PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

May 21, 2015
Report No.: 97234

Operation Name	Mozambique Eleventh Poverty Reduction Support Credit
Region	AFRICA
Country	Mozambique
Sector	General public administration sector (35%); General industry and trade sector (35%); Other social services (30%)
Operation ID	P154422
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF MOZAMBIQUE
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	May 21, 2015
Estimated Date of Appraisal	October 13, 2015
Estimated Date of Board Approval	November 30, 2015
Corporate Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Mozambique's economy has grown rapidly since the end of the civil war in 1992. Annual Gross Domestic Product (GDP) growth averaged 7.4 percent over the past two decades. Robust growth was made possible by sound macroeconomic management, a number of large-scale foreign-investment projects, political stability and significant donor support. In recent years strong growth has been supported by Foreign Direct Investment (FDI) inflows in extractive industries. Major discoveries of coal and gas may transform Mozambique into a significant player in global markets and the country's medium term reform agenda needs to focus on strengthening government capacity to better manage the country's extractive industries.

Over the past decade rapid growth has not translated into significant poverty reduction. Strong economic growth led to a decline in the national poverty headcount by 14 percentage points between 1997 and 2003 to 56 percent, implying a growth elasticity of poverty reduction of 0.3. Poverty fell between 2003 and 2009 to 52 percent, implying a growth elasticity of poverty reduction of only 0.14. The weakened relationship between growth and poverty reduction is due to the changing pattern of growth, which in the past decade was driven by capital-intensive, import-dependent sectors. This pattern of growth is also reflected in labor markets, which continue to be dominated by low skilled labor in the agricultural sector; meanwhile, the rest of the economy is unable to offer better-remunerated jobs for the 300,000 new workers entering the labor force every year.

The PARP, Mozambique's third poverty reduction strategy paper, was developed through a broadly consultative process involving representatives from a range of government agencies as well as stakeholders from the private sector and civil society. During the development of the PARP the government held a series of meetings at the national and district levels and took steps to ensure that the strategy was informed by the international experience on effective development policy. The PARP was presented to donors and other stakeholders in April 2011 and endorsed by the council of ministers a month later. Its implementation period was originally intended through the end of 2014, but it has recently been extended until 2015 to allow the next government to design its own poverty reduction strategy.

II. Proposed Objective(s)

This programmatic series is designed to improve the country's business climate and increase transparency in the management of natural resources, strengthen social protection and enhance public finance management. The series supports reforms in key policy areas, including: (a) improving the business climate and increasing transparency in the management of extractive industries, by simplifying business regulations for promoting broad-based growth and enhancing the legal and institutional framework for the resource sector, (b*)* strengthening social protection, by reducing economic vulnerability through well-targeted social-protection policies, and (c) enhancing public finance management, by improving the management of public investments, debt and fiscal risks.

III. Preliminary Description

The proposed PRSC-11 would be the third and last in a series of three annual operations. The PRSC series is harmonized with the G19 joint-donor mechanism for the provision of general budget support. Reforms supported by the PRSC series are in line with the PARP's strategic pillars and the objectives defined in the PARP results matrix.

The proposed operation will support Mozambique in achieving the Bank's twin goals of ending extreme poverty and promoting shared prosperity. The ability of growth to reduce poverty in Mozambique has been disappointing over the past decade. This is related to the growth pattern, driven by large capital intensive projects. The discovery and investments in the mining and hydrocarbon sectors, often through large capital intensive projects with limited links to the rest of the economy, may contribute to a growth pattern that, as in the past, does not lead to significant poverty reduction. The reforms supported by this operation will contribute to a more inclusive growth pattern.

IV. Poverty and Social Impacts and Environment Aspects

The policies supported by this series are expected to have a positive impact on poverty and social indicators as outlined in the next few paragraphs. Reforms to simplify business regulations and start up procedures will lead to increased productivity of the private sector and through it employment creation. Improving the business environment in general and more specifically simplifying business regulations has a positive impact on growth and employment. By reducing the time (and related costs) needed to start a business and obtain a license, this reform will lead to higher investment, productivity and increased employment creation. These reforms are also more likely to benefit smaller and medium enterprises that have fewer resources at their disposal to deal with an excessively onerous business environment.

The development of the mining and gas sectors bring significant opportunities to Mozambique, but much will depend on whether the Government is able to capture a fair share of the rents and how these are used. This series supports reforms for improved transparency and management in extractive industries. The revised sectoral laws for mining and hydrocarbons, new fiscal regimes and implementing regulations will improve the regulatory environment for extractive industries. An improved regulatory regime will promote investments in the sector while the revised fiscal regime ensures that the Government is able to capture a fair share of the rents generated. The extent to which Mozambicans benefit from the development of the mining and hydrocarbons sectors will depend on the use that the Government does of natural resource revenues.

The proposed PRSC directly contributes to poverty alleviation through its focus on enhancing the scope, targeting and overall efficacy of social protection programs. The PASP program, according to simulations made, could reach 400,000 households in the poorest 100 districts and could reduce poverty by 13 percentage points over 4 years in the affected districts. The reduction would be even more pronounced (24 percentage points) if assistance was targeted at the 40 poorest districts. This program has therefore potential for significant poverty reduction. The extent to which this potential is realized will depend on aspects of program implementation, including targeting, as well as the size of the program that is ultimately implemented. Improved systems (for payments, targeting) will increase the effectiveness not only of the PASP program but of the other programs in the Government's National Strategy for Basic Social Security.

Efforts to improve public investment management will have a positive impact on the poor. Mozambique has a relatively high rate of public investment, averaging more than 15 percent of GDP during the past 5 years, and it is projected to remain high over the medium term. PIM capacity of many implementing agencies remains weak. Reforms supported will contribute to better appraisal and evaluation of investment projects, including social impact assessments and an identification of potential beneficiaries. Increased transparency in public investment management will also have a positive role by expanding the range of stakeholders that are involved in discussions on the selection and implementation of investment projects.

Improved debt and fiscal risks management will contribute to fiscal stability and through it the Government's ability to continue providing public goods and services. Improved debt and fiscal risks management will improve the Government's ability to maintain macroeconomic and fiscal stability. Debt crises have often led to macroeconomic instability that can hurt the poor. Macroeconomic and fiscal instability can lead to lower (or negative) growth, higher inflation and cuts in public spending when the country needs to adjust– all with a negative impact on the poor. The fiscal adjustment often leads to significant spending cuts across the board, including the provision of public goods and services that benefit the poor such as education, health and social protection.

Environmental Aspects

The legal framework for environmental protection is relatively well developed in Mozambique, but implementation and enforcement capacity remains limited. The Law on the Environment (Law n° 20/97) is the basis for environmental regulations and applies to all public and private activities with potentially significant environmental consequences. These activities are subject to an Environmental Impact Assessment, which must precede any issuing of licenses or the approval of any new projects. The Ministry for Land, Environment and Rural Development (*Ministério para a Terra, Ambiente e Desenvolvimento Rural*) is the agency responsible for conducting Environmental Impact Assessments. The revised legislation for mining and petroleum sectors makes environmental impact assessments mandatory, refers to existing norms and legislation for environmental protection and includes provision for environmental management and the end of operations. The capacity of the government, however, is limited due to financial and technical capacity constraints.

The reforms supported by this PRSC series are not likely to have significant negative effects on the environment, forests, fisheries, wildlife habitats or other natural resources. The PRSC series supports policy actions designed to accelerate poverty reduction, which by themselves have no direct impact on the environment. Regular private and public investment activities which may result from a more enabling business climate could have an impact on the environment, but as mentioned above the domestic legal framework and regulatory mechanisms are judged to be fundamentally adequate to address them. Mozambican legislation requires that such effects would have to be identified as part of the preparation of the individual business projects, with credible evidence provided as to how the developer plans to manage potential environmental consequences.

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
IDA Credit		35
Grant		35
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	70

VI. Contact point

World Bank

Contact: Enrique Blanco Armas
Title: Senior Economist
Tel: 5333+2345 / 258-21-482-345
Email: eblancoarmas@worldbank.org
Location: Maputo, Mozambique (IBRD)

Borrower

Contact: Adriano Ubisse
Title: National Director for Investment and Cooperation
Ministry of Planning and Development
Tel: +258 21 492 268
Email: aubisse@mpd.gov.mz

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop