be pursued through the reform of the public sector and strengthening the rule of law. Finally, the Bank hoped to increase human capabilities in the areas of HIV/AIDs prevention and by improving health and education services.

149. The bulk of the Bank's lending activity was directed towards the first objective of the PARPA, increasing economic opportunity. Table 5 maps the lending assistance of the FY2001-03 CAS to the three pillars of the 2000-2004 PARPA. Of the 9 new credits, 7 support the objective of increasing economic opportunity, and looking at the entire portfolio, 10 out of 16 active projects.

Table 5: FY2001-03 Lending – Alignment with 2000-2004 PARPA

CAS Proposal/New Commitments				Actual Commitments		Purpose 1/
(In U.S. dollars)				(In U.S. dollars)		
FY2001	Roads and Bridges APL	CAS	80.0	delay to FY202	162.0	a/
	Municipal Development	CAS	30.0	delay to FY202	33.6	a/ b/
	Nat. Resource Manag.	CAS	10.0		18.0	a/
FY2002	Energy Reform	CAS	20.0	<b>delay to FY204</b> 4/		a/
	Econ. Man./Priv. Sector	CAS	100.0	delay to FY203	120.0	a/ b/
	Rural Action	CAS	40.0	<b>delay to FY204</b> 4/		a/ b/
	Higher Education	New		replaces Skills Development	60.0	c/
	Communications	New			14.9	a/
FY2003	Skills Development	CAS	80.0			a/ c/
	Health Swap	CAS	40.0	delayed		c/
	Public Sect./Legal Reform 2/	CAS	54.0		25.6	a/ b/
	HIV/AIDS 2/	New			55.0	c/
<b>TOTAL</b>			<b>454.0</b> 3/		<b>489.1</b> 4/	

Source: Derived from OED's Mozambique CAS Completion Report Review, Table 1.

1/ In support of pillar # a/ economic opportunity, b/ governance, or c/ human capabilities.

2/ Grant.

3/ Total only includes CAS commitments and therefore differs from Table 1 in OED CAS CR Review.

4/ Total actual commitments does not include the FY2004 Energy Reform program which was approved in August 2003 for US\$40.3 million. The Rural Action project, renamed Decentralized Planning & Finance, has been postponed to the FY2004-07 CAS program and is now a grant.

150. The Bank's analytical work as planned or underway in the CAS was also intended to focus largely on this first objective—of the eight formal studies in the CAS program, seven intended to support increased economic opportunity, as did the majority of technical assistance (see Table 6). As mentioned earlier, the Country Economic Memorandum and the Public Expenditure Management Review provided substantial inputs and support for the government's PRSP strategy and its costing.

151. But the content of the analytical program changed considerably during implementation, with new tasks shifting in emphasis towards the governance objective of the PARPA. Four studies were added to the program—a CPAR, and a CFAA, a study on Decentralization, and a study on the impact of HIV/AIDS on macroeconomic growth. Of the planned program, the Rural Development Strategy study was dropped. Four formal studies have been considerably delayed or have not yet been initiated—Poverty and Growth Linkages; Constraints to Private Sector Development; Critical Pressures on the Environment in the context of rapid growth; and one on Legal and Judicial Reform.

Table 6: Mozambique: Analytical And Advisory Assistance (AAA) – FY2001-03

Product	CAS Plan			PARPA Objective		
	AAA Type	Status at CAS	Actual Delivery	Economic Opportunity	Governance	Human Capabilities
PER	Formal	Planned	Completed with delay	X		
Legal and judicial study	Formal	Planned	Underway		X	
Poverty and growth linkages	Formal	Planned	Not yet initiated	X		
Constraints to PSD study	Formal	Planned	Not yet initiated	X		
Environmental critical pressures	Formal	Planned	Not yet initiated	X		
Financial sector study	Formal	Underway	Completed with delay	X		
Growth Prospects - CEM	Formal	Underway	Completed with delay	X		
Rural development strategy	Formal	Underway	Dropped	X		
Gender Pilot (cashew)	Informal	Underway	Completed	X		
Improving health for the poor	Informal	Underway	Completed			X
Cost and Financing of Education	Informal	Underway	Completed			X
Public sector reform study	Informal	Planned	Completed		X	
Environmental framework assessment	TA	Planned	Not yet initiated	X		
Financial sector advice	TA	Ongoing	Completed	X		
Private sector competitiveness advice	TA	Ongoing	-	X		
Private sector conferences	TA	Ongoing	Ongoing	X		
Regional trade	TA	Ongoing	-	X		
Regional Energy and Mega Projects Advice	TA	Ongoing	-	X		
Maputo (Development) Corridor	TA	Ongoing	Ongoing	X		
Disaster mitigation and management	TA	Ongoing	-	X		
NGO outreach	TA	Ongoing	Ongoing	X		
HIV/AIDS (IDF supervision)	TA	Ongoing	Ongoing			X
HIV/AIDS impact on macro growth	Formal	Not in CAS	Completed	X		
CPAR	Formal	Not in CAS	Underway		X	
CFAA	Formal	Not in CAS	Completed		X	
Decentralization studies	Informal	Not in CAS	Completed		X	
Private Sector Participation in Energy	TA	Not in CAS	<b>C. Ongoing</b>	X		
RPED Survey	<b>TA</b>	Not in CAS	<b>D. Underway</b>	X		

Source: Derived from an internal Bank assessment of analytical and advisory assistance to Mozambique between FY00 and FY2002.

1/ Informal studies already underway in CAS but switched to formal status later.

152. The substitutions in the program were also in line with the PARPA (2001-2005) objectives. For example, the Decentralization report addressed the increased emphasis in the new PARPA on this topic, and the CFAA and ongoing CPAR carried relevance in furthering the governance objectives of the PARPA (as had been indicated in the Public Expenditure Management Review). Besides, the country team was required to carry out a CPAR and CFAA as due diligence requirements for the upcoming Poverty Reduction Support Credit.

153. But while the additions to the analytical program accorded with PARPA objectives, the activities dropped or delayed have resulted in gaps in the Bank's support for building on important pieces of the PARPA strategy. As noted in the OED CAS Completion Report Review, the Bank's neglect of critical rural development issues has reduced its potential impact on improving economic opportunities.<sup>60</sup> An internal Bank assessment of analytical and advisory assistance to Mozambique between FY2000 and FY2002 notes that a wide-range of stakeholders in Maputo expressed the need for studies on future economic prospects, industrial growth, exports of non-traditional items, private sector competitiveness, and regional trade issues, which could have been tackled in the delayed Poverty and Growth Linkages and Constraints to Private Sector Development studies. The internal assessment also notes that several issues continue to remain critical for rural development which demand a comprehensive strategic treatment of rural development issues. Not all additional analytical activities can be undertaken due to finite budget resources. However, cross-country data available for the five year period ending in FY2001 suggest more resources could have been expected in support of analytical work in Mozambique. From FY1997-01, the Mozambique country team spent 17-18 percent of their budget on analytical work compared to 24 percent for the Africa region.

154. Government representatives expressed a strongly felt need for increased Bank presence in helping government to redefine or reconsider the pace and direction of the modernization and reform processes. After completing the Public Expenditure Management Review and related analytical work, the Bank has played a minor role in the efforts underway to achieve a coordinated approach among donors for support to public sector financial management improvement. The recent approval of major Bank operations in public sector reform and decentralized planning and financing indicates that the Bank is strengthening its role in building government capacity for PARPA implementation.

155. Government officials found that while the Bank had a very clear idea of how it should support the formulation process of the PARPA, it was not very clear on how to support the implementation phase. During implementation, the Bank was found to have had more of an ad-hoc approach, with no coherent strategy. It was noted, however, that the PRSP processes were new for all those involved.

156. **Country Assistance Strategy FY2004-07:** Bank financial and analytical support for the implementation of the PRSP is set out in the FY2004-07 Country Assistance Strategy which was discussed by the Board of Directors of the World Bank on November 20, 2003. The new CAS will cover fiscal years 2004-2007. The timing and duration of the CAS cycle

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<sup>60</sup> Under a new results-based framework for CASs in the Bank, Mozambique is one of three pilot countries in the Africa region required to submit a retrospective CAS Completion Report (CCR) to the Board preceding the new forward looking CAS. The CCR for Mozambique covers FY2001-03, which includes PRSP-supporting activities of the Bank. OED is required to provide an independent review of the CCR to the Board.

are not aligned to the PARPA (2001-2005) or to the electoral cycle in Mozambique (next elections due in late 2004). Modifications of the CAS could thus be necessary both as the result of elections, and as a result of possible changes in the PARPA priorities. (An update of the PARPA may well be prepared to coincide with the electoral cycle).

157. The preparation process of the new CAS has been affected by having the PARPA in place. The consultative process has been less comprehensive than the one conducted for the previous CAS, with explicit reference to the PARPA consultative process. As the CAS states, the country's own development priorities were not discussed in CAS consultations as these are articulated in the PARPA. The process related to the new CAS has still included consultations in Maputo with government, other donors, civil society and the private sector. This has been done with direct reference to PARPA, asking how the CAS could best support this policy document, rather than seeking to develop a separate policy for the Bank.

158. The CAS includes all activities of the World Bank group, including the IFC and MIGA. The strategic approach for these latter institutions is, in accordance with their mandates, focusing on stimulation of private sector growth. In the new CAS, IFC focuses on promotion of tourism; micro-finance, small and medium enterprises development, and Private Sector Advisory Services. Several of these areas are covered in the PARPA even if PARPA has not been directly considered in the preparation of the IFC strategy.

159. The Bank program in the new CAS identifies three pillars of action—improving the investment climate, expanding service delivery and building public-sector capacity and accountability. Staff have indicated that the Bank's lending assistance will continue to focus on the priority sectors of PARPA (education, agriculture, health, infrastructure), as well as cross-cutting priorities (public sector reform, and district decentralization). Table 7 illustrates how the Bank's lending program is aligned with the priority areas of the PARPA. The focus of lending is on supporting basic infrastructure which absorbs about 38 percent of its commitments in the CAS period; governance related projects account for another 11 percent. But the Bank will also support "supplementary areas" of the PARPA (e.g. private sector promotion), mainly through the Poverty Reduction Support Credit I and through its non-lending assistance, thereby ensuring that external assistance is not exclusively concentrated in a few, strongly "poverty-visible" sectors. As such, the Bank is willing to be a "residual" lender, filling in gaps as needed.

160. In addition to the program of the CAS being aligned to PARPA priorities, the results framework of the CAS is linked to PARPA and PAF goals. While not solely derived from them, the CAS holds the Bank accountable to a selection of the PARPA objectives and defines separate outcome and intermediate indicators for Bank accountability. (Given the challenges in monitoring and evaluation of the PARPA goals in Mozambique, this may present some problems for measuring the Bank's performance.) The Poverty Reduction Support Credit, which covers a considerable part of the lending under the next CAS, is considered the key instrument for direct alignment to the government's budgetary calendar, to PARPA's results measurement framework, and a tool for harmonization with donors. Some progress has been made with donors in agreeing that that the annual assessment of the

PAF should occur in February/March and the annual agreement (forward-looking) in August/September so as to align with Mozambique's financial year. And preliminary work on the PRSC has involved discussions with the G-11 group of donors. But the CAS commits the Bank to work much closely with the government and other donors to articulate a jointly-agreed results framework for the overall government-donor partnership.

Table 7: FY2004-07 Lending Alignment with 2001-2005 PARPA

CAS Commitments		<i>Purpose 1/</i>							
		U.S.\$	<u>a/</u>	<u>b/</u>	<u>c/</u>	<u>d/</u>	<u>e/</u>	<u>f/</u>	<u>g/</u>
FY2004	Regional Gas	30.0				X			
	South Africa Power	13.0				X			
	National Water	15.0				X			
	Supplemental Decentralized Planning & Finance 2/	42.0					X		
	PRSC1	50.0							Cross-cutting
FY2005	Beira Rail	60.0				X			
	Sustainable Rural Development	20.0			X				
	Financial Sector Capacity	10.0							X
	Legal Sector Capacity	5.0					X		
	PRSC2	50.0							Cross-cutting
FY2006	Roads and Bridges 2 APL	85.0				X			
	Technical and Vocational Educ.	20.0	X						
	PRSC3	70.0							Cross-cutting
FY2007	Public Sector Reform 2	20.0						X	
	PRSC4	70.0							Cross-cutting
<b>TOTAL</b>		<b>560.0</b>							

Source: World Bank (2003).

1/ In support of PARPA 2001-2005 priority a/ education, b/ health, c/ agriculture and rural development, d/ basic infrastructure, e/ good governance, f/ macroeconomic and financial management and g/ complementary activities.

2/ Grant.

3/ The Decentralized Planning & Finance project was originally in the FY2000-03 CAS program as "Rural Action" but was renamed and postponed to the FY2004-07 program.

161. The PRSC will consist of a series of four single-tranche operations of US\$50 million in FY2004 and FY2005 expanding to US\$70 million each in FY2006 and FY2007. The first tranche of the PRSC will focus on improving the investment climate but its program will roll in agriculture when the PROAGRI credit closes in June 2004. Eventually, support for health, basic education and rural water supply and sanitation will also be incorporated into the

PRSC. The PRSC is projected to account for 30 percent of IDA's new commitments in FY2004 expanding to 40 percent in FY2006.

162. Inclusion of previous sector-specific credits in a PRSC will increase the need to ensure cross-sectoral coherence in Bank operations, just as the PARPA strengthens the cross-sectoral coordinating function role of the Ministry of Finance and Planning in Mozambique. This would strengthen the role of the country teams of the Bank compared to sector teams. This internal realignment seems underway, but is expected to take some time.

163. With the planned PRSC (and the US\$120 million Economic Management and Private Sector Operation approved in FY2003), the Bank is moving towards greater budget support, in spite of the findings of the recent CFAA which warns against relying on government procedures and systems and recommends ring-fencing lending operations while supporting reform and capacity building in PEM and procurement. The Bank intends to mitigate fiduciary risks by linking the PRSC directly to performance indicators related to progress in enhancing public expenditure management capacity (and targets in PARPA). The Bank is thus opting to rely more on government procedures, even if this may involve increased fiduciary risks. The recent Public Sector Reform project, approved by the Bank and the government, has reserved funds enabling direct support in this area, should current support from other donors prove insufficient.

164. In its other lending, the Bank intends to continue to use Bank procedures and project implementation units, consistent with the recommendations of the CFAA. The new Decentralized Planning and Financing project currently under preparation also applies such an approach, with the traditional set-up of project implementation units.

165. There was a clear signal from the MPF—but not from all sectors—that the government would prefer the Bank to operate according to PRSC-like instruments, but maintain the delivery of knowledge services in strategic areas, where the quality of Bank assistance is unmatched and where the Bank's ability to draw on world wide experiences is crucial.

166. The CAS outlines a strong program of analytical and advisory work particularly in support of the first pillar, improving the investment climate. Under this pillar, the rural strategy development study will be completed, as will a study on private sector competitiveness, a Country Economic Memorandum and an Assessment of Infrastructure. Required due diligence will support the PRSC—a CPAR, a legal and judicial assessment, institutional governance review and annual Public Expenditure Reviews (Table 8).



Table 8: FY2004-07 Non-Lending—Alignment with 2001-2005 PARPA

Analytical and Advisory Activities		<i>Purpose</i> <sup>1/</sup>						
		<u>a/</u>	<u>b/</u>	<u>c/</u>	<u>d/</u>	<u>e/</u>	<u>f/</u>	<u>g/</u>
FY204	Agriculture PSIA			X				
	Country Status Report on Health		X					
	PER						X	
	CPAR					X		
FY205	Legal and Judicial Assessment					X		
	Rural Strategy			X				
	Private Sector Competitiveness							X
	Labor Markets and Tec. Voc. Ed.							X
FY206	Poverty Update			Cross-cutting				
	Institutional Governance Review					X		
	PER						X	
	CEM							X
FY207	HIV/AIDS Retro		X					
	Water Management				X			
	PER						X	
FY207	Infrastructure Assessment				X			
	PER						X	
	Pay Reform PSIA						X	

Source: Information derived from World Bank (2003).

<sup>1/</sup> In support of PARPA 2001-2005 priority a/ education, b/ health, c/ agriculture and rural development, d/ basic infrastructure, e/ good governance, f/ macroeconomic and financial management and g/ complementary activities.

167. As the CAS moves in the direction of increased allocation of funds through a PRSC, it appears important that funds are made available for continued delivery of high quality advisory services, which may previously have been part of supervision activities related to sector related credits. Unfortunately, this area appears according to the draft CPPR 2002 to be under some budgetary and procedural constraints in the Bank.<sup>61</sup> This may make delivery of “just-in-time” knowledge services difficult. Given that the Bank’s non-lending assistance was already considerably under-funded in the previous CAS period, budget constraints on analytical work and supervision could become critical as the Bank’s role in knowledge services becomes increasingly important and as global lending instruments like the PRSC gain prominence.

<sup>61</sup> Trust funds made available to the Bank are only a partial solution to the budgetary constraints on non-lending services, as in-house Bank staff may in many occasions be better equipped to draw on the Bank’s global experiences and ensure continuity in advisory services.

168. So far, the Bank has not performed any Poverty and Social Impact Analyses. In general in Mozambique, relatively modest attempts have been made - in the area of petrol prices, cashew and sugar, (the former supported by DFID), and none of these studies have been ex-ante analyses of policy measures. The CAS proposes two PSIAs, one in FY2004 to determine the poverty and social impact of agricultural policy and one in FY2007 on pay reform.

## VI. IMF-WORLD BANK COLLABORATION

### A. Joint Inputs to the PARPA Process and Joint Staff Assessments

169. Although they did not participate in the drafting of Mozambique's PRSP, staffs of the IMF and the World Bank provided input in the form of advice on both process and content of the I-PRSP and PRSP, and also provided comments on drafts. Most of the joint activities were linked to assessments of progress in meeting conditions for receiving additional debt relief under the Enhanced HIPC Initiative (Box 6).

#### **Box 6. Joint IMF/World Bank Staff Activities Related to Preparation of the PARPA**

**November 1999.** Joint mission discussed requirements for receiving additional assistance under the enhanced HIPC initiative (E-HIPC) and briefed the authorities on plans for the PRSP to replace the PFP as the overarching framework for IMF and World Bank assistance to IDA countries. The mission prepared written comments on a draft of PARPA 2000-2004, indicating what would be needed to move to a full PRSP.

**December 1999.** PARPA 2000-2004 is completed; IMF and World Bank staffs send a joint note to the authorities on the next steps to move Mozambique towards decision and completion point under E-HIPC. The note included a suggested outline for the I-PRSP. This outline was followed except that the authorities ignored a suggestion to include a three-year "policy matrix and macroeconomic framework."

**February 2000.** Joint mission to discuss conditions for reaching decision and completion points under E-HIPC. The mission reviewed progress and time-tables for the preparation of the I-PRSP and full PRSP.

**June 2000.** Joint mission to review progress in the preparation of the full PRSP.

**September 2000.** Joint mission to discuss progress toward full PRSP and other conditions for reaching completion point under E-HIPC.

**January 2001.** Transmitted to the authorities, joint comments on the second draft of the PARPA (circulated to donors in December 2000).

**March 2001.** Joint mission to review conditions for reaching completion point under E-HIPC. Provided comments on the third draft of PARPA 2001-2005 (dated February 2001).

170. The main purpose of the Joint Staff Assessments (JSAs) is to assist the Executive Boards of the IMF and the World Bank in deciding whether or not a PRSP provides a suitable basis for the respective institution's lending to a country. There have been three JSAs on Mozambique: one each on the I-PRSP (March 2000), the PRSP/PARPA

(August 2001), and the first progress report on PARPA implementation (June 2003). The focus here is on the latter two.

171. The JSA for the PARPA was written a few months after the IMF and the World Bank issued guidelines to their staffs on the production of JSAs for full PRSPs. The guidelines called for the assessments to highlight the strengths and weaknesses of the poverty strategy and to provide constructive feedback to countries about how they might improve the strategy over time. Four key elements of PRSPs were identified on which the JSAs were to focus: description of the participatory process; poverty diagnosis; monitoring systems (including targets and other indicators); and priority public actions. With respect to annual progress reports, their JSAs are supposed to focus mainly on implementation; i.e., to highlight the strengths and weaknesses in implementation, and to provide feedback to the country on how it might modify its strategy and/or improve its implementation over time.<sup>62</sup>

172. The JSAs for Mozambique have been candid in their assessments; they have pointed out strengths and areas of significant improvement without glossing over weaknesses. For example, they have highlighted weaknesses in the consultation process (e.g., limited role of parliament and CSOs in the formulation and monitoring stages of the process), limited participation in policy dialogue, and areas where lack of information has hampered policy analysis. Although they have drawn attention to capacity constraints, they may have understated the challenges to implementation posed by capacity weaknesses. The inadequacy of the PES and budget execution reports for monitoring PARPA suggests that the JSA for the full PRSP clearly exaggerated when it claimed that the PARPA had been “fully integrated into the government planning, budgeting and reporting processes.” Similarly, the JSA for the first annual progress report may have overstated progress in implementation of the good governance components of the PARPA which it characterized as significant. Several actions in the various aspects (decentralization, legal system reform, fighting corruption, and strengthening public finances) are either in the formulation stage or have only recently begun to be implemented.

173. In terms of their role in providing a road map for future improvements, the JSAs have contained suggestions of areas in need of improvement, and the full PRSP (PARPA) did respond to many of the issues highlighted in the JSA of the I-PRSP. However, there are also many items that have remained unattended to, for example: updating the macroeconomic framework to reflect the impact of HIV/AIDS and the costs of resolving problems in the banking system, weaknesses in poverty analysis (related to gender and vulnerability issues), analysis of distributional impacts of recent growth and government policies, and streamlining the list of indicators for monitoring implementation. The JSA for the first annual progress report highlighted areas requiring attention, such as reasons for weak response of health

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<sup>62</sup> “Guidelines for Joint Staff Assessments of PRSP Annual Progress Reports on Implementation,” Annex 1 in International Monetary Fund and International Development Association (2002).

outcomes to increased provision of inputs, and policies to remove constraints in the agricultural sector. It also called for greater focus on pending structural reforms, especially those aimed at reducing vulnerabilities in the financial sector.

174. The JSAs do not seem to have contributed much to enhancing partnership. The evaluation team found that donors in Mozambique saw the JSA as geared almost exclusively to the Executive Boards of the IMF and the World Bank. A number of donors—mostly those providing budget support—called for a more inclusive JSA process; i.e., they would like to participate in the assessment rather than merely provide input to Bank and Fund staff. Scanteam (2003) reflects donor views which the evaluation team also came across, when it calls for synchronization of the G-11's annual joint donor reviews and the BWIs' JSA missions with the Government's own "planning" cycle; that these events become more open and participatory; and that steps be taken to ensure that the learning that ensues is of primary value to the Mozambican partners.

### **B. Collaboration in Lending Operations and Aggregate Conditionality**

175. Since the late 1990s, the original and enhanced HIPC initiatives and the PRSP process have provided the main context for collaboration between the staffs of the IMF and World Bank on Mozambique. However, collaboration has also been close with respect to each institution's own lending instruments; in particular the IMF's PRGF and the World Bank's adjustment lending operations. The staffs indicated to the evaluation team that during most of 2001-02 when the World Bank did not have an active adjustment operation in Mozambique, collaboration was mainly in the context of the structural component of the PRGF-supported program, including importantly, conditionality related to recapitalization/restructuring of the banking system. Following the approval of the World Bank's Economic Management and Private Sector Operation (EMPSO), the World Bank is now in the lead role in the areas of strengthening the commercial banking system, support for judicial and regulatory system reform, privatization, and public service reform. The IMF is taking the lead in tax reforms and in public financial management. The staffs suggested that regular and timely contacts in-country and at headquarters have been important, and that each institution has endeavored to take into account how its activities could feed into those of the other.

176. In section IVC above, we noted a striking change in the scale and composition of structural conditionality during the course of Mozambique's 1999-2003 ESAF/PRGF-supported program (see also Appendix II). After an initial spike, the number of measures specified as conditions fell back to levels similar to those that had prevailed under the predecessor 1996-1999 ESAF-supported program, but in a significantly smaller number of areas. Thus, "streamlining" had occurred to some extent, especially if a comparison is made between the pre-PRSP and post-PRSP periods under the arrangement.<sup>63</sup> From the

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<sup>63</sup> The PRSP was endorsed by the Executive Board of the IMF at the same time as the completion of the 3<sup>rd</sup> review under the ESAF/PRGF arrangement—in September 2001.

perspective of the country, “streamlining” does not reduce the burden of conditionality if the World Bank picks up conditionality in areas vacated by the IMF. In order to address this concern, we attempted an examination of what happened to aggregate IMF and World Bank structural conditionality between 1996 and 2003—the period covered by the two IMF-supported programs referred to above.

177. For the World Bank, we reviewed conditionality under its adjustment operations in Mozambique, of which there were three during the period specified: the Third Economic Recovery Credit (TERC) approved in 1997, the Economic Management Reform Operation (EMRO) approved in 1998, and the EMPSO approved in 2002. In terms of simple counts, there were 34, 10, and 19 conditions for the TERC, EMRO and EMPSO, respectively. There was also a marked decline in the number of areas in which conditions were specified: from 13 under TERC, to 4 and 5 under EMRO and EMPSO, respectively.<sup>64</sup> Areas covered under TERC but dropped under EMRO included public enterprise reform/restructuring and financial sector; both were re-instated under EMPSO.

178. Differences in the nature of IMF and World Bank conditionality and incompatibilities between the databases used to track conditionality in the two institutions make it almost impossible to derive indices of aggregate conditionality.<sup>65</sup> Nevertheless, we were able to form some idea by using EMRO and the initial 1999 ESAF/PRGF arrangement to gauge pre-PRSP conditionality, and EMPSO and the 4<sup>th</sup> review under the ESAF/PRGF arrangement to gauge post-PRSP conditionality. The following picture emerged from comparing the post-PRSP situation with what prevailed pre-PRSP:

- Ambiguity about the scale of aggregate conditionality (the numbers fell for the IMF but increased for the World Bank);

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<sup>64</sup> For this exercise, we classified IMF and World Bank conditionality into twenty-one areas: (1) exchange system; (2) central bank reform; (3) trade regime; (4) capital account; (5) pricing and marketing; (6) public enterprises reform/restructuring/privatization; (7) government tax/revenue reform; (8) government expenditure reform; (9) treasury systems; (10) public debt management; (11) other fiscal; (12) civil service reform; (13) social security systems & social safety net; (14) financial sector; (15) agricultural sector; (16) labor market; (17) economic statistics; (18) corporate restructuring and governance; (19) institution building, legal & regulatory framework, and transparency; (20) PRSP development and implementation; and (21) other.

<sup>65</sup> For example, in terms of difference in their nature, conditionality specified in an initial IMF arrangement may be for only a short period (e.g., the first six months); new conditions may be introduced and previously non-implemented measures may be reintroduced during the course of the arrangement. By contrast, the conditions specified at the time a World Bank adjustment operation is approved may not be time-bound.

- A reduction in the areas covered by conditionality (reflecting a substantial fall for the IMF and a marginal increase for the World Bank);
- Both institutions withdrew from trade-related conditionality but each increased the focus on the financial sector; and
- Some evidence of “division of labor,” for example in the areas of public enterprise reform and in institution building/regulatory framework (IMF withdrawal or scale back combined with World Bank return) as well as in the fiscal area (increased importance for the IMF and reduced emphasis by the World Bank).

## **VII. MAIN FINDINGS AND CONCLUSIONS**

### **A. General**

179. Poverty reduction as a key objective of government policy in Mozambique predates the introduction of the PRSP approach by the IMF and the World Bank. However, the PARPA has become the common point of reference on poverty reduction policies within the government (across sectors and between central and provincial levels of government), and for dialogue between the Government, other national stakeholders, and international development partners.

180. The PRSP approach has proved to be relevant to Mozambique, and the underlying principles have been applied to varying degrees in the PARPA process. The process has been country-driven with strong government ownership; although the process was undoubtedly HIPC-driven initially. The consultation/participation process undertaken was a step forward, but its scope was limited, with parliament playing hardly any role at all, and CSO roles in implementation and monitoring not well defined. PARPA is result-oriented but there is scope for further prioritization of public actions and streamlining of the targets and indicators for monitoring. PARPA is comprehensive in recognizing the multi-dimensional nature of poverty and is based on a long-term perspective for poverty reduction.

181. There was little public discussion of the macroeconomic policy content of the PARPA, and more generally, there continues to be little public discussion of macroeconomic policy issues. Broader participation would be facilitated by the establishment of a government-led macroeconomic working group open to representatives from all stakeholder groups, to provide a forum for macroeconomic policy discussions. Initially, its agenda could be organized around links between PARPA and the budget (e.g., MTEF).

182. PARPA is partnership-oriented and has contributed to shaping a new agenda for international support to Mozambique, characterized by harmonized approaches by donors, with increasing interest in providing assistance through SWAs and budget support linked directly to the PARPA. There has been a push for more quick disbursing budget support even in the face of high fiduciary risks. For Mozambique, increased budget support underpinned

by a common set of conditionalities by providers of such support comes with a risk of “herd behavior” among donors to cut back aid in the event of “bad news” (e.g., should a case of corruption in high places come to light). A sharp cutback in aid would require either drastic fiscal adjustment (risking political unrest) or forgetting about macro stability for a while (with subsequent significant adjustment costs).

183. Integration of PARPA into the government’s planning, budgeting and reporting processes is underway but by no means complete. The MTBF is the principle instrument that links the PARPA to the government budget, but it is not yet based on detailed costings of intervention programs. The government is taking steps to ensure that quarterly budget execution reports and the PES which are submitted to parliament reflect programs geared to meeting PARPA objectives.

184. Evidence on progress towards meeting PARPA targets and objectives is mixed, with significant progress in some areas (e.g., education and health), and less progress in others (e.g., agriculture). Absence of data and weaknesses in implementation capacity, and in monitoring and reporting systems have hampered analysis.

185. Not much has happened with respect to undertaking social impact analysis of “major macroeconomic adjustment and structural reforms.” However, the authorities delayed a decision on increasing the fuel tax until the recent completion of a PSIA on the issue.

186. The JSAs for Mozambique have been candid in their assessments; they have pointed out strengths and areas of significant improvement without glossing over weaknesses. However, they have tended to understate the challenges to implementation posed by capacity weaknesses. In terms of their role in providing a road map for future improvements, the JSAs have contained suggestions of areas in need of improvement, and the full PRSP (PARPA) did respond to many of the issues highlighted in the JSA of the I-PRSP. The JSAs do not seem to have contributed much to enhancing partnership; donors saw it as geared almost exclusively to the Executive Boards of the IMF and the World Bank. A number of donors would like to participate in the assessment rather than merely provide input to Bank and Fund staff.

187. Due to weaknesses in the “normal” reporting systems that were supposed to provide information that would be drawn on to produce the first annual PARPA progress report, the report was produced as a special exercise by the Ministry of Planning and Finance with inputs from other ministries, but no involvement of parliament or CSOs. The problems associated with the production of the report reflected weaknesses in monitoring and reporting arrangements, but also raised important issues of temporal alignment between government processes and requirements of external development partners (including the IMF, the World Bank). Assisting the authorities to strengthen the analytical content of the national reporting instruments that are subject to parliament scrutiny would enhance the prospect for closer alignment.

## **B. Findings and Lessons for the IMF**

188. Participation in the formulation and monitoring of the PRGF-supported program has remained narrow, but there is some indication of greater country ownership of the program. The authorities report a greater willingness of IMF staff to consider distributional impacts of proposed measures and to allow time for analytical work to be undertaken to inform policy choices.

189. The macroeconomic framework of the pre-existing PRGF-supported program influenced the PARPA's macroeconomic framework. However, the PRGF objectives have become broadly aligned to PARPA goals, including the links to poverty reduction interventions (e.g., pro-poor, and pro-growth government budgets) and the emphasis on measures to improve public resource management and accountability (in line with PARPA objectives on good governance).

190. The fiscal stance in the PRGF-supported program has become more flexible in dealing with aid inflows, although reducing aid dependency has been a prominent "objective" in the PRGF-supported program. We recommend that in analyzing the role and impact of high reliance on aid flows, the staff cast the issues in terms of fiscal sustainability rather than the way it now comes across—as a mechanical adherence to an "objective" of reducing aid dependence.

191. There has been significant streamlining in structural conditionality under the PRGF-supported program. However, this has been interpreted by the staff in terms of the division of labor with the World Bank rather than reducing the burden of aggregate conditionality on the country. The transfer of responsibility for areas in which the Bank takes the lead has been facilitated by the existence of Bank adjustment lending. During periods when there has been no such Bank instrument in place, the PRGF has provided the main vehicle for exercising conditionality by the BWIs (e.g., banking sector conditionality during most of 2000-2002).

192. The IMF internal policy formulation process does not seem to have fully adapted to the PRSP/PRGF approach. A review of briefing papers for Mozambique and departmental comments thereon suggested some change in seeking to link programs to growth and poverty reduction goals, and in limiting structural conditionality to reforms that are critical for the achievement of macroeconomic objectives. However, not much has changed in terms of room for considering alternative macroeconomic frameworks (and the tradeoffs between them), and in considering what the IMF staff can do to promote greater public discussion of macroeconomic policy issues.

193. The IMF can contribute towards broadening participation in the discussion of macroeconomic policies in the country by facilitating wider dissemination and discussion of the analytical work that forms the basis for its policy recommendations, including the work of TA missions (e.g., in the area of tax policy).

194. The IMF has been very well represented in Mozambique; Resident Representatives have been fully engaged with the authorities and donors to positive effect. However, CSOs



indicated that the IMF was invisible to them. The office of the IMF Resident Representative needs strengthening to be able to effectively play all the roles expected of it. Alternatively, a different way of organizing IMF inputs into the broader policy debate, separate from specific program negotiating missions, may have to be explored.

### **C. Findings and Lessons for the World Bank**

195. The Bank has been appropriately supportive of the PRSP process without being intrusive. Preparation of the PARPA was strongly country-driven, with the Bank providing comprehensive informal and formal comments as well as offering relevant analytical inputs. The government listened and did use the analytical inputs and comments—but not all of it. The process represents an improvement over the previous PFP framework.

196. The government expressed satisfaction with its relations with the Bank, with discussions now more linked to the realities of Mozambique. The Bank has broadened its contacts with civil society actors, including the business community, with relations with these stakeholders also notably improved. It is important to note, however, these assessments of Bank performance did not relate the perceived change to the advent of the PRSP process per se, but to a broader improvement over the past five years. Some of this improvement was noted to be a result of the significant decentralization of Bank staff including the move of the Country Director to Maputo.

197. Donors expressed a more ambivalent opinion of their relations with the Bank, painting a mixed picture of the quality of sectoral dialogue. On the one hand, the Bank is perceived to be more participative and sensitive to other donors, by seeking dialogue and participation in joint donor groups (e.g. agriculture). On the other hand, the Bank is still seen as too driven by Washington-based task managers who occasionally overrule country office staff who participate in regular donor working group meetings (e.g., the social sectors and infrastructure).

198. The Bank has moved with other donors towards providing assistance through a sector-wide approach and, with the planned PRSC, should provide more aid in the form of budget support linked directly to the PRSP. Preliminary work on the Bank's first Poverty Reduction Support Credit has involved discussions with the G-11 group of donors. This new direction, in conjunction with decentralization by the Bank of key staff to the field, has provided the framework for improved coordination with other external partners.

199. Since the PRSP was finalized, the majority of Bank financial and non-financial assistance has been aligned with its priorities. Lending from FY01 through FY02 shifted from a focus on promoting economic opportunities to other priority areas such as governance and human development. During this period there were also significant adjustments to the analytical work program, in line with government priorities. For example, the Decentralization report addressed the increased emphasis in the new PARPA on this topic, and the CPAR and CFAA were relevant in furthering the governance objectives of the PARPA though undertaken to fulfill a due diligence requirement in the Bank. Some key gaps

remain for building upon the growth strategies of the PARPA and in rural development and the Bank needs to be vigilant in ensuring adequate funding of knowledge services.

200. With close to half the lending under the new CAS designated as budget support, through four PRSC tranches, the Bank has signaled a strong vote of confidence in the ability of Mozambique to move forward in sensitive and critical areas such as the fight against corruption and strengthening of good governance.

201. The PRSP development in Mozambique demonstrates that the new development agenda has several potentially significant implications for the way the Bank operates.

- First of all, qualified local presence of the Bank in key strategic areas is highly appreciated by government, national stakeholders and other donors. It is also a sine qua non for continuous participation in policy dialogue processes, which are becoming less dependent on timing priorities of donors and more linked to domestic needs and events.
- The presence of the Bank in key areas seems to be of special importance not only as an additional voice among many, but also as a voice that may have a balancing, unifying or if needed mediating function in the donor community.
- The ability of the Bank to play this role is closely linked to the ability to deliver timely and high quality analytical and advisory inputs. It is important that the Bank ensure adequate resources to provide knowledge services.

## Selected Tables

Table A1. Selected Economic and Financial Indicators, 1996-2002

	1996	1997	1998	1999	2000	2001	2002
	(Annual percentage change)						
Growth and inflation							
Real GDP growth	7.1	11.1	11.9	7.5	1.5	13.0	7.7
Consumer price index (average)	44.6	6.4	0.6	2.9	12.7	9.0	16.7
Consumer price index (end of period)	16.6	5.8	-1.3	6.2	11.4	21.9	9.1
External sector							
Exports, fob (based on US\$ values)	29.9	1.8	6.5	15.9	28.2	93.1	-3.0
Imports, cif (based on US\$ values)	7.7	-2.9	7.5	46.9	-3.2	-8.5	18.8
Terms of trade	-0.5	9.2	-3.3	-13.6	-2.8	5.8	
Export prices	-1.0	1.4	-10.0	-14.5	-0.6	0.8	
Import prices	-0.5	-7.1	-6.9	-0.3	2.2	-4.7	
Real effective exchange rate (end period)				2.0	-3.7	-9.3	-7.1
	(Annual change, in percent of beginning period M2)						
Broad money (M2)	21.1	24.4	17.6	35.1	42.4	29.7	20.1
Net foreign assets of the banking system	38.6	12.6	8.3	11.2	30.8	20.6	21.1
Net domestic assets of the banking system	-17.5	11.8	9.3	23.9	11.6	9.1	-0.9
Credit to government (net)	-29.5	-22.5	-16.0	0.0	4.1	5.3	3.9
Credit to the economy	20.9	30.9	17.8	22.9	22.3	15.5	2.7
	(In percent of GDP)						
Investment and savings							
Gross domestic investment	21.8	20.6	24.2	36.7	36.4	37.9	41.1
Gross national savings	7.3	4.9	9.6	19.1	23.2	23.5	29.4
Current account, after grants	-14.5	-15.7	-14.6	-17.6	-13.2	-14.4	-11.7
Government budget							
Total revenue		11.4	11.4	12.0	13.2	13.3	14.2
Total expenditure and net lending		23.4	21.6	24.7	27.3	34.6	34.1
Overall balance before grants		-11.7	-10.5	-13.2	-14.0	-21.4	-19.7
Grants		9.1	8.1	11.7	8.0	14.8	11.8
Overall balance after grants		-2.5	-2.4	-1.5	-6.0	-6.6	-7.9
External financing (including debt relief)		5.7	4.6	1.8	3.5	3.9	6.3
Domestic financing		-3.2	-2.3	-0.3	1.7	1.9	0.9
Total external debt outstanding							
	(In percent of exports of goods and nonfactor services)						
NPV of total external debt outstanding				212.0	194.4	109.7	91.7
Scheduled external debt service	47.4	24.8	20.0	15.3	2.5	3.5	4.3
	(In months of imports of goods and nonfactor services)						
Gross international reserves	4.8	6.8	7	5.5	6.1	5.8	6

Source: IMF staff reports.

Table A2. Chronology of Events and Processes Related to Poverty Reduction

Date	Event
1989	Transformation of the Economic Rehabilitation Program (ERP) into the Economic and Social Rehabilitation Program (ESRP)
1990	Establishment of Social Dimensions of Adjustment Unit in Planning Commission Establishment of office for Support to Vulnerable Population Group Poverty Alleviation Strategy
1993	National Reconstruction Plan
1994	Poverty Alleviation Unit created in MPF
1995	First multi-party elections Government Program 1995-1999 Poverty Reduction Strategy
1996	Initiation of Household Survey of Living Conditions
1997	Population census Health survey
1998, March	Decision point under HIPC Initiative First National Poverty Assessment published First Urban Municipal council elections
1999, April	Action Guidelines for the Eradication of Absolute Poverty approved by cabinet
1999, June	Completion point under HIPC Initiative
- November	National elections
- December	PARPA 2000-2004 completed
2000	Government program 2000-04 presented to parliament
- March	I-PRSP presented to the IMF and the World Bank
- April	Decision point under Enhanced HIPC Initiative
- November – December	PARPA national consultation process
2001 – April	PRSP/PARPA 2001—05 approved by cabinet
- September	Completion point under Enhanced HIPC Initiative PARPA 2001-05 endorsed by the Executive Boards of the IMF and the World Bank CWIQ-based survey initiated
2003 February	First Annual PRSP progress report submitted to the IMF and the World Bank
- April	First National Poverty Observatory

Source: IMF and World Bank (various reports).

Table A3: Millennium Development Goals and PARPA Targets

Millennium Development Goals – 2015	PARPA Targets – 2005
Halve the proportion of people living in extreme poverty between 1990-2015	Reduce prevalence of poverty by 30 percent in 2010 (from 70 percent to 50 percent)
Halt and reverse the spread of HIV/AIDS by 2015	Stabilize HIV prevalence rate (16.4 percent in 2001, 17 percent in 2005)
Halve the proportion of people who suffer from hunger by 2015	No specific target
Halve the proportion of people without sustainable access to safe drinking water by 2015 and have achieved a significant improvement in the lives of at least 100 million slum dwellers by 2020	Population with access to potable water in rural areas increases from 12 percent (2000) to 40 percent (2005), in urban and peri-urban areas (excluding large cities) from 44 percent (2000) to 50 percent (2005). Make 27,000 urban and 14,000 rural plots available for low-income housing in 2005.
Achieve universal access to primary education in 2015	Primary education gross enrolment rate of 108 percent (2005)
Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	Rural women literacy rate increased from 15 percent (1997) to 25 percent (2005)
Reduce under-five mortality by two-thirds by 2015	Child mortality rate reduced from 200 (2000) to at least 190 (2005), infant mortality from 147 (1997) to at least 130 (2005)
Reduce maternal mortality ratio by three-quarters by 2015	Reduce maternal mortality rate from 175 (2000) to 170 (2005)
Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	Malaria related mortality rate in children under five in rural hospitals reduced from 34 percent (2000) to at least 18 percent (2005)
Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	No specific target

Sources: United Nations (2000); and Government of Mozambique (2001).

Table A4. Size and Composition of Foreign Aid in the Government Budget, 1997-2002 1/

	1997	1998	1999	2000	2001	2002
	(In millions of U.S. dollars) 2/					
Grants and gross external borrowing	548.5	535.8	573.2	443.1	658.2	672.3
Project	327.8	291.9	320.9	248.3	418.7	390.5
Grants	166.7	156.4	213.9	136.7	340.2	284.4
Loan disbursements	161.1	135.5	107.0	111.6	78.4	106.2
Nonproject	220.7	243.9	252.3	194.7	239.5	281.7
Grants	148.1	158.9	252.3	159.5	167.8	139.1
Loan disbursements	72.6	85.1	0.0	35.2	71.7	142.6
Amortization	35.9	41.2	37.1	18.5	15.0	20.5
Grants and net external borrowing	512.5	494.6	536.1	424.5	643.2	651.7
	(In percent of total grants and gross external borrowing)					
Project aid	59.8	54.5	56.0	56.0	63.6	58.1
Grants	30.4	29.2	37.3	30.9	51.7	42.3
Loans	29.4	25.3	18.7	25.2	11.9	15.8
Non-project aid	40.2	45.5	44.0	44.0	36.4	41.9
Grants	27.0	29.7	44.0	36.0	25.5	20.7
Loans	13.2	15.9	0.0	7.9	10.9	21.2
Amortization	6.6	7.7	6.5	4.2	2.3	3.1
Grants	57.4	58.8	81.3	66.9	77.2	63.0
Project	30.4	29.2	37.3	30.9	51.7	42.3
Non-project	27.0	29.7	44.0	36.0	25.5	20.7
Loans	42.6	41.2	18.7	33.1	22.8	37.0
Project	29.4	25.3	18.7	25.2	11.9	15.8
Non-project	13.2	15.9	0.0	7.9	10.9	21.2
	(In percent of GDP)					
Grants and gross external borrowing	15.9	13.8	14.4	12.0	19.2	18.7
Grants and net external borrowing	14.9	12.7	13.5	11.5	18.8	18.1
Grants	9.1	8.1	11.7	8.0	14.8	11.8
Project	4.8	4.0	5.4	3.7	9.9	7.9
Nonproject	4.3	4.1	6.3	4.3	4.9	3.9
External borrowing (gross disbursements)	6.8	5.7	2.7	4.0	4.4	6.9
Project	4.7	3.5	2.7	3.0	2.3	3.0
Nonproject	2.1	2.2	0.0	1.0	2.1	4.0
Amortization (cash)	-1.0	-1.1	-0.9	-0.5	-0.4	-0.6

Source: IMF staff reports (various).

1/ The presentation of the fiscal accounts were revised in 1997. Foreign payments are now included as external financing on a disbursement basis.

2/ Converted from meticaï using the annual average metical/U.S.\$ exchange rate.

Table A5. Macroeconomic Frameworks in the ESAF/PRGF (1999-2003) Arrangement and the PARPA  
(In percent, unless otherwise indicated)

	ESAF/PRGF (June 1999) 1/	PRGF Second Review (December 2000)	PARPA 2001-05 (April 2001)	PRGF Third Review (September 2001)	PRGF Fourth Review (June 2002)
Real GDP growth	10 (1999), 7 (2000, 2001)	3.8 (2000), 10.4 (2001), and 6-7 (during 2002-05).	9 - 10 per year	9 per year	14 (2001), average of 9 (2002-05)
Inflation	1.5 (1999), 5-7 (2000, 2001)	11 (2000), 7 (2001)	5 - 7 per year	7 (2001), 5 (2002-04)	22 (2001), 8 (2002), 5 (2003-05)
International reserves 2/	5 - 5.5 months	6 months (2000), 3 months (2005).	5 months (2001), 3 months (2005)	5.5 months (2001) 4 months (2004)	6 months (2001), average of 5 months (2002-05)
External current account deficit, after grants 3/	22 (1999), 10 (2001)	18 (2000), 9 (2001), 8 (2002), 4 (2005)	15 (2001), 47 (2002), 3.5 (2005)	16 (2001), 45 (2002), 9 (2004)	11 (2001), 29 (2002), 23 (2003), 3 (2005)
Gross domestic investment 3/	36 (1999), 20 (2001)	30 (2000), 27 (2001), 27 (2002), 26 (2005)	27 (2001), 42 (2002), 21 (2005)	32 (2001), 60 (2002), 25 (2004)	42 (2001), 58 (2002), 54 (2003), 30 (2005)
Government revenue 3/	12 (1999), 13 (2001)	13 (2000), 12 (2001), 13 (2002)	12 (2001), 15 (2005)	12 (2001), 15 (2004)	13 (2001), 13 (2002), 15 (2005)
Government expenditure 3/	25 (1999), 22 (2001)	29 (2000), 30 (2001), 29 (2002).	35 (2001), 27 (2005)	35 (2001), 27 (2004)	31 (2001), 30 (2002), 25 (2005)
Fiscal deficit, before grants 3/	13 (1999), 9 (2001)	17 (2000), 18 (2001), 16 (2002)	23 (2001), 12 (2005)	23 (2001), 12 (2005)	18 (2001), 17 (2002), 10 (2005)
Grants and net foreign Borrowing 3/	15 (1999), 9 (2001)	13 (2000), 15 (2001), 14 (2002)	22 (2001), 12 (2005)	22 (2001), 11 (2004)	13 (2001), 10 (2002), 8 (2005)
Official unrequited transfers and disbursements of external loans	US\$629m (1999), US\$494m (2002)	US\$547m (2000), US\$638m (2001), US\$670m (2002), US\$532m (2005)	US\$734m (2001), US\$619m (2002), US\$570-580m (2003-2005)	US\$685m (2001), US\$634m (2002), US\$559m (2003), US\$510m (2004)	US\$611m (2002), US\$592m (2005)

Source: IMF staff reports (various), and Government of Mozambique (2001).

1/ Approved as an ESAF arrangement and converted to a PRGF arrangement in late 1999.

2/ In months of imports of goods and nonfactor services.

3/ In percent of GDP.

Table A6. Assessment of Adaptation of IMF Internal Policy Formulation Process to PRSP/PRGF Approach

Key dates:

June 1999: Approval of new 3-year ESAF arrangement (later converted to a PRGF arrangement).  
 November 1999: Transformation of the ESAF to the PRGF.  
 April 2001: PARPA 2001-2005 (PRSP) approved by Cabinet.  
 September 2001: PRSP endorsed by the Boards of the IMF and World Bank; completion of third review under the PRGF arrangement.  
 June 2002: Completion of fourth review under the PRGF; and conclusion of 2002 Article IV consultation.  
 June 2003: Completion of fifth review under PRGF. Arrangement expires without completion of the sixth review.

Assessment Criteria/Policy Issues	Comments	Ranking 1/	
		New ESAF February 1999 2/	PRGF Fourth Review February 2002 3/
<i>A. Briefing papers</i>			
1. Discussion of links between PRSP and PRGF objectives.		N/A	3
2. Room for engaging authorities in discussion of alternative policy options for achieving major objectives			
(i) Domestic revenue mobilization	Later brief allows some room for discussing alternative measures and undertaking a PSIA before increasing tax on petroleum products.	2	3
(ii) <i>Role and impact of external aid</i>	Concerns about fiscal sustainability, absorptive capacity, and aid-induced Dutch disease (competitiveness) discussed in briefs but also acknowledged importance of aid for financing the budget. Later brief highlights coordination between government expenditure and foreign exchange sales as an option for sterilizing effects of the inflows.		
(iii) <i>Monetary policy</i>	Proposal to shift to reserve money targeting for more effective control of liquidity. Acknowledgement that uncertainties about money demand complicates implementation of this approach. Later brief more prescriptive on this point.	2	3
3. Consideration of alternative macroeconomic frameworks and the tradeoffs between them.		3	2
		1	1



Table A6. Assessment of Adaptation of IMF Internal Policy Formulation Process to PRSP/PRGF Approach (concluded)

Assessment Criteria/Policy Issues	Comments	Ranking 1/		
		New ESAF February 1999 2/	PRGF Review February 2002 3/	PRGF Fourth Review February 2002 3/
4. Discussion of how key objectives will be protected in the event of unanticipated negative shock.	No explicit discussion in briefs, but PRGF arrangement contained adjustors for shortfall/excess of foreign non-project assistance.	2		3
5. Flexibility in the use of additional concessional external financing if available.	Flexibility to use extra resources (vs. save them), but to be targeted at “priority” basis	3		3
6. Consideration of participatory process in resolving key policy issues.	Some very limited discussion in later brief.	1		2
7. Identification of key issues for which PSIA would provide useful input.	Later brief refers to an ongoing PSIA study; otherwise lacked specificity.	1		2
<i>B. Review Department Comments</i>				
8. Recognition of need for more “policy space” for home grown options.		1		1
9. Discussion of poverty issues, or their absence highlighted	Comments on earlier brief flagged the need for more discussion of structural reform agenda, including poverty alleviation and social safety net issues as well as measures to improve the capacity to absorb aid. Link of PRGF to PRSP was raised in later brief.		3	3
10. Pressure for more or less conditionality (prior actions, pcs, benchmarks) in key areas	Comments on later brief included a reminder to include a box on structural conditionality in the staff report with a delineation of the division of labor between the IMF and the World Bank.		1	3

Source: IMF internal briefing papers.

1/ The ranking scheme is based on the degree of consistency with the PRSP/PRGF approach; 1=Highly inconsistent; 2=Inconsistent; 3=Consistent; and 4=Highly consistent.

2/ Briefing Paper was also for Article IV consultation, midterm review of third annual ESAF arrangement, and completion point under the HIPC initiative.

3/ Briefing paper was also for Article IV consultation.

Table A7. Foreign "Program" Assistance in PRGF Arrangement 1999-2002  
(In US\$ millions; cumulative from beginning of the year) 1/

Year	Month	Envisaged	Actual	Shortfall(-)/ Excess
1999	March		101	
	June	192	188	-4
	September	217	196	-21
	December	271	218	-53
2000	March	30	28	-2
	June	72	98	26
	September	97	115	18
	December 2/	178	217	39
2001	March	82	53	-29
	June	139	80	-59
	September	215	140	-75
	December	322	202	-120
2002	March		65	
	June	117	88	-29
	September	173	129	-44
	December	215	225	10

Source: IMF staff reports.

1/ Program assistance comprises nonproject grants and nonproject concessional loans.

2/ Envisaged amount was increased from US\$146 million to US\$178 million during the second review under the arrangement (Dec. 2000).

Table A8. Indicators of Program Interruption

	Program Approval Date	Review Completion Dates			Time since previous event 1/
		Scheduled	Actual	Delay 1/	
ESAF (1996-99) 2/					
P1	6/21/1996				
P1 mid-term review		1/31/1997	2/12/1997	0	8
P2	6/23/1997				4
P2 mid-term review		1/31/1998	4/7/1998	2	9
P3	8/25/1998				5
P3 mid-term review		4/30/1999	5/5/1999	0	8
<i>Average</i>				<i>0.7</i>	<i>6.8</i>
ESAF/PRGF (1999-2003) 3/					
P1	6/28/1999				
R1		1/31/2000	3/27/2000	2	9
R2		10/31/2000	12/19/2000	2	9
R3		4/30/2001	9/20/2001	5	9
R4		4/30/2002	6/17/2002	2	9
R5		11/30/2002	6/20/2003	7	12
R6		5/31/2003	--		
<i>Average</i>				<i>3.6</i>	<i>9.6</i>

Sources: IMF staff reports; and evaluation team's calculations.

1/ In months.

2/ P1, P2, and P3 refer to the 1st, 2nd, and 3rd annual program, respectively.

3/ P1 refers to the original program; Ri refers to the i-th program review.

Table A9. Non-lending Services of the World Bank 2000-2004

Fiscal Year	Subject
FY2000	Public sector reform Growth prospects Mozambique energy expansion development
FY2001	Financial sector Private sector Afmz-ngo/aid coord.dialogue Mz-environment critical pressures Public sector reform ta
FY2002	Mozambique CFAA Mozambique CPAR Per Development corridors Mz-hiv/aids PPIAF:(UK-NC)Mozambique PSP in Energy Sc Mozambique PSP in Energy Mozambique psp in energy
FY2003	Fsap Mozambique Aml/cft assessment Mozambique Legal & judicial sector assessment Mozambique - per 2nd phase Rped-mozambique competitiveness survey
FY2004	Ppi review CA: Mozambique Slum Upgr in Flood Areas Mozambique's energy reform & access proj

Source: World Bank (various reports)

## Mozambique: Structural Conditionality (Counts)--ESAF (1996-99) vs PRGF (1999-2003) 1/

Sector	ESAF (1996-99) 1/						PRGF (1999-2003) 2/									
	P1		P2		P3		P1		R2		R3		R4			
	PA	B	PC	All	PA	B	PC	All	PA	B	PC	All	PA	B	PC	All
<b>I. Specified conditions</b>																
Exchange system																
Trade regime 3/	1	1	2	1	1	1	1	1								
Pricing and marketing	1	1	2	1	1	1	1	1								
Public enterprise reform/privatization 4/	1	1	1	1	1	1	1	1								
Government budget					1	1	1	3	3	2	1	6				
Public admin/civil service reform																
Central bank																
Financial sector	1	1	2													
Transparency, legal/regulatory system																
Economic, social & demographic statistics	1	2	3	1	1	1	1	1								
Poverty assessment/PRSP	5	4	9	3	3	3	9	3	4	3	10					
<b>Total</b>																
<b>II. Implemented on time</b>																
Exchange system																
Trade regime 3/	0	0	2	1	1	1	1	1	2	1	1	2				
Pricing and marketing	1	1	2	1	1	1	1	1								
Public enterprise reform/privatization 4/	1	1	1	1	1	1	1	1	1	1	1	1				
Government budget					1	1	1	3	2	1	3					
Public admin/civil service reform																
Central bank																
Financial sector	1	1	2				0									
Transparency, legal/regulatory system							0									
Economic, social & demographic statistics	1	2	3	1	1	1	1	1								
Poverty assessment/PRSP	4	4	8	3	3	3	9	4	2	6						
<b>Total</b>																

Source: IMF.

1/ P1, P2, and P3 refer to the 1st, 2nd, and 3rd annual programs, respectively. PA, PC, and B refer to prior actions, performance criteria, and benchmarks, respectively.

2/ P1 refers to the original program; R2, R3, and R4 refer to the second, third, and fourth reviews, respectively. and B to benchmarks.

3/ Including tariff and customs reforms.

4/ Excluding financial sector.

## Survey Results

### Mozambique

1. As part of the OED and IEO evaluations of the PRSP Process and the PRGF, a survey of PRSP stakeholders was administered in each of the ten countries where a case study was undertaken. The objective of the survey was to obtain perceptions of the PRSP process and the role of the World Bank and IMF in supporting the initiative.
2. A standard survey of 39 questions was administered in each country. The full questionnaire can be found on both of the evaluation websites [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp) and <http://www.imf.org/external/np/ieo/2002/prsp/index.htm>. The survey consists of four main components: information on respondents; the PRSP process (covering ownership, results orientation, comprehensiveness, partnership-orientation and long term perspective); World Bank performance; and the role of the IMF. In most cases, respondents were asked to indicate the extent of their agreement with statements on a five point scale.<sup>66</sup> The survey was translated, into local languages, where necessary, and pre-tested. A local consultant with survey experience was engaged in each country to assist with administration of the survey. Survey results were coded by the local consultant and sent back to Washington and an outside contractor, Fusion Analytics, was hired to analyze the data.
3. The survey was targeted at key groups within the three main categories of PRSP stakeholders: Government, Civil Society, and International Partners.<sup>67</sup> Within each group, the survey sought to obtain an *institutional view* and was targeted at the most knowledgeable individuals. Respondents were asked to define the nature of their involvement in the PRSP process, and their level of familiarity with the PRSP document, the Bank, and the IMF. Given the targeted nature of the survey, respondents who were “Not Aware” of the PRSP Process were excluded from the results. The specific samples were selected using three main inputs: information gained through the country case study mission; participants listed in the PRSP document; and input from the local consultant. In

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<sup>66</sup> The five point scales used in most questions offered a range from 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don’t Know or Unsure.

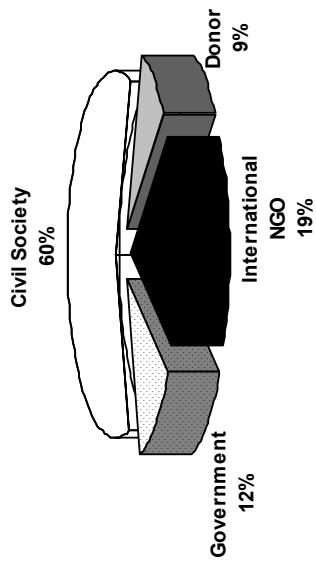
<sup>67</sup> Fourteen stakeholder groups were identified: Government—central government, line ministries and sector agencies, local government, Parliament—Civil Society—local NGOs, business sector, labor unions, academia, media, religious organization, political party, other—International Partner—donor, international NGO. Results at the stakeholder group level will be presented in the aggregate analysis across all countries.

some cases, samples were circulated to obtain broader input on their composition. The study teams also identified a set of highly relevant respondents in each country for whom a survey response was required. These included core ministries and agencies (Finance, Economy, Central Bank...), key PRSP-related ministries (Health, Education, Agriculture...), and major donors. Survey questionnaires were tracked in order to ensure responses were obtained from key groups, however, individual respondents could choose to remain anonymous.

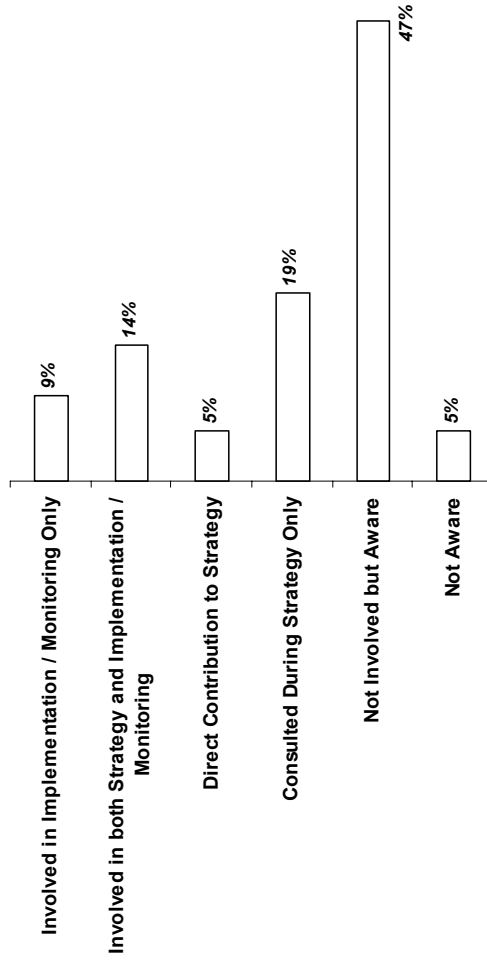
4. The following section presents findings from the survey applied in **Mozambique**. Section A provides an overview of the survey respondents, including the nature of involvement and familiarity with the process. Section B provides an aggregated snapshot of stakeholder perceptions of the PRSP Process across each of five main sub-categories. Section C provides the mean results for all questions concerning the role and effectiveness of Bank and Fund support. Section D presents results for questions with the most positive and negative responses and questions where there was the greatest consensus or disagreement on issues.

**A. RESPONDENT INFORMATION**

**1. Composition of respondents (n = 57)**



**2. Nature of involvement (%)**

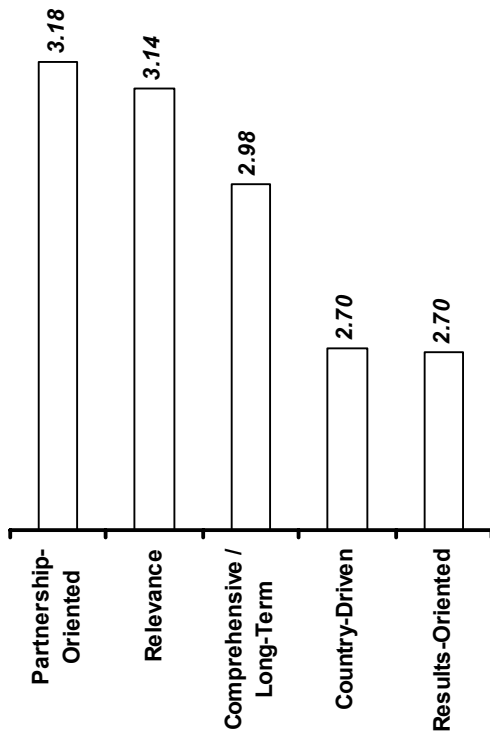


**3. Level of Familiarity**

PRSP document	39%
Bank	40%
IMF	26%

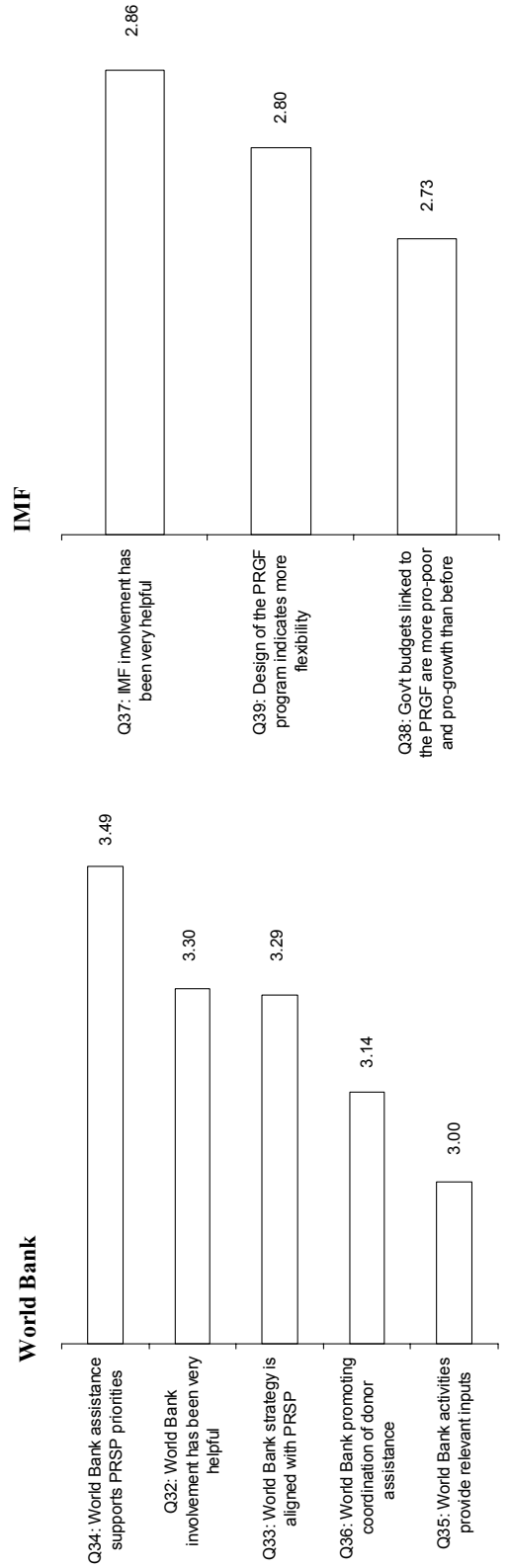


## B. THE PRSP PROCESS



Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

## C. BANK AND IMF



Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

D. COMPOSITE RESULTS TABLE

Question - Mozambique	% Agree	% Disagree	Mean	Mean	% Unknown
<b>Most positive responses</b>					
Q25 - Partnership-oriented: Donors supported formulation	45.6%				
Q20 - Comprehensive: Adequate diagnosis of cause of poverty	42.1%				
Q8 - Relevance: PRSP is a good model	40.4%				
Q24 - Comprehensive: Adequate road map for long-term goals	40.4%				
Q10 - Relevance: PRSP improves on past modalities	38.6%				
<b>Most negative responses</b>					
Q13 - Country-driven: Your stakeholders were consulted	52.6%				
Q12 - Country-driven: PRSP driven by national stakeholders	43.9%				
Q18 - Results-oriented: Structure to monitor results	42.1%				
Q17 - Results-oriented: Realistic targets and plans	42.1%				
Q15 - Country-driven: Gov't continues to engage stakeholders	38.6%				
<b>Most polarized responses</b>					
Q14 - Country-driven: Final document was modified to accommodate viewpoints			3.10		
Q30 - Partnership-oriented: Quality of Bank/Fund collaboration			2.93		
Q26 - Partnership-oriented: Donors aligning assistance			3.18		
Q25 - Partnership-oriented: Donors supported formulation			3.70		
Q27 - Partnership-oriented: Donor coordination improved			3.17		
<b>Areas of greatest consensus</b>					
Q8 - Relevance: PRSP is a good model				3.44	
Q17 - Results-oriented: Realistic targets and plans				2.73	
Q16 - Results-oriented: Outcomes benefit poor				2.96	
Q13 - Country-driven: Your stakeholders were consulted				2.58	
Q12 - Country-driven: PRSP driven by national stakeholders				2.74	
<b>Most unfamiliar areas</b>					
Q29 - Partnership-oriented: Coordination b/t World Bank and IMF improved					56.1%
Q30 - Partnership-oriented: Quality of Bank/Fund collaboration					52.6%
Q14 - Country-driven: Final document was modified to accommodate viewpoints					45.6%
Q27 - Partnership-oriented: Donor coordination improved					36.8%
Q28 - Partnership-oriented: Current donor coordination					35.1%

Note: Polarized and consensus question **means** are sorted by standard deviation. The standard deviation measures the dispersion of responses to a question. If the standard deviation is high then there is a low level of agreement among the sample (polarization). If the standard deviation is low then there is a high level of agreement among the sample (consensus).

## **List of Interviewees**

### **Bank of Mozambique**

Mrs. Clara de Sousa, General Manager  
Mr. António Pinto de Abreu, General Manager  
Mrs. Telma Gonçalves  
Mrs. Ilda Comiche  
Mr. Miguel Arcanjo  
Mr. Teodósio Wazella  
Mr. Jamal Omar  
Mr. Emílio Rungo

### **Ministry of Agriculture and Rural Development (MADER)**

Dr. Fernando Songane, Coordinator, PROAGRI

### **Ministry of Education**

Mr. Zefanias Muhate, Permanent Secretary

### **Ministry of Planning and Finance (MPF)**

Ms. Luisa Diogo, Minister  
Mr. José Sulemane, National Director, Planning and Budget  
Mr. Ahmad Aziza, National Director, Taxes and Audit  
Mr. Pedro Couto, Director, Gabinete de Estudos  
Mr. Tomás Tembe, Budget Directorate  
Mr. Carlos Jensen, Director, UTRAFE  
Mr. Domingos Lambo, Deputy Budget Director

### **Ministry of Public Works and Housing**

Mr. Joaquim Caronga, National Director

### **Ministry of State Administration**

Mr. Ayuba Cuereneia, Vice-Minister  
Mr. José Guamba, National Director, Local Government  
Mr. Saul, International Cooperation Directorate

### **Inhambane Province**

Mr. Júlio Muiocha, Provincial Director, MPF  
Ms. Sadira Hassame, Head of Treasury, MPF  
Mr. Arlindo Maluleque, Head of Investment Section, MPF  
Mr. Oscar Taduco, Budgets and Accounts, MPF  
Ms. Naima Saú, Provincial Director, Ministry of Education  
Dr. Belém Monteiro, Provincial Director, MADER

Mr. Fernando Chilengue, Advisor, MADER  
Mr. Fernando Mavie, Head of Rural Extension Services, MADER  
Mr. António Limbão, Head of Agricultural Services, MADER

### **Inharrime District**

Mr. Abneiro Bié, District Director, ME  
Mr. Rafael Baúle, District Director, MADER  
Mr. Manuel Laice, Civil Registry and Notary, Ministry of Justice  
Ms. Cacilda Paula, District Director, Ministry of Women and Social Affairs

### **Maxixe Municipality**

Mr. Carlos Mourana, President, Municipal Assembly  
Mr. Albino Massada, Member, Municipal Assembly  
Mr. Mateus Vilanculos, Member, Municipal Council  
Mr. Oliveira Simbane, Member, Municipal Council  
Ms. Olimpia Sumburane, Member, Municipal Council  
Mr. Elias Jonasse, Member, Municipal Council  
Mr. Samuel Tualufo, Coordinator, Mozambican Debt Group

### **Cashew Institute (INCAJU)**

Ms. Clementina Machungo, Director

### **Civil Society Organizations**

Mr. Kekobad Patel, Vice-President, Confederation of Business Associations (CTA)  
Ms. Otilia Pacule, Economic Advisor, Confederation of Business Associations (CTA)  
Dr. António Matabele, Coordinator, Association of Economists, Maputo  
Ms. Paula Assubuji, Economic and Finance Advisor, LINK Maputo  
Mr. José Piquitai, Deputy Coordinator, LINK Maputo  
Mr. Jordão Pereira, Member, LINK Maputo  
Mr. Angelo Chiticane, Associação dos Desmobilizados de Guerra (AMODEG), Inhambane  
Ms. Celeste Atanasio, NGO Malhalhe, Inhambane  
Mr. Lourenço Aamela, Coordinator, Associação Moçambicana para a Democracia (AMODE), Inhambane  
Ms. Maria Celeste Mfumo, SINTICIM, Labour Unions, Inhambane  
Mr. Victor Pinto, Associação para o Desenvolvimento Urbano (AMDU), Inharrime, Inhambane  
Mr. Aníbal Chambe, World Food Program (WFP), Inharrime, Inhambane  
Mr. Afonso Zavala, MOVIMONDO, Inharrime, Inhambane  
Mr. Yussuf Adam, Researcher, Social Science Research Unit, UEM Maputo  
Mr. Mahnoosh Mossadegh, CONCERN Worldwide, Maputo  
Mr. John Coughlin, TROCAIRE, Maputo  
Ms. Emanuela Mondlane, Fórum Mulher, Maputo

Ms. Urika Mondlane, Grupos Africa Suécia, Maputo  
Mr. Pedro Flores, AMOPROC, Maputo  
Ms. Marina Pancas, Fórum Terra, Maputo  
Ms. Gilda Chicane, AMRU, Maputo  
Mr. Rogério Ossemane, União Nacional do camponeses(UNAC) Maputo  
Mr. José Boquiço Jr., UNAC, Maputo  
Mr. Sérgio Gomes, KEPA, Maputo  
Mr. Silvestre Baessa Jr., Grupo Moçambicano da Divída (GMD) Maputo  
Ms. Eufrigina Manoela, GMD, Maputo  
Mr. Luís Lifanissa, ATAP, Maputo  
Ms. Marta Cumbi, Fundação para o Desenvolvimento Comunitário(FDC), Maputo  
Mr. Amós Sibambo, Associação KINDLIMUKA, Maputo  
Mr. Silva Mulambo, CHISTIAN AID

### **Donors**

Ms. Caroline Rickatson, Senior Governance Advisor, DFID  
Mr. Nick Highton, Senior Economic Advisor, DFID  
Mr. Thomas Thomsen, Counsellor, Royal Danish Embassy  
Dr. Anton Johnston, Economist, Royal Swedish Embassy  
Mr. J. Schlotthauer, Senior Advisor, USAID  
Mr. Garvan McCann, Regional Economist, Ireland Aid  
Mr. Calgan, Development Attache, Embassy of Ireland, Maputo  
Mr. Aeneas Chuma, Deputy Resident Representative, UNDP  
Mr. Frans Van de Ven, FAO

### **International Monetary Fund**

Mr. David Andrews, Former Mission Chief  
Mr. Juan Carlos, Di Tata, Mission Chief  
Mr. Jurgen Reitmeir, Former Mission Chief  
Mr. Arnim Schwidrowski, Former Resident Representative  
Mr. Perry Perone, Resident Representative  
Mr. Wilfried Engelke  
Mr. Alan Ize  
Mr. Álvaro Manoel  
Ms. Caroline Kende-Robb  
Ms. Yasmin Patel, Advisor, Office of Executive Director

### **World Bank**

Mr. Darius Mann, Country Director  
Mr. António Franco, Senior Economist  
Mr. Aniceto Bila, Portfolio Manager  
Mr. Rafael Saúte, External Affairs  
Mr. Daniel de Sousa, Agronomist

Mr. Brad Roberts, Coordinator, Small and Medium Enterprise  
Mr. Gerard Byam, Manager, Africa Region Operational Quality and Knowledge  
Mr. Michael Fuchs, Lead Financial Economist

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