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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 34.2 MILLION  
(US\$50 MILLION EQUIVALENT)

TO

THE REPUBLIC OF MOZAMBIQUE

FOR A

SECOND AGRICULTURE DEVELOPMENT POLICY OPERATION (AGDPO-2)

February 27, 2015

Agriculture Global Practice  
Country Department AFCS2  
Africa Region

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## **Mozambique - GOVERNMENT FISCAL YEAR**

January 1 – December 31

### **CURRENCY EQUIVALENTS**

(Exchange Rates Effective as of December 17, 2014)

Currency Unit

MZN34 = US\$1.00

SDR0.68294815 = US\$1.00

### **ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities
ADVZ	<i>Agencia pelo Desenvolvimento do Vale de Zambezi</i> (Agency for the Development of the Zambezi Valley Corridor)
AgCLIR	Agribusiness Commercial Legal and Institutional Reform
AgDPO	Agriculture Development Policy Operation
AgRED	Agriculture and Rural Economic Development
AGRA	Alliance for a Green Revolution in Africa
APPSA	Agricultural Productivity Program for Southern Africa
ASCA	Accumulated Savings and Credit Association
AU	African Union
BdM	<i>Banco de Moçambique</i> (Bank of Mozambique)
CAADP	Comprehensive Africa Agriculture Development Programme
CATERF	Technical Evaluation Committee for the Registration of Fertilizers
CATF	Technical Advisory Committee on Fertilizer
CEPPAG	<i>Centro de Estudos em Políticas e Programas Agro-Alimentares</i> (Research Center for Agricultural and Food Policies and Programmes)
CNS	National Seeds Committee
CPS	Country Partnership Strategy
DFID	Department for International Development (U.K.) DNSA <i>Direcção Nacional de Serviços Agrários</i> (National Directorate for Agricultural Services)
DNTF	<i>Direcção Nacional de Terras e Florestas</i> (National Directorate for Land and Forests)
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DUAT	<i>Dereito de Uso e Aproveitamento da Terra</i> (Land use right)
DNEA	<i>Direcção Nacional de Extensão Agrária</i> (Directorate of Agricultural Extension)
EU	European Union
EIA	Environmental Impact Assessment
EMATUM	<i>Empresa Moçambicana de Atum</i>
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product

GoM	Government of Mozambique
ha	Hectare
HDI	Human Development Index
HKI	Helen Keller International
IDA	International Development Association
IFC	International Finance Corporation
IFDC	International Fertilizer Development Center
IFPRI	International Food Policy Research Institute
IIAM	<i>Instituto de Investigação Agrária de Moçambique</i> (National Agricultural Research Institute)
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatística</i> (National Statistics Institute)
INIR	<i>Instituto Nacional de Irrigação</i> (National Irrigation Institute)
INNOQ	<i>Instituto Nacional de Normalizacao e Qualidade</i> (National Institute for Standards and Quality)
KfW	<i>Kreditanstalt fur Wiederaufbau</i> (German Development Bank)
M&E	Monitoring and Evaluation
MASA	<i>Ministério da Agricultura e Segurança Alimentar</i> (Ministry of Agriculture and Food Security)
MCC	Millennium Challenge Corporation
MEF	<i>Ministério da Economia e Finanças</i>
MIC	<i>Ministério da Indústria e Comércio</i> (Ministry of Industry and Commerce)
MICOA	<i>Ministério para a Coordenação da Acção Ambiental</i> (Ministry for the Coordination of Environmental Affairs)
MINAG	<i>Ministério da Agricultura</i> (Ministry of Agriculture)
MISAU	<i>Ministério da Saúde</i> (Ministry of Health)
MoF	<i>Ministério das Finanças</i> (Ministry of Finance)
MoU	Memorandum of Understanding
MOZCAPAN	Mozambique Policy Analysis and Planning Capacity for Improved Food Security and Nutrition Outcomes
MPD	<i>Ministério de Planificação e Desenvolvimento</i> (Ministry of Planning and Development)
MITADER	<i>Ministério da Terra, Ambiente e Desenvolvimento Rural</i> (Ministry of Land, Environment and Rural Development)
MZN	New Mozambican Metical
NEPAD	New Partnership for Africa's Development
NGO	Nongovernmental organization
PAPA	<i>Plano de Acção para a Produção de Alimento</i> (Food Production Action Plan)
PARP	<i>Plano de Acção para a Redução da Pobreza</i> (Mozambique's Poverty Reduction Strategy)
PDO	Program Development Objective
PEDSA	<i>Plano Estratégico de Desenvolvimento do Sector Agrário</i> (National Agriculture Sector Strategy)
PFM	Public Financial Management

PNDA	<i>Plano Nacional Director do Agronegócio</i> (National Strategy for Agribusiness)
PNISA	<i>Programa Nacional de Investimento do Sector Agrário</i> (National Agriculture Sector Investment Plan)
PPP	Public-Private Partnership
PRAI	Principles of Responsible Agricultural Investment
PROAGRI	<i>Programa Nacional de Desenvolvimento Agrário</i> (National Agricultural Development Program)
PROIRRI	<i>Projecto de Desenvolvimento de Irrigação Sustentável</i> (Sustainable Irrigation Development Project)
PRSC	Poverty Reduction Support Credit
PSI	Policy Support Instrument
RENAMO	<i>Resistência Nacional de Moçambique</i>
RESAKSS	Regional Strategic Analysis and Knowledge Support System
RICA	Rural Investment Climate Assessment
SADC	Southern African Development Community
SDR	Special Drawing Rights
SEA	Strategic Environmental Assessment
SETSAN	<i>Secretariado Técnico de Segurança Alimentar e Nutricional</i> (Technical Secretariat for Food Security and Nutrition)
SISTAFE	<i>Sistema de Administração Financeira do Estado</i> (National Financial Management System)
TA	Technical Assistance
TIA	<i>Trabalho do Inquerito Agrícola</i> (annual agricultural survey)
UEM	<i>Universidade Eduardo Mondlane</i>
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WEF	World Economic Forum

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**MOZAMBIQUE**  
**SECOND AGRICULTURE DEVELOPMENT POLICY OPERATION**

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## SUMMARY OF PROPOSED CREDIT AND PROGRAM

*MOZAMBIQUE*  
*SECOND AGRICULTURE DEVELOPMENT POLICY OPERATION*

Borrower	Republic of Mozambique
Implementation Agency	Ministry of Economy and Finance (Agency for the Development of the Valley of Zambezi)
Financing Data	IDA Credit Terms: 38-year maturity with a 6-year grace period Amount: SDR 34.2 million (US\$50 million equivalent)
Operation Type	Single tranche programmatic Development Policy Operation (DPO), the second in a series of three DPOs.
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective of the AgDPO series is to improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance. 1: Improving Agricultural Technology 2: Enhancing Access to Assets and Financial Services 3: Monitoring Sector Performance
Result Indicators	The key results indicators for the Policy Areas listed above are: 1: Use of certified seed among farmers (% women): Base 2012: 6%; Target 2016: 9% (women 30% increase); Use of fertilizer among farmers (% women): Base 2012: 2.7%; Target 2016: 4.0% (women 30% increase) 2: Additional irrigated area managed by Irrigation Associations: Base 2012: 0; Target 2016: 2,900 ha (10% of total area, 10% of associations include women) 3: Share of fortified wheat flour relative to total volume of wheat flour processed: Base 2012: 0%; Target 2016: 10% 4: Cumulative number of land user rights issued to associations and certificates of delimitations issued to communities: Base Dec. 2011: 52 user rights, 80 certificates; Target 2016: 260 user rights and 280 certificates 5: Share of rural households with access to credit (%female-headed): Base 2012: 2.3% (15%); Target 2016: 3.5% (25%) 6: Official publications of the annual reports based on the new integrated survey framework: i) annual sector performance report (Balanco do PES, published in April of the next year) and ii) the agriculture statistical publication (published in June of the next year): Baseline 2012: not available; Target 2016: available
Overall risk rating	Moderate
Climate and disaster risks	There are no short and long term climate and disaster risks associated with the operation.
Operation ID	P146930





**IDA PROGRAM DOCUMENT FOR A  
PROPOSED CREDIT  
TO THE REPUBLIC OF MOZAMBIQUE**

**1. INTRODUCTION AND COUNTRY CONTEXT**

1. **Mozambique’s economic performance has been strong since the end of the civil war in 1992.** The country’s GDP growth from 1993 to 2013 averaged 7.4 percent. Its performance was made possible by sound macroeconomic management, a number of large-scale foreign investment projects (“megaprojects”), and significant donor support. Over the past decade, rapid growth has not translated into significant poverty reduction, and the geographic distribution of poverty remains unchanged. With a population of 23.9 million, per capita income in 2012 was US\$565, less than 40 percent of the Sub-Saharan African average. The weakening correlation between economic growth and the poverty rate suggests that growth has become less inclusive in recent years. Mozambique ranked 185<sup>th</sup> out of 187 countries in the Human Development Index (HDI) in 2013, reflected by some of the worse development indicators globally. The adult literacy rate is 56 percent, and average life expectancy at birth is just 50 years. Malnutrition worsened between the mid-1990s and 2003, and after several years of improvement, malnutrition rates have only just returned to levels comparable to those of the mid-1990s. Starting from a low base, Mozambique has made considerable progress as illustrated by a number of social indicators. School enrollment rates—and gender parity in enrollment—increased dramatically over the past decade, while infant and maternal mortality rates consistently declined.

2. **Growth of the agriculture sector (which includes livestock and forestry) was variable during recent years, ranging from 5.8 percent in 2008 to 1.4 percent in 2012, and currently estimated at 5.6 percent per annum, based on 2014 first quarter data.** The Ministry of Agriculture and Food Security (MASA<sup>1</sup>) estimates that commercialized agriculture (excluding livestock and forestry) grew by 36 percent during 2013. Commercial agriculture is currently mostly limited to larger farmers and agribusinesses, some with smallholder farmers participating. It confirms Mozambique’s agribusiness investment potential, and the potential to scale up successful agribusiness-smallholder business models. The level of agriculture-supportive public expenditure, including feeder roads and rural services, increased an average of 14 percent annually from 2009 to 2013 and amounted to an average 9.8 percent of total government expenditures. However, agriculture-only expenditures declined from 6 percent of total government expenditures in 2009 to 4 percent in 2012, but are currently showing a rebound. Implementation to date of the *Programa Nacional de Investimento do Sector Agrário* (PNISA), the National Agriculture Sector

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<sup>1</sup> In January 2015, the Ministry of Agriculture (MINAG) became the Ministry of Agriculture and Food Security (MASA). Further details of the restructuring of Government ministries that are relevant to this operation are provided in section 3.

Investment Plan, is currently under review by MASA and the donor community, and first indications are that the initial financing gap of the investment plan has narrowed.

3. **Mozambique’s expanding extractive industries will profoundly alter the structure of the economy and pose risks to the international competitiveness of other sectors.** If managed poorly, rapid development of the mining and gas industries could expose the country to the hazards of “Dutch disease”: as foreign currency surges into Mozambique, the local currency appreciates, the competitiveness of non-resource products declines, and cheap imports flood local markets. Highly uneven development across sectors of the economy could have lasting consequences for the country’s hard-won stability. The Agriculture Development Policy Operation (AgDPO) series was designed to support the government’s objectives of broad-based growth and rural poverty reduction while contributing to the World Bank Group’s twin goals of poverty reduction and shared prosperity.

4. **If the accelerating structural transformation process is accompanied by adverse effects, such as a loss of competitiveness caused by local currency appreciation, achievement of agricultural productivity gains is critical and urgent.** Agriculture is the largest sector in the national economy, contributing 27 percent of GDP and employing 78 percent of the workforce. Recent research emphasizes that many of Mozambique’s farm households can emerge from entrenched rural poverty if they can overcome impediments to improve agricultural productivity, especially in cereal crops and livestock.<sup>2</sup> Agriculture offers scope to narrow persistent income disparities between rural and urban areas and to reduce poverty in regions that benefitted little from the economic gains of recent years. Stronger fundamentals for agricultural competitiveness, based on improved agricultural productivity and more effective markets, will potentially spur growth in exports and reduce Mozambique’s import bill for agricultural commodities. Increased productivity will also benefit subsistence households with limited potential market connectivity.

5. **The drivers of agriculture sector growth and competitiveness in Mozambique are technology, extension, land, irrigation, finance, markets, risk management, infrastructure, policy, and regulatory systems.** Sector growth requires private sector participation, public investment, and an enabling business environment.<sup>3</sup> Key policy and institutional reform priorities to address the binding constraints of the drivers of growth were identified during the preparation of AgDPO-1. Selection of reforms for the AgDPO series was based on: (1) existing analytical work; (2) feedback from stakeholders, including the private sector, on the areas where reforms are critical; (3) the level of commitment and readiness on the part of the government; and (4) support provided by other donors. Reform priorities were identified around the following themes:

- a) Improving crop production, productivity, and climate resilience by enhancing access to appropriate seed, fertilizer, and irrigation technology and infrastructure;

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<sup>2</sup> J. Thurlow: “Mozambique.” Chapter 12 in “Strategies and Priorities for African Agriculture: Economywide Perspectives from Country Studies.” International Food Policy Research Institute (IFPRI), Washington, DC, 2012, pp. 349–70.

<sup>3</sup> See “Agricultural Growth and Poverty in Mozambique: Technical Analysis in Support of the Comprehensive Africa Agriculture Development Program (CAADP),” Mozambique Strategy Support Program, International Food Policy Research Institute, November 2012.

- b) Providing investment incentives for farmers and agribusinesses by enhancing socially responsible land tenure arrangements;
- c) Improving smallholder production and marketing by promoting rural credit and warehouse receipt-based financial services and trading;
- d) Improving nutritional value to consumers by promoting food fortification; and
- e) Encouraging private investment in primary production, marketing, value addition, seed and fertilizer technology development and marketing, and the provision of agricultural credit.

6. **Other priority areas important for sector growth and for implementation of the PNISA, but not included in the AgDPO series, include rural infrastructure, extension, market linkages, and livestock development.** Not included in the reform agenda are commodity-specific issues of protection and taxation (e.g., the export tax on cashew, recognition of value added tax at the farm gate, and localized input subsidy schemes). These areas require more program support than policy reform and are supported by various donor-funded programs. For example, the United States Agency for International Development (USAID) supports market development and facilitation programs for commodities and inputs as well as policy research and dialogue on subsector incentive structures and taxation issues; Michigan State University and IFPRI support MASA and the agricultural policy research institute (CEPPAG) in policy analysis and related capacity building; and the Belgian government supports the livestock sector. A summary of reform actions is provided in Table 1. A summary of the AgDPO-2 triggers at the time of formulation of AgDPO-1 compared to the AgDPO-2 prior actions as currently formulated is provided in Annex 2.

7. **The proposed operation is the second, single tranche operation of a series of three agriculture sector DPOs that support a medium-term reform program in Mozambique’s agriculture sector.** The reform agenda is consistent with the objective of the country’s poverty reduction strategy (PARP) to reduce rural poverty by developing the agriculture sector, and is aligned with PNISA, which was developed under the African Union’s (AU) Comprehensive Africa Agriculture Development Program (CAADP) agenda, which provides a common framework for agriculture sector development on the continent.

**Table 1: Summary of the AgDPO reform agenda**

	<b>AgDPO-1 Reform</b>	<b>AgDPO-2 Reform</b>	<b>AgDPO-3 Reform</b>	<b>Expected Outcome</b>
<b>Seed subsector</b>	Legislation for private seed production, marketing, and regional trade	Legislation for registering new plant varieties	Operationalizing inspection and certification services, dissemination of products	Increased private sector participation in well-regulated seed supply chain
<b>Fertilizer subsector</b>	Legislation for private fertilizer production and marketing	Institutional provision for registration of fertilizer products	Operationalizing inspection and certification services, dissemination of products	Increased private sector participation in well-regulated seed supply chain
<b>Irrigation subsector</b>	Launch of investment plan with irrigation component	Legislation for management responsibilities by users of public irrigation schemes	Regulations facilitate PPPs in irrigation	Enhanced performance in the irrigation subsector
<b>Nutrition</b>	Food fortification quality standards	Operationalizing wheat food fortification program	Regulations for mandating food fortification	Increased availability of fortified food
<b>Land Administration</b>	Simplification of the transfer of land use rights	Stakeholder consultations on land reform, enabling land leasing	Land leasing procedures approved	Improved land access and land tenure security, encouraging responsible investment
<b>Finance and markets</b>	Implementation plan for rural financial services		Legislation for a warehouse receipt system, enabling commodity-based financing	Increased availability of rural finance

<b>Sector management</b>	Institutional restructuring of agriculture statistics	Implementation of new agriculture survey design	Decentralization of resources for improved survey implementation	High-quality data and timely reports on sector performance
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8. **The above selection of policy and institutional reform areas represents important components of a larger package of mutually complementary measures to promote climate-smart agricultural production.** Natural disasters, particularly floods and droughts, frequently disrupt agricultural production and livelihoods in Mozambique. Climate-smart technologies in the form of drought-tolerant and short-maturing varieties and more efficient and effective fertilizer products are currently on the shelves in other countries in the region, but are now discouraged from entering the Mozambican market by the absence of a market-friendly regulatory environment. Reforms in the seed and fertilizer sectors will facilitate the introduction of these technologies in Mozambique. As supported under the Climate Change DPO-2,<sup>4</sup> a national action program for the scale-up of climate-resilient agriculture in smallholder farming has been developed at MASA, with a focus on extension services, knowledge management, and coordination between research, extension, and the needs of farmers. This program receives World Bank technical assistance (TA) and will promote the use of climate-smart inputs as well as conservation farming techniques. But operationalizing this agenda will require climate-smart agriculture technologies to be embedded in seeds and fertilizers. Hence, the reforms supported by the AgDPO series, which facilitate the flow of these inputs, are an important complement to the Climate Change DPO. Investments in irrigation infrastructure and improvements in the management of public irrigation schemes will also be needed to mitigate drought risk, and the institutional reforms supported in the AgDPO are designed with exactly these objectives. The reforms will improve localized water management, while larger public-private irrigation investments in river basins may include more direct flood control measures (as seen in a public-private sector investment in the Lower Limpopo irrigation scheme). These efforts would be substantially complemented by large-scale upstream water management infrastructure and regional management capacity, some of which would be financed by the World Bank and the African Development Bank. Furthermore, security of land tenure is an absolute prerequisite to induce farmers to make the long-term investments needed to make production more resilient to climatic shocks. Thus, the land policy reforms supported by the AgDPO also comprise an integral component of this package of support for climate-smart agriculture.

9. **The share of female-headed agricultural households in Mozambique increased from 23 percent to 27 percent over 1999-2009, with women heading significantly smaller farms than men (INE/National Statistics Institute 2011).** Women are much more likely than men to spend additional income on food and healthcare, so increasing women's incomes is likely to have a proportionally greater impact on children's health and nutrition, and thus on poverty reduction in rural areas. Hence, productivity gains are particularly needed by women farmers. On the basis of this analysis, the AgDPO places special emphasis on improved access to seed, fertilizer, land, credit, and markets, with a particular recognition of the importance this will have for women.

10. **The AgDPO series is an integral part of the emerging World Bank-IFC joint agribusiness action plan for Mozambique.** Active collaboration is ongoing involving the Bank-financed *Projecto de Desenvolvimento de Irrigaçao Sustentável* (PROIRRI, Sustainable Irrigation

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<sup>4</sup> Mozambique Second Climate Change Development Policy Operation (P128434).

Development Project) and the Portucel planted forest project in which IFC is investing, whereby PROIRRI provides support to farmers in expanding their agribusiness opportunities in regions where the two projects overlap (through out-grower and contract farming arrangements, and investments in irrigation infrastructure and management). Similarly, discussions are underway on how a new Bank agriculture project<sup>5</sup> may provide support that is complementary to the Portucel investment by facilitating linkages between rural communities to agricultural value chains. The AgDPO series provides a foundation of critical policy reforms that are conducive to private agribusiness investment, and provides an opportunity for collaboration, such as the regulatory frameworks on land use rights and warehouse receipts. The International Finance Corporation (IFC) Advisory Services has prepared a community development plan for Portucel that provides an important farmer- and investor-level platform for developing new approaches to agriculture commercialization, and for feedback and lessons learned.

## **2. MACROECONOMIC POLICY FRAMEWORK**

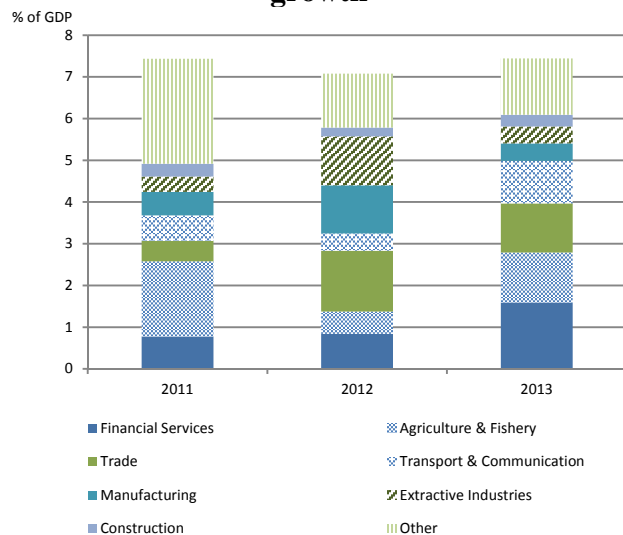
### **2.1 RECENT ECONOMIC DEVELOPMENTS**

11. **Growth in 2014, projected at 7.4 percent, is in line with projections.** Agriculture employs 78 percent of the labor force and accounts for about 27 percent of GDP. Trade and retail services make up 12 percent of GDP, while the weight of the industrial sector continues to decline from 17 percent of GDP a decade ago to 12 percent in 2013, despite large projects such as Mozal that provided a boost to the industrial sector in the past decade. Growth has been broad-based across economic sectors over the past few years. The main contributors to GDP growth in 2013 were financial services, agriculture and trade. Extractive industries has been the most dynamic sector in the economy for the past few years but its contribution to growth remains limited given its relatively small share in the economy.

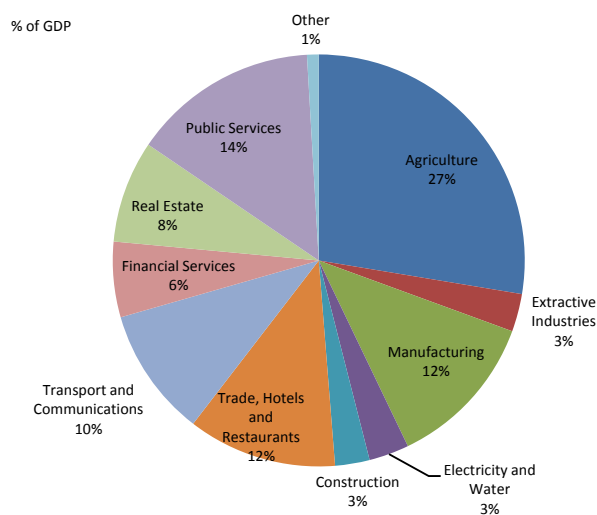
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<sup>5</sup> The proposed Mozambique Agriculture Commercialization Project (P149620).

**Figure 1: Sectoral contribution to GDP growth**



**Figure 2: Sectoral breakdown of GDP in 2013**



Source: INE and World Bank staff calculations.

12. **The economy grew at 7.4 percent in the third quarter of 2014.** Economic activity in the third quarter was led by the secondary sector with a growth rate of 10.8 percent. Manufacturing grew fastest within this broad category. The tertiary sector grew at an annual rate of 8.3 percent led by financial services and trade. Growth in the primary sector, of 6.6 percent, was led by extractive industries, although growth in this sector has decelerated compared to 2013, given low commodity prices and infrastructure constraints. Other traditionally fast growing sectors like construction and transport and communications have also decelerated. Mozambique adopted in 2014 a new base year (2009) for the compilation of national accounts, taking into account new available data sources as well as new sectors of economic activity. The revised GDP figures are slightly higher than previous GDP figures (4 percent higher in 2012).

**Table 2: Key macroeconomic indicators, 2011-2017**

	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.	Est.	Proj.	Proj.	Proj.
GDP (nominal – billion meticaís)	385	424	470	526	595	680	774
Consumption (% of GDP)	96.1	93.7	92.6	--	--	--	--
Investment (% of GDP)	18.4	15.6	17.9	--	--	--	--
Net exports (% of GDP)	-14.5	-9.3	-10.4				
Real GDP growth rate (%)	7.4	7.1	7.4	7.4	7.5	8.1	7.8
CPI inflation (% annual average)	10.4	2.1	4.2	2.3	4.4	5.2	5.6
CPI inflation (end of period)	5.5	2.2	3.0	1.1	5.5	5.6	5.6
Base money (% change)	8.5	19.7	15.7	19.0	18.5	15.6	15.6
Credit to the economy (% change)	6.4	19.9	28.7	21.2	18.0	15.0	15.0
Policy lending rate (end of period)	15.00	9.50	8.25	7.50	--	--	--
Gross domestic savings, exc. grants (% of GDP)	2.1	4.1	8.8	6.8	6.0	7.6	10.0
Gross domestic investment (% of GDP)	31.7	51.4	49.5	49.0	54.1	57.4	55.3
Government	14.1	12.9	15.2	17.8	16.0	16.0	15.7
Other sectors	17.6	38.5	34.3	31.2	38.1	41.4	39.6
Total government revenues (% of GDP)	19.7	22.4	26.9	27.3	25.4	25.5	25.6

Total government expenditure (% of GDP)	31.9	31.4	34.9	41.9	36.4	36.0	35.2
Overall balance (after grants) (% of GDP)	-5.0	-4.0	-2.8	-10.1	-7.5	-7.3	-6.5
Terms of trade (% change)	2.8	-5.7	-9.0	-3.3	1.5	-0.7	-1.2
Current account balance, incl. grants (% of GDP)	-23.1	-43.6	-37.7	-39.4	-45.7	-47.6	-43.3
Real exchange rate change (% change)	18.7	10.6	6.3	--	--	--	--

*Source: Banco de Moçambique (BdM), International Monetary Fund (IMF) and World Bank estimates and projections.*

\**Note:* 8.25 percent until October 2014.

13. **Fiscal policy has become expansionary.** Tax revenues have grown at a rapid pace, from 17.2 percent of GDP in 2011 to 23.4 percent in 2014, reflecting efforts to improve tax administration and capital gains taxes from the extractive industries. Without capital gains taxes, tax revenues have increased by 1 percentage point per year over the past few years. This increase in revenue compensated for a decline in aid flows, which in 2013 financed less than 30 percent of expenditures. Spending has grown at a rapid rate, reaching 35 percent of GDP in 2013 and projected at 42 percent in 2014. The wage bill increased by 1.8 percentage points of GDP and goods and services increased by 4.8 percentage points over the past few years, although much of this increase is related to the inclusion of a share of the *Empresa Moçambicana de Atum* (EMATUM) operation in the budget. Most of the wage bill increase was the result of additional hiring in priority sectors, especially education and health, as well as the temporary hiring of election staff for the 2014 elections. Personnel costs are expected to slowly decline below 10 percent of GDP by 2017. Capital spending (including on-lending) increased by almost 5 percentage points over the past two years as infrastructure investment increased.

14. **In August 2014, the national assembly passed a revised 2014 budget that increased public spending to 42 percent of GDP.** The revised budget increased spending by an additional 1.5 percentage points of GDP compared to the original budget. On the revenue side, the revised budget includes capital gains taxes collected in early 2014. On the expenditure side, additional spending was allocated to personnel costs related to the elections and infrastructure projects.<sup>6</sup> The budget deficit (after grants) will increase to over 10 percent of GDP, highlighting the need to tighten fiscal policy. The large balance in 2014 also results from different accounting methods. The government collected US\$400 million (2.2 percent of GDP) in capital gains taxes in August 2013. These were incorporated by the government in the 2014 budget (financing 2014 spending) while the fiscal framework presented below incorporates this revenue in the 2013 budget.

15. **Inflation rates have been relatively low and stable during the past two years.** Inflation was lower than projected in 2014, at 1.1 percent (year on year) in December. Inflation has been declining since April 2014. The yearly average in 2014 was down to 2.3 percent, well below the central banks' target of 5-6 percent. Low inflation reflects the strength of the Metical (for most of the year), good coordination between monetary and fiscal policy and a decline in commodity prices in international markets. Low inflation and a weaker external environment enabled BdM to ease its monetary policy rates, which are now at a record low of 7.5 percent. These efforts had limited impact on market rates and credit growth has accelerated slowly, given a weak monetary

<sup>6</sup> The government proposed to include US\$100 million to refund VAT and address a key concern of the private sector with VAT refund delays. This was not approved by Parliament, which reallocated it to investment projects.

transmission mechanism. Given the more expansionary fiscal policy in 2014 it will be necessary to monitor inflation and proactively coordinate fiscal and monetary policies.

16. **Despite the impact of successive external shocks, the government has succeeded in managing exchange rate volatility without compromising the integrity of the flexible exchange rate regime.** Exchange rate stability has been supported by the progressive de-dollarization of the economy, with the share of foreign currency in broad money falling from 50 percent to 35 percent over the past decade. The authorities remain committed to bolstering macroeconomic stability in the context of a flexible exchange rate by encouraging the use of domestic currency in financial transactions and by deepening the financial sector.

**Table 3: Fiscal framework, 2011-2017**

	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.	Est.	Proj.	Proj.	Proj.
	(% of GDP)						
Total revenues	19.7	22.4	26.9	27.3	25.4	25.5	25.6
Tax revenue	17.2	19.1	22.9	23.4	21.6	21.7	21.8
Income and profits	6.5	8.7	11.9	10.9	9.0	9.2	9.3
Taxes on goods and services	8.6	7.9	8.1	9.4	9.4	9.4	9.4
International trade	1.7	1.8	2.1	2.1	2.2	2.2	2.2
Other	0.4	0.8	0.7	1.1	1.0	0.9	0.9
Nontax revenue	2.5	3.3	4.0	4.0	3.8	3.8	3.8
Grants received	7.4	5.2	5.3	4.0	3.6	3.3	3.1
Total expenditures and net lending	31.9	31.4	34.9	41.9	36.4	36.0	35.2
Current expenditures	17.8	18.5	19.7	24.1	20.4	20.0	19.5
Compensation to employees	9.3	9.8	10.5	11.1	10.7	10.2	9.8
Goods and services	3.1	3.6	4.3	7.9	4.6	4.4	4.1
Interest payments	0.9	1.0	0.8	1.2	1.2	1.5	1.6
Transfers	4.5	4.1	4.0	4.0	4.0	4.0	4.0
Capital expenditures	13.1	11.9	13.1	14.5	13.9	13.4	12.2
Externally financed	7.9	6.0	6.0	6.9	7.0	6.7	5.3
Domestically financed	5.3	5.8	7.1	7.6	6.9	6.7	6.9
Net lending	1.0	1.1	2.1	3.3	2.1	2.6	3.5
Externally financed	0.8	1.1	2.2	3.2	2.0	2.5	3.3
Domestically financed	0.1	-0.1	-0.1	0.2	0.2	0.2	0.1
Domestic primary balance (before grants)	-2.8	-1.0	0.9	-2.9	-0.9	0.1	0.7
Overall balance (before grants)	-12.4	-9.1	-8.1	-14.5	-11.1	-10.6	-9.6
Overall balance (after grants)	-5.0	-4.0	-2.8	-10.6	-7.4	-7.3	-6.5
Total financing	5.0	3.9	2.8	10.6	7.5	7.3	6.4
External (net)	3.5	3.3	5.8	9.4	6.4	6.1	5.6
Domestic (net)	1.5	0.7	-3.0	1.2	1.1	1.2	0.8
<i>Memorandum items:</i>							
Total public debt*	37.5	41.1	52.3	56.8	59.5	60.6	60.5
External	31.2	35.5	43.5	48.4	51.1	52.0	52.1
Domestic	6.3	5.6	8.8	8.4	8.5	8.6	8.4

Source: GoM, IMF, and World Bank estimates and projections.

Note: \*Consistent with the debt sustainability analysis (DSA) definition, includes non-concessional Portuguese credit line, so may differ from the GoM definition.

17. **Financial sector indicators are broadly positive.** The banking industry is highly concentrated and profitable. The three largest banks own 85 percent of total assets, down from 100



percent in 2004. Credit to the economy reached 33 percent of GDP in 2013, led by rising credit to households. The average profitability of the banking sector as measured by return on equity declined from 61 percent in 2006 to 20 percent in 2012, but remains somewhat higher than the Sub-Saharan African average. The banking system is well-capitalized, with a capital adequacy ratio of 18 percent in 2012, and a Tier 1 capital ratio of 17 percent—well above the regulatory minimum of 8 percent. It is also highly liquid; in 2012, the ratio of liquid assets to total liabilities was 33 percent in a banking system largely funded by deposits. Non-performing loans have risen steadily, though slowly, since 2009 and remain relatively low, at 3.2 percent.

**18. Mozambique’s export basket remains very limited, reflecting the narrow scope of the economy: in 2013, three items (aluminum, coal, and electricity) accounted for 45 percent of exports.** Total exports grew at an average annual rate of 13 percent from 2004 to 2013, driven by foreign-financed megaprojects in the aluminum, coal, and natural gas industries. Coal mining began in mid-2011 and is expected to become a major export, although infrastructure constraints and declining coal prices may affect development prospects. Ultimately, natural gas is projected to dominate the export mix toward the end of the decade, with gas exports anticipated to eventually exceed the total value of current exports.

**19. The current account deficit has been increasing rapidly to almost 40% in 2014.** Savings remain relatively low and insufficient to finance the large investments being made by the public and private sectors. As a result, the current account deficit has been increasing rapidly. The current account deficit for the first three quarters of 2014 reached US\$3.7 billion. Compared to the same period in 2013 this is a decrease of 7 percent, driven by a decline in the goods and services account. Excluding mega-projects, the current account deficit was US\$2.5 billion, an annual increase of US\$189.5 million. The merchandise trade account declined by 17.5 percent compared to the same period last year due to both an increase in exports to the tune of 6.3 percent and decline in imports by 5.8 percent. Foreign Direct Investment (FDI) in the economy in the three quarters was US\$3.3 billion, a decline of US\$1.6 billion compared to the same period last year. The current account deficit does not indicate a fundamental imbalance in the economy, as it reflects the impact of rapid import growth associated to large FDI inflows. While consumption of intermediate goods imports increased by 20 percent over the past two years, capital goods imports increased by 85 percent over the same period. FDI reached US\$5 billion in both 2012 and 2013, or around one-third of GDP, and financed over 80 percent of the current account deficit. This trend compares favorably to most of the last decade, when FDI financed 35 percent of the deficit. Reserves have declined from US\$3.2 billion in August 2014 to US\$2.7 billion at the end of January 2015 but still remain at adequate levels in terms of non-mega project imports.

**20. Public debt (in nominal terms) has grown rapidly, from 37 percent of GDP in 2011 to a projected 57 percent in 2014.** This increase reflects the growth of both domestic and external debt. A large share of this debt was contracted on non-concessional terms. The share of non-concessional loans in new external debt increased from 9 percent in 2010 to over 70 percent in 2012. As a result, the joint World Bank-IMF debt sustainability analysis (DSA) for Mozambique increased the country’s risk rating from low to moderate. All public and external debt indicators remain below their threshold levels, but under a number of stress scenarios they breach their thresholds. New debt is being used to finance a large increase in infrastructure investment to close the country’s infrastructure deficit. Infrastructure investments, if they generate high returns, could result in higher growth in the medium term, an aspect not considered in the DSA. In the near term,

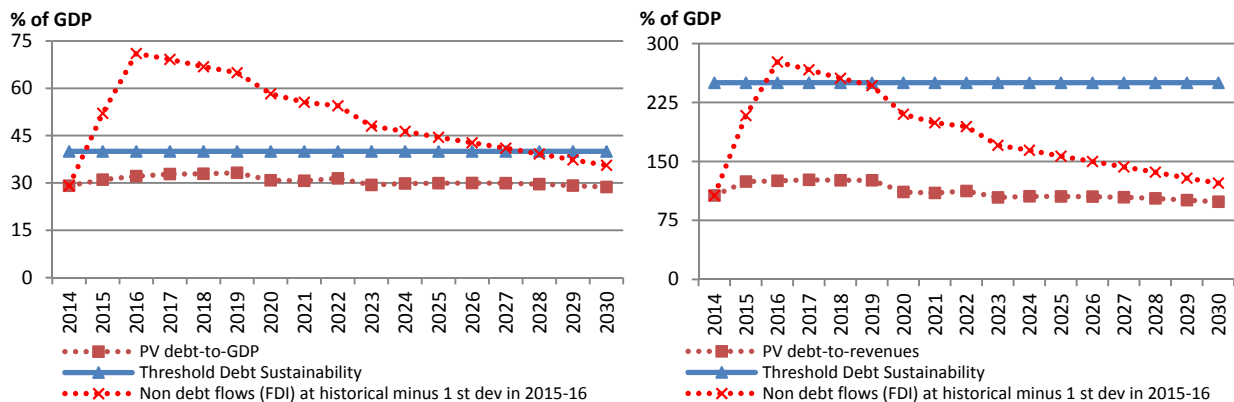
Mozambique will need to moderate borrowing and ensure that it has the capacity to manage a larger debt burden and a more complex investment portfolio. There is limited information on fiscal risks but recent developments (see below) raise concerns regarding their management.

**Table 4: Balance of payments, 2011-2017**

	2011 Act.	2012 Act.	2013 Est.	2014 Est.	2015 Proj.	2016 Proj.	2017 Proj.
	(US\$ millions)						
Trade balance (goods)	-	-4,048	-4,357	-4,594	-6,012	-6,971	-6,155
Exports, f.o.b.	2,249	3,856	4,123	4,610	4,958	5,367	6,780
Of which: megaproject exports	2,015	2,219	2,201	2,604	2,675	2,908	4,061
Imports, f.o.b.	-	-7,903	-8,480	-9,204	-10,971	-12,338	-12,934
Of which: megaproject imports	-	-2,143	-1,934	-2,037	-3,407	-4,109	-3,982
Trade balance (services)	1,547	-3,273	-2,802	-3,230	-3,196	-3,390	-3,831
Income balance	1,482	7	-52	-162	-247	-475	-1,023
Of which: dividend by megaprojects	-190	0	-1	-127	-135	-293	-718
Current account balance (before grants)	-	-	-	-	-	-	-
Current transfers	3,844	-7,022	-6,352	-7,119	-9,043	-10,409	-10,562
Of which: external grants	863	829	1,319	1,331	857	888	926
Current account balance (after grants)	785	-6,484	-5,892	-6,655	-8,599	-9,947	-10,082
Financial account balance	3,059	6,748	6,240	6,775	8,848	10,323	10,753
Net foreign borrowing (general government)	531	546	1,055	1,673	1,162	1,150	1,184
Net foreign borrowing (nonfan. private sector)	-39	516	148	411	1,692	2,902	3,396
Net FDI	2,599	5,215	5,055	4,230	4,833	4,952	5,015
Other investments	-482	14	-1,385	-99	550	658	442
Overall balance	323	177	396	120	249	375	671
<i>Memorandum items:</i>							
Current account balance (in % of GDP)	-23.1	-43.6	-37.7	-39.4	-45.7	-47.6	-43.3
Gross international reserves ( in US\$ million)	2,428	2,799	3,192	2,862	3,524	3,863	4,497
In months of projected imports	2.5	2.7	2.8	2.6	2.5	2.5	2.3
In months of projected imports (exc. mega projects)	3.0	4.0	3.9	3.8	3.9	3.9	4.2

Sources: BdM, IMF, and World Bank estimates and projections.

**Figure 3: Evolution of public and publicly guaranteed external debt under alternative scenarios, 2014-2030**



Source: International Monetary Fund and International Development Association. 2014. "Mozambique Debt Sustainability Analysis," Washington DC.

21. **The EMATUM operation in 2013 raised concerns about lack of transparency in the use of public funds, fiscal risks, and public investment management.** In September 2013, the government-owned fishing company EMATUM issued publicly guaranteed bonds with a total value of US\$850 million. The bonds were issued to finance investments in a tuna fishing fleet and coast guard and maritime security services. The 2014 budget incorporated the costs of the coast guard and maritime security services, which are not commercial in nature (US\$350 million). The operation may have contributed to delays in the implementation of other major infrastructure projects so that Mozambique would remain within the non-concessional borrowing (NCB) limit agreed in the IMF's policy support instrument (PSI). Following discussions with development partners, the government committed to subject EMATUM to strict financial controls and audits and to revise the Organic Budget Law to require an annex on fiscal risks. The government and development partners agreed on an action plan focused on improving public investment and fiscal risks management. The first external audit of EMATUM for 2013 was just made publicly available (on the company's website) with an unqualified opinion.

## 2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **Mozambique's medium-term macroeconomic outlook is positive.** Annual growth is projected between 7-8 percent during 2015-17, driven by the resource sector, agriculture, construction, transportation, and communications. Growth may decline in 2015 by up to 0.5 percentage points as a result of the floods affecting the center and north of the country early in 2015, but it will recover in 2016 and 2017 to around 8 percent. In the short run, resource-related FDI, and infrastructure investments, both public and private, are expected to be major contributors to growth. Weaker commodity prices, particularly if prolonged, could have an adverse effect on Mozambique's economic prospects, as it could affect the country's external balance as well as affect the timeline for investments in LNG plants in the north of the country. Inflation is projected to stay between 5-6 percent through 2017.

23. **The authorities have committed to tighten fiscal policy and this commitment is reflected in the 2015 budget being prepared.** The authorities plan to reduce public spending from 42 percent in 2014 to 34 percent in 2019 and the overall deficit (after grants) from over 10 percent in 2014 to around 5 percent in 2019. The authorities expect that such a reduction in spending will be achieved given: the return of expenditure to a normal path after the implementation of one-off outlays on elections and maritime security in 2014; a plan to reduce the wage bill gradually from its elevated level of 11 percent of GDP in 2014; and slower growth in expenditure on goods and services and investments. The authorities expect the domestic primary balance (before grants) to decline from a deficit of about 3 percent of GDP in 2014 to 1 percent of GDP surplus by 2019. The new government and national assembly have been inaugurated and the state budget for 2015 will only be approved in March 2015. The 2015 budget prepared by the outgoing government reflects its commitment to tighten fiscal policy by reducing spending by 5.5 percentage points of GDP and the after-grants deficit by 2.6 percentage points of GDP.

24. **BdM will continue to maintain a policy stance consistent with single-digit inflation.** After significantly easing monetary policies in 2013, BdM will focus on keeping inflation low through 2015, and favorable import prices are expected to support these efforts. It will be important to closely monitor price developments and coordinate fiscal and monetary policies. BdM's ongoing capacity-building efforts will strengthen Mozambique's monetary policy framework and

enhance the effectiveness of its inflation-targeting regime. In early 2012, BdM started publishing a quarterly monetary policy report aimed at anchoring price expectations through more timely and transparent communication of recent economic developments and monetary policy decisions.

25. **The current account deficit, although increasing, remains sustainable given its financing by FDI into tradables.** The current account deficit is projected to increase to around 45 percent of GDP in 15. While both new and traditional exports are projected to grow rapidly, so are imports required by large-scale investments in the minerals and gas sectors, generating large current account deficits through the end of the decade. Projected investments during the construction phase in the gas sector are several times the size of the entire Mozambican economy and as such, large current account deficits are to be expected. These deficits will be financed by FDI inflows, projected at between US\$4-5 billion per year during 2014-17, as well as foreign borrowing by investors in the mining and natural gas sectors. The anticipated rise in resource exports should improve the current account balance toward the end of the decade. Reserves are projected to increase, from US\$3.2 billion in 2013 to a projected US\$4.5 billion by 2017, worth around 4 months of projected imports (excluding megaproject imports) during the same period.

26. **The total public debt stock will continue to rise in the near term.** Limited domestic savings and a significant increase in both public and private investment have resulted in widening current account and fiscal deficits. As discussed above, the large current account deficit does not represent a fundamental imbalance in the economy, but is primarily the result of massive FDI inflows into the extractive industries that are both capital and import intensive. The fiscal tightening discussed above as well as slower growth in public investments will reduce the fiscal deficit. The government is aware of the risks posed by inadequate controls on borrowing, and has expressed its intention to both slow the growth of new public external debt and reduce the share of non-concessional loans. Debt remains sustainable, but it will be important to closely monitor debt dynamics and support the government's efforts to improve its debt management capacity. These efforts will be complemented by reforms to improve fiscal transparency and enhance public investment efficiency.

27. **Despite its positive overall economic outlook, the Mozambican economy faces significant downside risks, such as a sharp drop in commodity prices.** The increasing importance of FDI and natural resource exports leaves Mozambique's economy vulnerable to declining export demand, volatile commodity prices, and tighter global financial conditions. Weaker international commodity markets could affect large-scale investments planned for the coal and gas sectors, such as the currently low coal prices that seem to have affected investment plans by coal producers. In light of these risks, both the public and private sectors in Mozambique should avoid excessive leveraging backed by future rents from natural resources. Over the past two years, the government security forces and the armed wing of the opposition party, *Resistencia Nacional Moçambicana*/RENAMO, have repeatedly clashed. Although tensions now appear to have subsided, events in the last few years are a reminder of the potential for such tensions to have devastating economic and social consequences.

28. **Overall, Mozambique's macroeconomic framework provides an adequate basis for the proposed operation.** This assessment is based on the country's strong macroeconomic performance over the past decade and the expectation that robust growth will continue in a stable and supportive policy context. The government remains committed to prudent monetary and fiscal

policies as reflected in the Memorandum of Economic and Financial Policies prepared by the government as part of the latest PSI review and evidenced by the fiscal consolidation effort reflected in the proposed 2015 budget, which will narrow the deficit by over 2 percentage points in one year. This fiscal consolidation will need to continue in the near term. Further macroeconomic management reforms are currently being supported through TA and by the current Poverty Reduction Support Credit (PRSC) series. For example, prior actions under PRSC-10 include: (i) a revised methodology for the elaboration of the medium-term fiscal framework, making appraisal of public investments mandatory for all projects in excess of US\$5 million equivalent; (ii) adoption of the 2014-2017 Integrated Investment Program; and (iii) implementation of the first annual domestic borrowing plan, based on the medium-term debt management strategy.

### 2.3 IMF RELATIONS

29. **The IMF concluded its 3<sup>rd</sup> PSI review in January 2015.** The 3<sup>rd</sup> PSI review, presented to the Board in January 2015, acknowledged Mozambique's strong growth record. Program performance was assessed as mixed because of delays in implementing the structural reforms agenda. The review also stressed the need to preserve fiscal and debt sustainability through a tighter fiscal stance to start with the 2015 budget. Key structural reforms suggested by the review include improving VAT and overall tax management, continuing public financial management reforms, strengthening public investment management capacity, improving the business environment and financial sector development. Authorities agreed with the Fund's recommendation to tighten fiscal policy and prepared a 2015 budget that significantly lowers public spending and narrows the fiscal deficit (see Annex 3 for a press release on the 3<sup>rd</sup> PSI review).

## 3. THE GOVERNMENT'S PROGRAM

30. **The government's agricultural strategy for 2011–2020 is characterized by a multi-sector approach.** Its strategic objective is to “contribute to food security and producer income in a competitive and sustainable manner that guarantees social and gender equity.” The strategy for agriculture is built around four strategic pillars and their corresponding goals:

- a) Agricultural Productivity: Increase productivity, production, and competitiveness in agriculture.
- b) Market Access: Enhance services and infrastructure for better access to markets within a framework conducive to investment in the sector.
- c) Natural Resources: Promote sustainable use of land, water, forest, and fauna resources.
- d) Institutions: Strengthen the government's institutional capacity for the sector.

31. **The agricultural strategy promotes the creation of an enabling environment conducive to stronger private sector participation in key value chains.** The strategy also prioritizes public investments in areas of strong economic potential while supporting local initiatives. With the implementation of the sector strategy, the government seeks to achieve annual growth in agriculture of at least 7 percent through a combination of increased farm productivity and an expansion of cultivated area (specifically, an increase of 25 percent by 2020 of the area

under food crops, in combination with productivity improvements). Six development corridors are identified, including the Zambezi Valley and Beira corridors in Central Mozambique, and the Nacala corridor in the North. In addition to the strategy, the Parliamentary Committee on Agriculture has started drafting a new framework law for the agriculture sector. This law is expected to provide a legal framework on which more specific new and existing legislation will be based. FAO, UNDP, and USAID are supporting the process at the technical level and the Agriculture and Rural Economic Development (AgRED) donor group is engaged in dialogue aimed at ensuring consistency between the new law and the existing agricultural strategy and programs.

**32. To implement the agricultural strategy, an ambitious agriculture sector investment plan (PNISA) was prepared,** guided by the framework established under the CAADP, a program of the AU's New Partnership for Africa's Development (NEPAD). The plan recognizes that agriculture spans across multiple economic sectors, line ministries, and agencies, making it a holistic plan that will require skill and dedication to manage. Following a participatory planning process during 2011, the World Bank, other development partners, civil society, and the private sector expressed commitment to supporting PNISA. Likewise, the Government of Mozambique (GoM) has committed to supporting the plan through public investments and policy and regulatory reforms that facilitate private investment in agriculture. PNISA was endorsed by the Council of Ministers and launched by the President of the Republic in April 2013.

**33. PNISA identifies the critical investments for achieving a rapid, competitive, and sustainable increase in market-oriented agricultural production while ensuring food security and nutrition.** PNISA also identifies the complex institutional coordination environment wherein implementation of programs and subprograms will be coordinated through eight government ministries and several semi-autonomous institutions and over 160 budget holders. The estimated total cost of PNISA, US\$3.4 billion for five years, is to be funded by government own-revenues as well as contributions from around 20 development partners and the private sector. Establishment of PNISA management mechanisms has been slow. Provincial-level PNISA management committees, representing different government ministries and other stakeholders, have now been formed, and technical dialogue with development partners has become more frequent. An M&E framework is being finalized, and internal planning and budgeting structures revised. A review of the first full year of PNISA implementation (2013/14) is being prepared with the assistance of the AU's NEPAD and expected to be presented at the upcoming Joint Sector Review, a multi-stakeholder, periodic review of progress on the implementation of *Plano Estratégico de Desenvolvimento do Sector Agrário* (the National Agriculture Sector Strategy/PEDSA) and PNISA. The Joint Sector Review provides a mechanism for an evidence-based, M&E-oriented assessment of implementation progress that would allow for adjustments to the PNISA to be made and budget recommendations to be formulated.

**34. Management and accountability challenges in agricultural program implementation prevail<sup>7</sup> and may continue to be significant impediments to efficient and effective**

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<sup>7</sup> The 2011 Agriculture Public Expenditure Review (AgPER) identified a range of agriculture program implementation challenges, such as district agriculture expenditures comingled with other sector expenditures in the same account codes, extremely low execution rates for recurrent non-salary budget, lengthy procurement lead times, delayed budget releases, unpredictability of external funding, weak investment project appraisals, long time for

**implementation of PNISA.** In response to a request from the government, the Bank launched a three-year AAA/TA program to enhance government capacity to track PNISA implementation and improve management and accountability. Implementation challenges are difficult to overcome, especially if they involve a range of stakeholders in several ministries and institutions. Bank support will be in the form of a series of diagnostic and TA activities and policy dialogue to ensure that: (i) PNISA expenditure and output information is generated; (ii) the information generated is credible; and (iii) managers use this information to improve sector performance.

35. **The government has taken a number of other steps to improve the agribusiness environment and facilitate private investment in agriculture.** In May 2012, Mozambique presented its Agricultural Growth Corridors initiative to the GrowAfrica event organized by AU's NEPAD and the World Economic Forum (WEF). GrowAfrica, an international partnership platform, seeks to accelerate private sector investments and transformative change in African agriculture based on national agricultural priorities and in support of CAADP. In August 2012, the government expressed its intention, through a Cooperation Framework with the G8, to build domestic and international private sector confidence to increase agricultural investment. In consultation with development partners, the government has developed a country paper outlining its commitment under the G8 New Alliance for Food Security and Nutrition.<sup>8</sup>

36. **The country's strategy for agribusiness (PNDA) includes a policy agenda and implementation plan to promote the development of rural financial services and private sector investment in agriculture.** The PNDA identifies the government's priorities for developing the agribusiness sector, including the respective roles of the government and other stakeholders in achieving private sector-led agricultural growth. The PNDA includes a comprehensive implementation plan, and covers areas such as facilitating access to land, promoting affordable credit for agriculture, and developing public-private partnerships (PPPs) for the private management of public infrastructure.

37. **The Ministry of Industry and Commerce (MIC) has established a commodity exchange for key tradable commodities (e.g., maize, rice, sesame, and cashew) that will provide an agricultural commodity trading platform for the private sector, utilizing public storage capacity.** Once operational, this would provide enhanced market transparency, price discovery, structured trading, and access to finance (the latter two using warehouse receipts). With assistance from various development partners, it also supports the development of input markets through an agro-dealer development program. Seed and fertilizer retailing is supported by some development partners through targeted partial subsidies to enhance technology adoption as part of a flood recovery program. The seed industry has indicated that localized market distortions are counterproductive, and the issue is being debated in the seed sector's stakeholder forum. Seed

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completion of small irrigation schemes, and lack of credible information regarding quality of expenditures or value for money.

<sup>8</sup> In this document, the government commits to: (i) increasing stability and transparency in trade policy; (ii) improving incentives for the private sector, especially in developing and implementing domestic input policies; (iii) developing and improving the transparency and efficiency of land policy and land administration; and (iv) increasing the availability of and access to credit by smallholders. These policy areas were selected to fully align with the AgDPO policy dialogue between the government, development partners, and the World Bank.



pricing policy requires careful monitoring going forward. No nationwide government subsidy schemes to support fertilizer and crop marketing exist in Mozambique.

38. **The important role of women in small-scale agriculture, and food and nutrition security, is reflected in PNISA.** The government has placed an increased emphasis on food security and nutrition in its agricultural programs, implementation of which will need to be monitored and supported to ensure a continued focus on gender. Efforts to address malnutrition are central to the government's poverty reduction and agricultural strategies. The Ministry of Health (*Ministério da Saúde*, MISAU) has a multipronged strategy to combat deficiencies of critical micronutrients (vitamins and minerals) through a targeted supplementation program, and MASA pursues a complementary dietary diversification strategy. An effort to add vitamins and minerals to processed foods via agricultural value chains is coordinated with the MIC and MASA's Technical Secretariat for Food Security and Nutrition (*Secretariado Técnico de Segurança Alimentar e Nutricional*/SETSAN).

39. **Following the inauguration of the new Government in January 2015, a number of changes were made to its structure.** The Ministry of Agriculture (MINAG) became the Ministry of Agriculture and Food Security (MASA). The Ministry for the Coordination of Environmental Affairs was merged into the newly created Ministry of Land, Environment and Rural Development (MITADER) that also incorporates the Land Department from the former Ministry of Agriculture. The Ministry of Finance and the Ministry of Planning and Development were merged to become the Ministry of Economy and Finance (MEF).

## 4. THE PROPOSED OPERATION

### 4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

40. **The Program Development Objective (PDO) of the AgDPO series is to improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance.**<sup>9</sup> The AgDPO series was designed to support the government's strategic objective of achieving food security while contributing to the World Bank Group's twin goals of poverty reduction and shared prosperity. Given the share of households that are female-headed, the PDO was designed with a view to addressing women's specific needs in relation to food security and access to agricultural inputs. While no specific and explicit action exclusively targets women farmers, a positive impact on gender equality is expected and will be monitored through several indicators selected to track gender-disaggregated results. Moreover, the policy reform agenda is consistent with the World Bank's Africa Strategy for Agriculture, including the strategy's pillars of land and water management, agricultural markets and infrastructure, food security and vulnerability, and agricultural technology. The Bank strategy is in alignment with the architecture of the AU's CAADP, as reflected in Mozambique's National CAADP Compact, signed by all stakeholders in December 2011.

41. **The AgDPO series was prepared following the approval of the CAADP Compact and the subsequent development of PNISA.** The series reflects the Bank's commitment to supporting policy reforms in the context of PNISA implementation. It is expected that the reform agenda supported by the AgDPO series will also contribute to Objective 1 of the government's poverty reduction strategy (i.e., "increase production and productivity in agriculture and fisheries").

42. **Negotiation of AgDPO-2 was originally scheduled for April 2014, 12 months after approval of AgDPO-1, but was delayed.** This was caused by a combination of a lack of IDA 16 resources, lengthy consultation processes to guide a number of government AgDPO reforms, and subsequent delays in approval due to government's preparations starting in September for the presidential elections that took place on October 15, 2014.

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<sup>9</sup> The original PDO for the AgDPO series was "to promote private sector-led agricultural growth in order to improve food and nutrition security." The results framework does not support the measurement of private sector-led growth, food security, or nutrition security, so the PDO was modified to more directly reflect the policy areas and enable attribution of results.

**Table 5. Mozambique’s sector investment plan and AgDPO policy reforms**

Sector Investment Plan (PNISA) Component	PNISA Programs	Policy Areas and AgDPO-2 Prior Actions
1. Agricultural Production and Productivity	(1) Food Crops (2) Cash Crops (3) Fisheries (4) Livestock (5) Agricultural Research (6) Agricultural Extension (7) Irrigation (8) Agricultural Mechanization	<p><b>PDO: To improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance.</b></p> <p><b><u>AgDPO Policy Area 1: Improving agricultural technology</u></b></p> <p>1. Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector (<i>supporting PNISA component 1</i>)</p>
2. Access to Markets	(9) Post-harvest Management and Marketing (10) Financial Services (11) Agri-Business Development (12) Rural Roads (13) Information Systems and Agricultural Statistics	<p>2. Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector (<i>supporting PNISA component 1</i>)</p>
3. Food and Nutritional Security	(14) Improving Access to and Use of High Nutritional Value Food (15) Multisectoral Monitoring and Coordination	<p>3. Request for authorization submitted by the Council of Ministers to Parliament for approval of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure (<i>supporting PNISA component 1</i>)</p>
4. Natural Resources Management	(16) Land for Agricultural Purposes (17) Forestry and Wildlife; (18) Institutional Development of the DNTF (19) Mapping and Remote Sensing	<p>4. Creation of a Joint Commission on Food Fortification by MIC and MISAU and commencement of a food fortification program with the private sector (<i>supporting PNISA component 3</i>)</p> <p><b><u>AgDPO Policy Area 2: Enhancing access to productive assets and financial services</u></b></p>
5. Institutional Reform and Strengthening	(20) Institutional Reform and (21) Institutional Strengthening	<p>5. Stakeholder consultation process on new procedures for issuance of third-party land use rights by communities, individuals, and associations (i.e., land lease), led by the multi-stakeholder Consultative Forum on Land, completed and recommendations reflected in draft implementation procedures (<i>supporting PNISA component 2</i>)</p>
Cross-cutting: (i) Gender (ii) Environment (iii) Other sector policies & ongoing plans (iv) Decentralization	Cross-cutting themes, integrated into the 5 components and corresponding 21 programs and services	<p><b><u>AgDPO Policy Area 3: Monitoring sector performance</u></b></p> <p>6. Implementation of the new integrated agriculture household survey covering the 2012/13 agriculture season that replaces the Early Warning System (Aviso Previo) and the Agricultural Household Survey (TIA) (<i>supports PNISA component 5</i>)</p>

## 4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

43. **Policy reform areas, prior actions, and triggers were identified jointly with the GoM in consultation with other development partners and stakeholders.** Given the organizational structure of the GoM, a number of ministries were involved in the process. Coordination was provided by the Ministry of Planning and Development (MPD, now MEF). Substantive policy dialogue leading to the development of the policy reform agenda involved MINAG (now MASA), MIC, and the Ministry of State Administration. A comparison of AgDPO-2 triggers as identified in the AgDPO-1 program document and the AgDPO-2 prior actions as formulated in this document is provided in Annex 2.

### **POLICY AREA 1: IMPROVING AGRICULTURE TECHNOLOGY**

#### **SEED SUBSECTOR**

44. **Low farm productivity is the binding constraint in smallholder agriculture. Improved seed and seed availability are essential for achieving improved food security, market competitiveness, climate resilience, and sustainability of the agriculture sector.** To increase the use of improved inputs among farmers, the government identified the need to promote the role of the private sector in the development and marketing of fertilizer and seed technology, following decades of public sector-driven interventions, including ongoing donor-funded programs that offer inputs to farmers at partially subsidized prices. Less than 10 percent of Mozambique’s staple crop area is planted with certified seed, which is an important contributing factor to low average yields. Basic seed production is centralized at the government’s agriculture research institute (IIAM), and the involvement of private seed companies in the entire supply chain of breeding, variety development, and production of foundation and certified seed is negligible. Production of certified seed for onward sale to farmers currently involves private seed producers but quality control has been a constraint and retail volumes inadequate due to limited supplies of upstream foundation seed.

45. **To attract private investment, regulatory oversight is needed, requiring inspection and enforcement capacity on the part of the government.** In 2013, the government approved new regulations governing the production, trade, quality control, and certification of seed, reflecting the SADC Seed Protocol, which encourages cross-border transfer of seed technology using expedited approval procedures by member states once a new variety has been approved in two SADC member states (a prior action under AgDPO-1). A lengthy variety approval and registration process that could take several years would thus be reduced to several weeks.

46. **Since AgDPO-1, following the approval of the new seed regulations, the National Directorate for Agricultural Services (*Direcção Nacional de Serviços Agrários/DNSA*) commenced an implementation program to strengthen inspection and certification capacity.** Increased availability of certified seed will require regulatory enforcement capacity. MASA’s Seed Department under DNSA—and its counterparts at the provincial level—are responsible for seed quality control and certification. Technical and logistical capacity for seed quality inspection has been increased, and the regional seed laboratories in Chimoio, Nampula, and Zambezia are being rehabilitated to provide analytical services in the different regions. Various development partners,

such as Alliance for a Green Revolution in Africa (AGRA) and USAID, are providing support to DNSA.

47. **As an additional measure to improve the investment climate for commercial plant breeding and seed trade, approval of new regulations that protect breeders' intellectual property rights was identified as a prior action for AgDPO-2.** The new regulations for the protection of new plant varieties (*Regulamento de Protecção de Novas Variedades de Plantas*) replace the 2006 Plant Breeders Rights Decree and reflect the harmonization process for seed legislation in SADC countries that allows for regional product licensing and provides for cross-border enforcement to deal with product quality.

48. **AgDPO-2 Prior Action: Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol.** The regulations were approved by the Council of Ministers in May 2014. To enhance transparency and stakeholder participation in the development of the seed sector, and implementation of the needed reforms, the multi-stakeholder National Seeds Committee (CNS) will be operationalized and empowered to authorize seed varieties for release and disseminate information about varieties approved and their availability. Operationalization of the CNS, including the provision of information and the provision of resources to the regional seed centers for inspection and certification, was identified as a trigger for AgDPO-3. Going forward, any potential adverse effects of localized partial input subsidies on private sector market development will need to be mitigated.

49. The expected medium-term outcome of the prior actions and triggers related to the seed sector is an increased level of private sector participation in the supply chain for certified seed, measured by an increase in the number of farmers using certified seed.

## FERTILIZER SUBSECTOR

50. **Closely linked to the seed subsector, the binding constraint in the fertilizer subsector is low farm productivity in smallholder agriculture. The use of appropriate fertilizer technology in combination with certified seed can improve food security, climate resilience, market competitiveness, and sustainability.** According to the 2011 agriculture survey, only 3 percent of smallholder farmers use fertilizer. Its use is concentrated on a few cash crops, especially tobacco and sugarcane. Fertilizer use in terms of nutrients applied is 4.3 kilograms/ha (compared to over 10 kilograms/ha in Ghana and 8 kilograms/ha in Ethiopia). Fertilizer prices paid by farmers are high by regional standards, due to inefficiencies in the supply chain and distribution network, for a large part caused by high transport costs. Without the use of improved seed and without improved management, the use of fertilizer may not necessarily be profitable at the farm level, meaning that the revenue from incremental production could be insufficient to pay for the fertilizer used to achieve it.

51. **To offer affordable fertilizer to smallholder farmers, a competitive private sector distribution system needs to develop.** The enabling environment that will provide the necessary incentives for private sector development in the fertilizer supply chain requires fertilizer industry rules and regulations to be updated and enforced, ensuring quality, safety, and truth-in-labeling. Furthermore, links between private companies and public research institutions should be promoted. As supported under AgDPO-1, new regulations governing the fertilizer subsector were

approved in 2013. The regulations focus on product quality and public health issues, and describe the rules applicable to the various functions in the fertilizer value chain, detailing the government's mandate and private sector participation. Implementation of the new regulations is supported through the Africa Fertilizer and Agribusiness Program (AFAP), funded by AGRA and implemented by the International Fertilizer Development Center (IFDC), which aims to develop an enabling environment for the fertilizer supply chain and strengthen agro-dealers' capacity to transfer knowledge and technology related to fertilizer marketing and management.

52. **Since AgDPO-1, product standards have been established in consultation with the national standards institute (INNOQ) and a network of third-party (some university-based) laboratories are being equipped to provide the necessary testing and certification services.** In addition, inspectors are being trained. Establishment of the Technical Evaluation Committee for the Registration of Fertilizers (CATERF) and the Technical Advisory Committee on Fertilizer (CATF) is an important step necessary for the implementation of the new regulations, and has been identified as a prior action for AgDPO-2. With the involvement of the private sector, the CATERF (which includes a representative from the Ministry for the Coordination of Environmental Affairs/MICOA) will oversee the registration of fertilizer products and provide regulatory oversight while the CATF (which includes a representative from the private sector) will provide policy guidance. Operational procedures for the functioning of both committees, including inspection and enforcement modalities, were prepared based on best practice models applied in other African countries, notably Tanzania.

53. **AgDPO-2 Prior Action: Adoption by MINAG of the composition of and operational procedures for: (i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA; and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector. Ministerial Diplomas establishing both committees have been issued and published.** Going forward, dissemination of information on approved fertilizer products and the provision of information on registered fertilizer dealers and registered fertilizer products will improve transparency and awareness of fertilizer products and availability. Capacity for the provision of fertilizer (and seed) inspection services is currently under development and expected to be operational in 2015. These implementation arrangements constitute a trigger under AgDPO-3. Going forward, any potential adverse effects of localized partial input subsidies on private sector market development will need to be mitigated.

54. The expected medium-term outcome of the prior actions and triggers related to the fertilizer sector is increased fertilizer use and level of participation of the private sector in fertilizer supply chains, measured by an increase in fertilizer use by agricultural producers.

## **IRRIGATION SUBSECTOR**

55. **The binding constraint under this policy area is poorly managed irrigation infrastructure and the resultant low returns on investment and farm-level productivity.** Irrigation can raise agricultural productivity and reduce production risk associated with droughts and other kinds of climatic variability, which is high in Mozambique. The large- and medium-scale irrigation schemes and related infrastructure date from colonial times; many were abandoned during the civil war and have since deteriorated. Post-war public investments in irrigation have

been inconsistent, in part reflecting the extremely high capital cost of medium- and large-scale schemes. The most recent data indicate that sugarcane accounts for some 60 percent of the effectively irrigated area (driven by private investments on large commercial estates), followed by smallholder horticulture (18 percent) and rice (10 percent). Of the 120,000 ha originally developed for irrigation, 52,000 ha are effectively irrigated, of which 23,000 ha are under private management, and 29,000 ha are irrigation schemes that have been rehabilitated by the public sector.

56. **The government has made development of irrigation a priority.** With the adoption of the National Strategy for Irrigation in December 2010, the National Irrigation Institute (*Instituto Nacional de Irrigação/INIR*) was created, which has representation at the provincial level and oversees policy, strategic, and operational issues related to irrigation. The government adopted regulations governing water user rights, implemented through a network of regional water resource management centers that issue water user rights and collect water user fees from producers. Irrigation features explicitly in PNISA, as supported under AgDPO-1. The government is currently investing in smallholder irrigation schemes across Central Mozambique. The US\$70 million IDA-funded PROIRRI has an integrated approach, supporting irrigation infrastructure and management, enhancing farm productivity and market access.

57. **Since AgDPO-1, the government has identified several priorities to improve the performance of the irrigation subsector and transform it into an engine of growth for agriculture:**

- a) Enhance the management of irrigation assets, focusing particularly on cost recovery to finance operation and maintenance;
- b) Improve the legal and regulatory framework on water for agriculture and the efficiency of enforcing the Land Law to clarify land use rights and enhance land use security to enhance access to irrigation as well as private investment in the subsector; and
- c) Establish linkages and working relationships between public entities responsible for irrigation (at the central and provincial levels) and beneficiaries (such as smallholder farmer associations, irrigation associations, individual farmers, and private enterprises) through PPPs for irrigation development.

58. **AgDPO-2 Prior Action: Request for authorization submitted by the Council of Ministers to Parliament for approval of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure. This prior action was achieved. The request for authorization was submitted to Parliament by the Council of Ministers on February 17, 2015.** The updated regulatory framework necessary for planning, implementation, and management of irrigation infrastructure is expected to improve efficiency and sustainability of irrigation schemes. New regulations are designed to increase sustainability of investment in irrigation systems by providing user rights to the associations with the obligation to meet regular operation and maintenance costs. It is also expected that the new regulations will have a positive impact on

rational use of water, prevention of soil erosion, and the reduction of salinity due to water logging. The regulatory framework includes the development of resolutions and bylaws that support:

- a) The registration and effective functioning of irrigation organizations;
- b) The transfer of the management of public irrigation infrastructure to private entities (including irrigation organizations);
- c) The development of irrigation infrastructure user rights; and
- d) The implementation of performance agreements as piloted under PROIRRI. A special focus will be on irrigation water management options under the different management arrangements, including farmer-managed irrigation, with clear arrangements for long-term irrigation management transfer and PPPs.

59. **To improve the performance of larger public irrigation schemes, public-private management structures are being introduced in a number of irrigation schemes to create investment incentives.** The private sector has invested in new and existing irrigation infrastructure on an estimated 23,000 hectares, not counting a recent private investment in the publicly managed Lower Limpopo irrigation scheme, in 2012/13, covering several thousands of hectares. To further the private sector irrigation investment agenda, a next priority is to provide regulations that specifically govern the development and operation of PPPs, to be addressed under AgDPO-3.

60. The expected medium-term outcome of the prior actions and triggers related to the irrigation sector is improved management arrangements in public irrigation schemes, leading to enhanced performance of the irrigation subsector, measured by an increase in area in irrigation schemes managed by water user associations/local irrigation organizations.

## NUTRITION

61. **Despite advances in agricultural production and the development of food markets, lack of nutritional value is a binding constraint that seriously compromises Mozambique's human capital and economic growth.** Chronic undernutrition has scarcely improved in the past decade, and labor productivity is directly affected by malnutrition. MISAU's strategy to combat micronutrient deficiencies involves food fortification, targeted vitamin and mineral supplementation, and dietary diversification.

62. **The Micronutrient Fortification Strategy prioritizes the fortification of wheat flour and oil through the agricultural value chain.** It also recommends developing stronger quality control capacity and proposes regulations to support compliance with standards. Helen Keller International (HKI) is working with MISAU to develop quality control procedures and manuals for industry and inspectors and to define a training plan for food producers and inspectors. The 2012 Mozambique Micronutrient Survey was commissioned and will provide baseline data on vitamin and mineral deficiencies. Further studies by HKI found that the consumer price of fortified edible oil or wheat flour should not significantly increase. Based on these various assessments, reforms under the AgDPO series aim to increase the availability of food fortified with



micronutrients. To that end, under AgDPO-1, MIC's INNOQ developed and ratified food quality standards for wheat flour and edible oil.

63. **Since AgDPO-1, MIC has developed a food fortification program with the wheat flour milling and vegetable oil industries, with the ultimate aim to make food fortification mandatory for those commodities.** To successfully implement food fortification programs requires working across sectors and ensuring compliance with nutritional standards. MISAU sets the standards and prescribes safe levels of fortification, while MIC works through the private sector to fortify foods and ensure adherence to standards. Various development partners support the fortification program and provide TA and fortification equipment to participating companies. A joint MIC-MISAU coordination body is required to ensure successful implementation of the food fortification strategy from the public health and food processing and marketing perspectives.

64. **AgDPO-2 Prior Action: Creation of a Joint Commission on Food Fortification sanctioned by a Ministerial Diploma by MIC and MISAU and commencement of a food fortification program with the private sector. The Joint Commission was approved on June 21, 2013. Implementation of the wheat flour fortification program has begun, with three large wheat mills having installed the fortification equipment.** The Commission was tasked to coordinate, regulate, supervise, and monitor food fortification at the national level.

65. **The prospects for success in a mandatory fortification program are higher when the industry in question is concentrated both geographically and commercially,** as is the case for wheat flour and edible oil. Wheat flour and edible oil can be fortified with different minerals and vitamins, and wheat flour derivatives such as bread can be enriched with micronutrients. The government is drawing lessons from the experience gained with the mandatory iodization of salt already under implementation, where the challenge remains to iodize salt produced by small-scale producers or processors. The government is gradually introducing large-scale fortification of wheat flour and edible oil because of the potential to achieve wide, effective coverage. The three large wheat mills that have recently installed fortification equipment are: CIM (in Matola), MEREC (in Maputo and Beira), and Farinal (in Nacala). Three more milling plants are in the process of installing new equipment. Fortification of wheat flour is currently voluntary but will gradually become mandatory, with a first level phasing-in in 2015, a trigger for AgDPO-3.

66. The expected medium-term outcome of the prior actions and triggers related to nutrition is increased availability of food fortified with micronutrients, measured by an increased share of fortified wheat flour relative to total volume of wheat flour processed.

**Table 6: DPO prior actions and analytical underpinnings, Policy Area 1**

Prior Actions	Analytical Underpinnings
<b>Policy Area 1: Improving Agricultural Technology</b>	
<p><b>Prior action 1:</b> Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol</p> <p><b>Prior action 2:</b> Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector</p>	<p>A 2011 comprehensive analysis of the seed subsector funded by the Swiss Agency for Development and Cooperation highlighted the need for a package of policy and institutional reforms that includes a complete review of the outdated legal and regulatory framework for seed. A 2012 World Bank study (Agribusiness Indicators – Mozambique) highlighted the need to implement policies fostering the development of a fertilizer value chain, given the increasing number of agro-input dealers.</p>
<p><b>Prior action 3:</b> Request for authorization submitted by the Council of Ministers to Parliament for approval of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure.</p>	<p>The AgDPO series builds on background reports developed in 2009–10 for the World Bank–funded PROIRRI investment operation as well as a comprehensive study funded by the European Commission on public expenditures in the irrigation subsector. This work highlighted the need to address gaps in the legislation regarding local irrigation organizations and the management of public irrigation infrastructure by private entities, to boost private sector participation in irrigation.</p>
<p><b>Prior action 4:</b> Creation of a Joint Commission on Food Fortification by MIC and MISAU and commencement of a food fortification program with the private sector</p>	<p>Policy actions related to nutrition under the AgDPO build on the Micronutrient Fortification Strategy drafted by MISAU, MINAG (SETSAN), and other partners and supported by a coalition of donors. The 2012 Mozambique Micronutrient Survey was commissioned and will provide baseline data on vitamin and mineral deficiencies. Further studies by HKI found that the consumer price of fortified edible oil and wheat flour should not significantly increase.</p>

**POLICY AREA 2: ENHANCING ACCESS TO PRODUCTIVE ASSETS AND FINANCIAL SERVICES**

67. **A binding constraint to small- and large-scale investment by producers, traders, processors and other value chain actors is restrictive access to productive assets and finance.** The government’s reform agenda under this policy area aims to contribute to the development of commodity value chains and promote responsible private sector investment in agriculture.

**LAND ADMINISTRATION**

**Access to land and land rights underpins rural development, environmental protection, and improvement of the investment climate.** To unleash the potential of the country’s vast land resources, the government needs to improve its land administration system and strike a balance among competing interests. Mozambique’s overall land policy and supporting legal framework are sound, but gaps in implementation prevent this framework from yielding tangible social and economic benefits more rapidly. Community land tenure modalities should be strengthened, particularly given the rising global interest in farmland.

### Land Reform in Mozambique

While the process of formalizing land use rights in Mozambique started in 1987, it was not until well after the end of the civil war in 1992 that progressive land reforms were articulated in a policy and in legislation. Mozambique's 1997 Land Law aims to achieve a balance between safeguarding the interests of communities and facilitating investors' access to land. Various land reform support programs have focused on implementation of community land delimitation and certification, enhancing local-level institutional capacity, and promoting stakeholder involvement by supporting the Consultative Forum on Land. More recently, with World Bank and FAO support, a series of additional regulatory reforms have been identified, aimed at improving land use efficiency while enhancing land tenure security: the simplification of transfer of land use rights (*Direito de Uso e Aproveitamento de Terra*, or DUAT) for smallholders, and facilitation of the temporary transfer of community or individual land use rights to third parties (*cessão de exploração*), similar to a third-party land lease. As per the Land Law, the issuance of land rights involves a compulsory community consultation process. Regarding land use by investors involving larger areas, the government has become increasingly proactive in avoiding the "land grab" risk, and has put in place requirements regarding community consultation processes, community participation and benefit sharing, and monitoring progress by investors before finally confirming investors' DUATs. Regarding dispute resolution, Mozambique has a system of approximately 1600 community courts that evolved separately from the formal court system. While the policy and regulatory framework for Mozambique's land reform process are considered sound, implementation capacity requires strengthening. Various donors (notably the Netherlands and Sweden) are providing support to this effect, with a focus on strengthening local-level land administration capacity.

68. **Rising international food and fuel prices in recent years have spurred a global increase in demand for land from international investors eager to harness economic opportunities in producing food and forestry products.** Mozambique, generally perceived as a country with vast areas of unused land suitable for agriculture, has attracted considerable interest from foreign investors who have sought land use rights to implement their projects (in agriculture, tourism, and mining). In a number of cases, such projects have generated conflict with local communities.<sup>10</sup> At the same time, the government is increasingly aware that the existing practices for allocating or transferring land use rights for smaller parcels are cumbersome, lengthy, and inefficient, and provide disincentives for investment in irrigation and other productivity-enhancing measures.

69. **Disagreements between communities and foreign investors have been partly a result of weaknesses in the attribution of DUATs (land use rights).** Disagreements around land arise from institutional weaknesses of local governments, and an incomplete knowledge and understanding of the rights and obligations stipulated in the Land Law among communities and investors. Such a lack of transparency and poor governance resulted in a moratorium on DUAT attribution for areas greater than 1,000 hectares between 2009 and 2011. The existing DUAT allocations and the allocation process have since been reviewed, and the government has adopted a more cautious approach to handling the demand for land by large commercial investors. With support from development partners, including the World Bank's PROIRRI, the government

<sup>10</sup> See: Oakland Institute, "Understanding Land Investment Deals in Africa." Country Report: Mozambique. Oakland, 2011. See also: *Justiça Ambiental and União Nacional de Camponeses*, "Lords of the Lands: Preliminary Analysis of the Phenomenon of Land Grabbing in Mozambique." March 2011.

accelerated the issuance of certificates of delimitation to communities across the country and DUATs to registered associations. Institutional capacity at the National Directorate for Land and Forests (DNFTF), including at decentralized levels, was improved.

70. **In recent years, the government has actively engaged the World Bank in a multi-year land policy dialogue on community land delimitation, land valuation, and land taxation.**<sup>11</sup> With other development partners, the World Bank supported the creation of the Consultative Forum on Land in 2011 to facilitate policy discussions and strengthen civil society ownership, and supported the process of simplifying the transfer of DUATs for land parcels under 10 hectares (a prior action under AgDPO-1). In view of the steady increase in demand for land over the past two decades, the government should now consider establishing a more accurate method of determining the opportunity cost of land, and applying an appropriately informed land leasing and taxation/rent regime, which are likely to lead to higher effective land use.

71. **Since AgDPO-1, the government has encouraged a broad stakeholder consultation process to develop procedures that would enable DUAT holders and communities that hold land certificates to rent out their land to a third party.** As an important step towards a socially responsible land administration system, an inclusive consultation process was convened by the Consultative Forum on Land. The consultation process involved civil society, farmers, central and local government, and other stakeholders. The consultations were concluded and provided MINAG with the needed guidance for drafting the procedures, which will eventually require the Council of Ministers' approval. The trigger originally envisaged for AgDPO-2 was final approval of the procedures. However, the stakeholder consultation process took many more months than originally envisaged. The inclusiveness of the dialogue process outweighed the delays in the approval process, and conclusion of the consultation process was identified as the prior action for AgDPO-2.

72. **AgDPO-2 Prior Action: Stakeholder consultation process on new procedures for issuance of third-party land use rights by communities, individuals, and associations (i.e., land lease), led by the multi-stakeholder Consultative Forum on Land, completed and recommendations reflected in draft implementation procedures.** The stakeholder consultation process led by the Consultative Forum on Land on third-party land use rights was concluded and its recommendations were reflected in draft implementation procedures. As per the recommendations, the new procedures allow holders of the three types of land use rights (customary land, land used in “good faith,” and land under DUATs) to transfer the right to use the land to a third party. Special provisions are made for the transfer of user rights to investors, and include a community consultation process, as per the underlying Land Law that provides for the third-party land lease instrument. The draft procedures are consistent with the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security.<sup>12</sup> They also abide by the Principles of Responsible Agricultural

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<sup>11</sup> World Bank and Food and Agriculture Organization: Community Land Delimitation and Local Development, Policy Note (November 2010); World Bank and Food and Agriculture Organization: “Estimating Fair Value of Agricultural Land in Mozambique.” Policy Note. May 2011; World Bank and Food and Agriculture Organization: “Rural Land Taxation in Mozambique.” Policy Note. May 2011.

<sup>12</sup> These guidelines were adopted by the Committee on World Food Security in May 2012. The purpose of these Voluntary Guidelines is to provide guidance to improve the governance of tenure of land, fisheries, and forests with the overarching goal of achieving food security for all and to support the progressive realization of the right to

Investment (PRAI) produced by several international organizations and endorsed by, among others, the G8 and G20. Final approval of the procedures by the Council of Ministers is a trigger under AgDPO-3.

73. The expected medium-term outcome of the prior actions and triggers related to land is improved access to land and land tenure security, particularly for smallholders, as a result of increased efficiency with land administration services, measured by an increase in the number of land user rights issued to individuals and associations, and certificates of delimitation issued to communities.

## FINANCE AND MARKETS

74. **As in many countries in Sub-Saharan Africa, commercial lending to agriculture is extremely low in Mozambique and constitutes a binding constraint to value chain development and market liquidity.** Commercial financial services have developed more rapidly in areas where export crops are produced, and finance is provided down the production, processing, and marketing chain. Only 2.3 percent of producers report having access to some form of credit. According to 2011 national statistics, almost half of those with access to formal financial services in rural areas had to spend more than two hours to reach their financial institution, with more than a third spending more than three hours or even having to travel overnight. The recent piloting of payment services and information exchange (such as market prices) via mobile telephone holds some promise for improving access to financial services in rural areas, but this nascent industry must be expanded rapidly to serve as a base for innovation and competition in financial services for rural populations.

75. **Commercial lending to smallholder farmers in rural areas is low due to its high transaction costs and interest rates, high perceived risk by banks, and a lack of risk management instruments and sector knowledge.** Except in some well-structured value chains with close personal connections, microfinance in rural areas is underdeveloped due to the inherent risks in agriculture caused by weather, crop disease, and market risks, and the lack of collateral and high credit servicing costs. Some rural credit that goes to small agribusinesses and small-scale producers moves through government- or donor-funded credit lines and guarantee funds, which are likely to be unsustainable in the longer term. Such funds may have subsidized interest rates and are often linked to rural and agricultural development projects. In contrast, major agribusiness investments (for example, in sugarcane and tobacco) are usually financed through offshore credit or equity capital. The extremely high costs of agricultural credit (25–30 percent per annum, plus fees and commissions of up to 3 percent) reflect the high perceived risk levels and effectively exclude many rural entrepreneurs. Most agricultural credit is therefore limited to short-term loans for working capital.

76. **Under AgDPO-1, a new strategy for agribusiness development (PNDA) was adopted by the Council of Ministers.** This has provided MASA with an approach that is integrated into

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adequate food in the context of national food security. Principles for the implementation of the Guidelines include gender equality, consultation and participation, and accountability.

various PNISA programs, especially in the form of support to value chain development involving smallholder farmers in key agriculture development corridors.

77. **Since AgDPO-1, noteworthy progress has been made in developing rural savings and credit associations (ASCAs), expanding access to finance among rural populations.** As an important implementing entity of the Strategy for Rural Finance (EFR 2011-17) and the PNDA, the Directorate for the Promotion of Rural Development (DNPDR) of the Ministry of State Administration is actively supporting the development of savings and loans groups throughout the country, which has resulted in an increase in access to finance in rural areas from 100,000 members in 5,300 ASCAs in 2010 to 120,000 in 6,624 ASCAs in 2013. The groups that are supported start out as local groups without legal status, with the aim to register these groups and connect them to the rest of the financial sector, which would bring additional benefits and sustainability. While progress has been made on the formation of ASCAs and increasing the number of beneficiaries, the formalization process has lagged behind, mainly caused by operational challenges among rural groups that would be required to start using reporting systems and electronic banking mechanisms. DNPDR is currently in the process of developing a program dedicated to supporting existing ASCAs to “graduate” to formal Rural Finance Association status.

78. **No prior action in support of the development of rural finance was identified for AgDPO-2.** The originally envisaged prior action for AgDPO-2<sup>13</sup> referred to implementation of existing regulations pertaining to the formalization of the rural finance sector. This is ongoing within the framework of the Rural Finance Strategy launched in 2011 and did not require a specific reform action. Under that strategy, informal savings and loans groups are assisted in their formation and management and, where feasible, in their inclusion in the formalized network of associations, as described above.

79. **In a number of value chains, warehouse receipt financing provides an opportunity to increase financial liquidity among processors, traders, and farmer organizations, stimulating production, marketing, trading, and value addition.** To this end, the government is planning legislation that would support the development of a warehouse receipt system and would lay an important foundation for further development of structured trading systems. The newly formed commodity exchange is leading the development of a regulatory framework that would meet the needs of the private sector. The development of warehouse receipt regulations has been identified as a trigger for AgDPO-3, and may be supported by TA provided by IFC. Complementary support for the establishment of the commodity exchange is provided by the World Food Programme and USAID.

80. **Through the Bank’s Financial Sector DPO, a number of reforms are taking place that will promote rural finance.** These include the expansion of mobile banking services, the introduction of leasing (relevant for agricultural machinery service providers) and micro-insurance, and the enhancement of financial literacy and consumer awareness. A new multi-donor

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<sup>13</sup> Original prior action: Implementation of revised regulations ratified by the Council of Ministers, that govern the creation, operation and reporting of Savings & Credit Cooperatives (CCP) and Rural Finance Associations (OPE) and facilitate the transition from informal savings and loans groups to CCP and OPE.

Financial Sector Deepening Fund (led by KfW and DFID) will provide direct support to rural-based financial service providers.

81. **Supported by IFC’s Africa Credit Bureau Program, USAID, and the Bank’s Financial Sector DPO, the BdM developed regulations that enable the creation of private credit bureaus; these were approved by the Council of Ministers in December 2013.** To reduce risk and therefore the cost of lending by commercial banks to farmers and agribusinesses, the establishment of credit information bureaus is being promoted. Credit bureaus have proven to be effective at expanding access to finance in other countries by enabling small businesses and individuals with no credit history to build a credit record that can be used by financial institutions to assess risk. Over time, reports from credit bureaus offer the opportunity for potential and existing borrowers to be recognized as trustworthy clients by banks. At the same time, banks enjoy the use of an information base that will help them identify and compete for customers, resulting in lower risk and reduced costs over time.

82. The expected medium-term outcome of the prior actions and triggers related to rural finance is an increase in rural finance operators and innovative financing instruments, thereby enhancing access to financial services, measured by a greater number of rural households with access to credit.

**Table 7: DPO prior actions and analytical underpinnings, Policy Area 2**

Prior Actions	Analytical Underpinnings
<b>Policy Area 2: Enhancing Access to Productive Assets and Financial Services</b>	
<b>Prior action 5:</b> Stakeholder consultation process on new procedures for issuance of third-party land use rights by communities, individuals, and associations (i.e., land lease), led by the multi-stakeholder Consultative Forum on Land, completed and recommendations reflected in draft implementation procedures	The Bank’s report on agribusiness indicators and the Rural Investment Climate Assessment (RICA) confirm that the policy environment for agribusiness (encompassing PPPs, access to land, access to credit, and other variables) must improve markedly for the private sector’s involvement in agriculture to increase significantly. Similarly, USAID’s report on commercial, legal, and institutional reforms (AgCLIR) provides many recommendations, backed by the World Bank’s RICA, to help overcome the constraints faced by entrepreneurs in the various commodity value chains.

**POLICY AREA 3: MONITORING SECTOR PERFORMANCE**

83. **Lack of accurate and timely household-level data is a key constraint that has hampered monitoring of sector performance and evidence-based policy making.** The government’s reform agenda under this policy area aims to build a sustainable agricultural statistics system that allows reporting objectively on the performance of the agriculture sector (including on PNISA) and enables evidence-based sector policy and program design.

84. **Implementation of a sector investment plan necessitates the use of a monitoring system based on high-quality, nationwide rural sector statistics.** The joint investment commitments by public sector investors (government, development partners), private investors, and researchers (IIAM, UEM) increase the demand for quality data that will form the basis for evidence-based policy making, public resource allocation, and private investment decisions. The Joint Sector Review process, assisted by the Bank TA in support of PNIA implementation, will be introduced in 2015 and will provide a platform for evidence-based policy dialogue that leads to

updating sector programs, priorities, and budgets. Every 10 years, INE and MASA conduct the national Census for Agriculture and Livestock (*Censo Agro-Pecuário*), the main source of primary data. The last census was conducted in 2009-10, and a comprehensive volume with basic data tables was published in 2011.

85. **The government has recognized the need to improve the institutional arrangements for collecting and disseminating annual agricultural statistics.** A significant investment was made in developing and operationalizing an integrated approach to generating solid and consistent statistical information needed for management of the sector. MASA, with support from FAO, has adopted a Master Plan for Agricultural Statistics (2012-2022), based on the 2007 assessment of the agricultural statistics system,<sup>14</sup> as well as on the results of follow-up workshops that yielded the draft master plan and framework (August 2011). The draft highlights the need to: (i) make production data an integral part of the agriculture sector strategy; (ii) improve coordination among different players and increase institutional efficiency; and (iii) agree on a core set of indicators for which data should be collected annually (supported under AgDPO-1). To improve efficiency and consistency, a new agricultural statistics department within MASA was formed (as supported under AgDPO-1).

86. **Since AgDPO-1, official annual agricultural statistics are no longer generated through two separate and statistically incompatible annual surveys by MASA.** Before the implementation of the integrated survey during the 2012/13 agricultural season, the Directorate of Economics conducted the post-harvest agricultural survey (*Trabalho do Inquerito Agrícola/ TIA*), and the Directorate for Agricultural Services conducted the Early Warning crop forecast survey (*Aviso Previo*).<sup>15</sup> The two surveys used different and statistically incompatible sample designs and survey methodologies, and the resulting data were highly inconsistent.

87. **AgDPO-2 Prior Action: Implementation of the new integrated agriculture household survey covering the 2012/13 agriculture season that replaces the Early Warning System (Aviso Previo) and the Agricultural Household Survey (TIA). The 2012/13 integrated agricultural household survey was conducted and core data were used for the 2013 MINAG progress report.**

88. **Successful implementation of the integrated agricultural household survey requires decentralization of the operational budget.** Operational expenses, such as transport, travel costs, and hiring decisions for drivers, etc., are presently handled by MASA in Maputo, often causing serious implementation delays. In fact, even though the 2013 integrated survey was implemented, it suffered from implementation problems caused by delayed availability of resources at the local level. MASA is currently in the process of making a case for decentralizing operational resources and authority for the survey to the provincial integrated survey implementation units.

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<sup>14</sup> B. Kiregyera, D. Megill, D. Eding, B. José. “A review of the national agricultural information system in mozambique,” Discussion Paper No. 64E, *Direcção Nacional de Estudos e Análise de políticas Ministério da Planificação e Desenvolvimento*, May 2008.

<sup>15</sup> *Aviso Previo* data are used for early warning but also by default for the evaluation of MASA’s annual Social and Economic Plan, whereas data from TIA have been used extensively by MASA to analyze the agricultural economy and set priorities for research and agricultural investment. See MINAG (now MASA) and INE: “A 10-year Master Plan for Agricultural Statistics for Mozambique, 2012-2022.” Draft, October 2011.



Implementation of this decentralization process during the 2014 integrated survey was identified as a trigger under AgDPO-3.

89. **MASA is increasing its capacity to use the data from the integrated agricultural household survey.** This was made possible by a number of programs and initiatives from different donors that have been working with MASA to strengthen its policy analysis capacity. Currently, MASA is being assisted through a partnership with Maputo-based Eduardo Mondlane University, with technical support from Michigan State University’s Mozambique Policy Analysis and Planning Capacity for Improved Food Security and Nutrition Outcomes (MOZCAPAN) program. MASA also receives direct support from Southern Africa’s Regional Strategic Analysis and Knowledge Support System (ReSAKSS), supported by the AU.

90. The expected medium-term outcome of the prior actions and triggers related to agricultural statistics is a single and reliable agricultural statistical system within MASA, measured by the timely availability of official statistical publications based on the new integrated survey framework.

**Table 8: DPO prior actions and analytical underpinnings, Policy Area 3**

Prior Actions	Analytical Underpinnings
<b>Policy Area 3: Monitoring Sector Performance</b>	
<p><b>Prior action 6:</b> Implementation of the new integrated agriculture household survey covering the 2012/13 agriculture season that replaces the Early Warning System (Aviso Previo) and the Agricultural Household Survey (TIA)</p>	<p>Most reports on agriculture note the lack of recent, reliable statistics and of adequate institutional arrangements to monitor, evaluate, and report on the sector’s performance. MASA comprehensively assessed the agricultural statistical system, recommending unifying all agricultural data under one statistical system and giving one agency the overall mandate for agricultural statistics. MASA ratified the Master Plan for Agricultural Statistics (2012–22), now under implementation.</p>

### 4.3 LINK TO CPS AND OTHER BANK OPERATIONS

91. **Agricultural growth, as a driver for rural economic development and rural poverty reduction, is an important theme in Mozambique’s Country Partnership Strategy (CPS) for FY12–15.** The starting point for the CPS is the government’s poverty reduction strategy, with its theme of inclusive, broad-based growth. The World Bank’s Africa Regional Strategy also provides an overall framework for setting priorities and managing the proposed program. Like the Africa Regional Strategy, the CPS has two pillars directly linked to agriculture—Pillar 1 (Competitiveness and Employment) and Pillar 2 (Vulnerability and Resilience)—and a cross-cutting foundation (Governance and Public Sector Capacity). The CPS also emphasizes mainstreaming gender, social accountability, and nutrition in the portfolio, as these are essential elements of rural development. The AgDPO series was identified in the CPS and is designed to contribute directly to the objectives of Pillar 1, the principal support for the overarching goal in the CPS of broad-based, inclusive, pro-poor growth. Outcomes of the AgDPO series and a number of complementary investment operations are expected to contribute to the following objectives of Pillar 1: (i) an improved regulatory environment; (ii) improved management of the development process through spatial planning; and (iii) increased crop yields and overall productivity.

92. Other Bank operations that contribute to the CPS and with which the AgDPO series is linked are provided below.

**Table 9: AgDPO linkages with other World Bank operations in Mozambique**

<b>Bank Operation</b>	<b>Project Development Objective</b>	<b>Linkages with the AgDPO Series</b>
MZ Tracking Agriculture Sector Program Implementation (P150070)	Enhance government capacity to track PNISA implementation for improved management and accountability of the agriculture sector program.	AAA/TA will support MASA in developing planning, budgeting, and sector monitoring modalities that will complement and utilize the agricultural statistics capacity supported under the AgDPO series.
MZ Climate Change Development Policy Operation (P128434)	Build effective institutional and policy frameworks for climate-resilient development.	Includes a component on conservation agriculture, linking productivity with climate change.
MZ Poverty Reduction Strategy Credit 9-11 (P146537)	Strengthen economic governance systems, support the private sector, and enhance social protection.	PRSCs will support a program of overarching policy reforms.
MZ Financial Sector Development Policy Operation (P133687)	Strengthen financial sector management and performance.	FSDPO supports overall as well as rural financial inclusion initiatives that are complementary to the AgDPO series.
MZ PROIRRI Sustainable Irrigation Development Project (P107598)	Increase share of agricultural production that is marketed and raise farm-level productivity.	The AgDPO series supports improved management of public irrigation infrastructure.
Agricultural Productivity Program for Southern Africa (APPSA) (P094183)	Enhance regional specialization and collaboration in agricultural research to achieve farm productivity increases.	The Center for Leadership Research on Rice, established under APPSA, will benefit from institutional reforms under the AgDPO series.
IFC <i>Portucel Soporcel</i> Investment and Advisory Services TA	First phase of large-scale pulpwood project with community development program.	The AgDPO series strengthens the regulatory and policy environment for agribusiness development.
MZ Integrated Growth Poles Project (P127303)	Improve the performance of enterprises and smallholder farms in Tete and Nampula Provinces.	The AgDPO series strengthens the legal basis for shared land use between farming communities and private entrepreneurs.
Competitiveness and Private Sector Development Project (P106355)	Improve the business environment and enhance the competitiveness of targeted enterprises.	AgDPO reforms to promote private sector-led agricultural growth will help achieve the objectives of investments in this project.
MZ Social Protection Project (P129524)	Create and consolidate a social safety net.	AgDPO reforms in irrigation are conducive to labor-intensive cash-for-work programs promoted by this project.
MZ Water Resources Development Project (P107350)	Strengthen the management of national water resources.	Investments under this project will enhance the supply of water for agriculture, as supported by AgDPO reforms in irrigation.
Health Services Delivery Project, additional financing for nutrition (P099930)	Increase access to and utilization of maternal and child health and nutrition services in target areas in the territory.	Focuses on reducing malnutrition, including micronutrient malnutrition, through actions coordinated by the Ministry of Health.

93. **The CPS specifically mentions the need to address policy and institutional bottlenecks affecting implementation of Mozambique’s strategy for agriculture and commitments to CAADP.** The AgDPO series supports the sector strategy and its focus on increasing agricultural productivity and output. It also provides the necessary framework to engage the government in a medium-term reform program with policy and institutional measures that increase the likelihood of achieving the goals of the sector strategy and the objectives of the investment operations by the World Bank and other development partners supporting the sector.

#### 4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

94. **A Memorandum of Understanding (MoU) providing general budget support was signed in March 2009 between the GoM and 19 donors (G19), including the World Bank.** The MoU is based on four “fundamental principles”: (i) predictability and alignment with domestic systems; (ii) joint monitoring and use of the common Performance Assessment Framework for all policy actions or expected outcomes; (iii) elimination of the requirement for separate reporting to donors; and (iv) mutual accountability. The AgDPO series provides support using these principles, tailored to the sector strategy PEDSA and the PNISA, at which level the PNISA and sector performance indicators form the basis for discussion.

95. **Donor coordination in agriculture is implemented through AgRED.** Created in mid-2011 and co-chaired by the World Bank, the group replaced the donor harmonization arrangements supporting the PROAGRI (National Agricultural Development Program) common fund and comprises some 30 agencies supporting agriculture in Mozambique. The group’s objective is to strengthen the overall effectiveness of development assistance provided to the agriculture sector by advancing harmonization and coherence among development partners and by promoting coordinated and efficient policy dialogue with the GoM. Since its inception, AgRED’s thematic priorities have encompassed joint dialogue with the government on implementing the sector strategy and the country’s CAADP agenda and sector investment plan, as well as improving policy analysis and dialogue capacity and financial management at MASA. It also harbors the G8 New Alliance for Food Security and the World Economic Forum’s (WEF) Grow Africa dialogue. Going forward, the Joint Sector Review process is expected to consolidate the policy dialogue and provide a wide stakeholder forum.

96. **Development partners participated in the design of the AgDPO series in various AgDPO policy areas.** During the preparation phase of AgDPO-1, the World Bank convened focus group discussions during which several development partners participated in defining policy and institutional measures related to areas of policy in which they are actively involved. As a result, the government’s reform agenda under the AgDPO series is being implemented while receiving targeted TA from several development partners in the various reform areas.<sup>16</sup> During the

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<sup>16</sup> Programs include: **Seed industry:** Swiss Development Cooperation regional program on SADC Harmonized Seed Policy; USAID Seed support program; **Fertilizer industry:** Alliance for a Green Revolution in Africa: African Fertilizer and Agribusiness Program (AGRA-AFAP); International Fertilizer Development Center program; **Irrigation:** FAO TA in irrigation; **Nutrition:** World Bank Health Delivery Services Project; USAID (G8 New Alliance) and European Union (Millennium Development Goal Program) nutrition-specific activities; HKI Food Fortification Program; **Land:** Netherlands/Sweden: Institutional Development and Capacity Building of the Land

preparation of AgDPO-2, development partners were consulted and the policy reform agenda was confirmed as being relevant to the sector policy and investment plan.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1 POVERTY AND SOCIAL IMPACT

97. **Over the past decade, economic growth, including growth in the agriculture sector, has not translated into significant and sustainable poverty reduction in Mozambique.** This trend has arisen despite average annual growth in agriculture of around 5-6 percent during the past five years. Extreme poverty is concentrated most heavily in rural areas, where it remains severe, pervasive, and largely intractable. Recent analyses<sup>17</sup> indicate that a small decline in rural poverty has occurred in the southern provinces, likely reflecting spillover effects from the rapid growth of urban centers in the region. Elsewhere in the country, rural poverty rates remain unchanged, and in Central Mozambique, the poverty headcount actually increased between 2003 and 2009 (Figure 4). While agriculture has yet to become the engine of rural and peri-urban economic growth and poverty reduction, there were encouraging signs of growth during 2013. MASA estimates that commercialized agriculture (excluding livestock and forestry) grew by 36 percent during 2013. This is currently mostly limited to larger farmers and agribusinesses, some with smallholder farmers participating. This would confirm Mozambique's agribusiness investment potential, and the potential for successful agribusiness-smallholder business models that can be scaled up with a balanced approach of cash versus staple food commodities (see below). An analysis of the newly

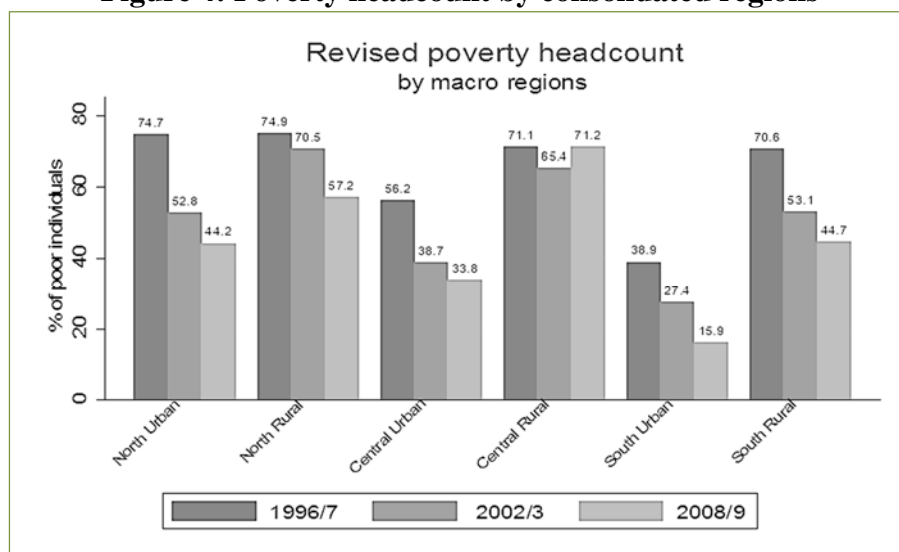
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Sector Program; **Value chain development:** USAID agriculture and private sector development program;  
**Statistics:** FAO TA.

<sup>17</sup> World Bank: "Poverty in Mozambique: New Evidence from Recent Household Surveys." Policy Research Working Paper 6217. AFR PREM. Washington, DC, 2012.

released 2013 agriculture survey data by MASA is expected to provide an updated picture of growth and participation in the agriculture sector.

**Figure 4: Poverty headcount by consolidated regions**



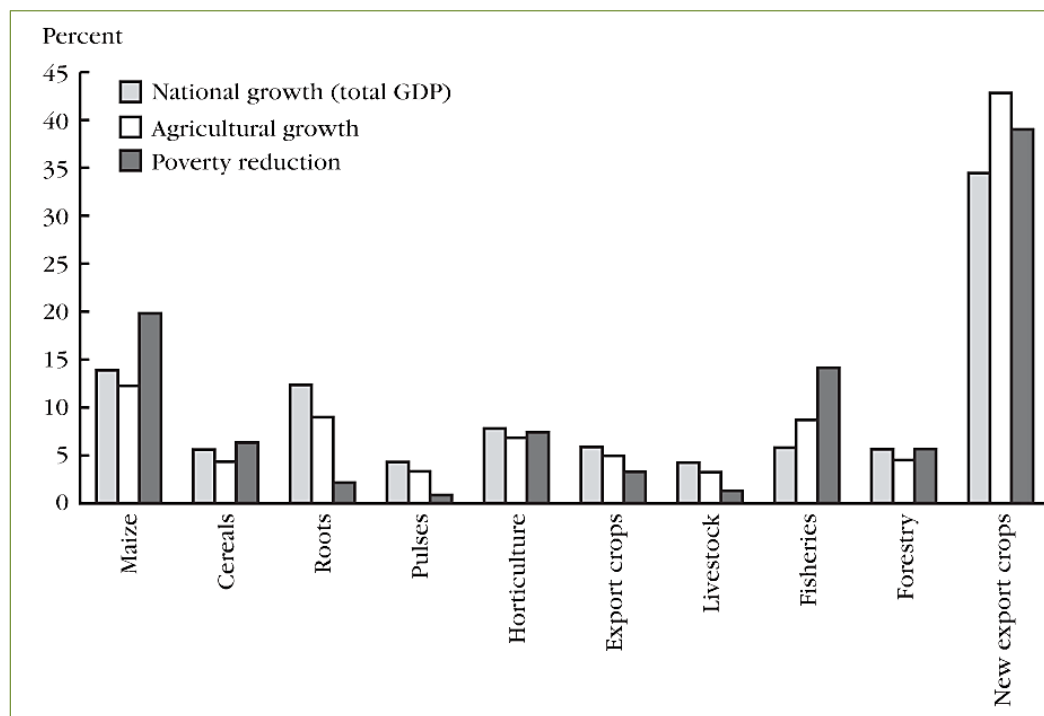
Source: World Bank 2012.

98. **Recent research emphasizes that Mozambique’s farm households can emerge from entrenched rural poverty if they can overcome longstanding impediments to improve agricultural productivity, especially in cereal crops and livestock.**<sup>18</sup> Results from a dynamic computable general equilibrium model indicate that growth driven by improved cereal crop productivity is more effective at reducing poverty than similar growth in export crops, and maize in particular contributes more to poverty reduction than to agricultural growth. If Mozambique achieves reasonable improvements in crop and livestock yields—by gaining better access to improved seed and fertilizer, as supported by the AgDPO series—the country could achieve the kind of agricultural growth that could lift millions of people above the poverty line. It would also meet the 6 percent agricultural growth target to which it has committed under CAADP. Giving priority to improving yields for maize and other cereal crops, as pursued under this AgDPO series, would not only increase farm household incomes from agriculture but also allow households to

<sup>18</sup> J. Thurlow: “Mozambique.” Chapter 12 in “Strategies and Priorities for African Agriculture: Economywide Perspectives from Country Studies.” International Food Policy Research Institute (IFPRI), Washington, DC, 2012, pp. 349–70.

diversify into horticulture and other high-value crops (“new export crops”; see Figure 5). Such tangible developments should be supported by capacity building to ensure sustainability.

**Figure 5: Share of additional growth and poverty reduction of various products, 2009-2019**



Source: IFPRI 2012.

99. **Mozambique has an established, robust social and environmental institutional framework.** While the Ministry of Land, Environment and Rural Development (MITADER) has the mandate to enforce environmental and social safeguards, the Ministry of Gender and Youth (*Ministério do Gênero, Criança e Acção Social/MGCAS*) focuses more on social development and gender and vulnerable groups’ regulations. Together, they have considerable capacity to address social and environmental management issues, and external support in that area. They are both represented locally by Provincial Directorates and at the district level through the *Serviço Distrital das Actividades Económicas* (District Economic Service).

100. **The proposed reforms in the seed, fertilizer, and irrigation subsectors, coupled with business environment reforms promoted under PRSC-9, should make better agricultural inputs (including water) more widely available to smallholders** and complement or reinforce efforts under PROIRRI and the regional Agricultural Productivity Program for Southern Africa (APPSA). Furthermore, the AgDPO policy reform agenda promotes the emergence of new financial operators (savings and credit cooperatives, rural finance associations) and innovative financing instruments (such as a warehouse receipt financing system), which will allow

smallholders (especially women and youth farmers) to access financial services and build a stronger asset base that could be used as collateral and thus provide sustainability.

**101. Women, youth, and other vulnerable groups are expected to benefit from implementation of the policy and institutional actions under the AgDPO series.** Considering that women now head 27 percent of agricultural households (versus 23 percent a decade earlier),<sup>19</sup> policy and decision makers give special attention to the gender and vulnerable group agenda in agriculture. The measures to improve the management of irrigation schemes should benefit female and male farmers equally, although local authorities should require women to be included in the management committees of irrigation organizations (as under PROIRRI). The World Bank's experience with the Market-led Smallholders Project (and more generally) shows that technology adoption is higher among women-led farming households when their information about the technology comes from a female community facilitator or female extension worker. Finally, the AgDPO measures that improve land tenure security and provide access to financial services and better inputs should ensure that, at least in female-headed farming households, a portion of farmland is set aside for women to invest in growing food of better nutritional quality.

## **5.2 ENVIRONMENTAL ASPECTS**

**102. The legal framework for environmental protection is relatively well developed in Mozambique, and efforts are being made to strengthen implementation and enforcement capacity.** 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 (EIA), which must precede any issuing of licenses or the approval of any new projects. MITADER is the agency responsible for conducting EIAs. The capacity of MITADER, especially for Strategic Environmental Assessment (SEA), is limited due to financial and technical capacity constraints. Like most Sub-Saharan African countries, Mozambique lacks a legal framework for SEAs. This issue is currently being addressed by MITADER – two major SEA exercises have been commissioned to pilot SEA work<sup>20</sup> and these will inform the finalization of Decree on Strategic Environmental Assessment, currently in an advanced draft stage.

**103. An assessment of Mozambique's environmental assessment framework was included as part of the SEA of the parallel Climate Change Development Policy Operation (P146398).** The assessment focused on the government's ability to deal with the potential environmental impacts emanating from policy reforms. The assessment indicated a substantial degree of equivalence between the Mozambique environmental assessment procedures and the environmental assessment safeguard policies of the World Bank (OP/BP 4.01). One area of concern in relation to impacts that may be initiated by policy reforms is the lack of a regulatory instrument that can deal with cumulative effects from the future development of many small projects (for example, increasing smallholder use of fertilizers). As mentioned above, this issue is currently being addressed by MITADER. The assessment of country environmental management

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<sup>19</sup> INE Agricultural Census (2011).

<sup>20</sup> The first SEA (of coastal development) has now been completed and a second SEA (of the Zambezi Valley Development Corridor) is now underway.

systems showed that capacity is an issue and that capacity building will be justified. The World Bank will deliver training in EIA and SEA in early 2015 – including to staff of MASA. The World Bank will also support capacity building and preparation of Strategic Environmental and Social Assessments in 10 growth corridors as part of the Spatial Development Planning Project (P121398) as well as SEAs in the forestry and extractive sectors. This support complements initiatives of other donors on EIA capacity development.

104. **The national agricultural strategy (PEDSA) recognizes that climate change will work against efforts to grow the sector and identifies a number of climate change threats.** Measures to address food security are also reflected, and these highlight the need to make progress on conservation agriculture and the uptake of climate resilient crops, both of which are an important component of a wider set of climate-smart agricultural techniques. Experience from piloting of conservation agriculture<sup>21</sup> has demonstrated their value in increasing yields of key crops (e.g. maize). With support from the parallel Climate Change Development Policy Operation (P146398), the Directorate of Agrarian Extension (DNEA) has developed a targeted action plan to guide the scale-up of climate-resilient agriculture. This action plan has been prepared following extensive consultations and with support from TA provided by the World Bank. MASA approved the action plan in 2014 and this will strengthen the links between farmers, agricultural extension, and agricultural research and will also promote demand-led extension approaches.

105. **The prior actions and triggers proposed under the AgDPO series are unlikely to cause significant negative effects on the country’s environment, forests, or other natural resources.** Reforms in Policy Area 1 to promote increased use of fertilizers could potentially have negative impacts, for example by increasing nutrient-rich run-off into freshwater systems. Given that fertilizer use is currently at a very low base, this is unlikely to be significant. In any case, increasing fertilizer use and productivity could also reduce land degradation and help avert the need for clearing land for low-productivity agriculture. Reforms intended to improve land tenure security on customary lands should provide the conditions necessary to increase investments in sustainable land management practices and hence reduce land degradation and deforestation. These reforms could therefore yield environmental benefits and could also reduce emissions from woodland clearance and land use change. To achieve productivity increases at the farm level, producers will gain better access to higher-yielding varieties suited to the local environment.

106. **The multi-sectoral nature of the AgDPO series implies that linkages exist with many other operations in the World Bank portfolio.** Such linkages can yield synergies that enhance the management of natural resources and remove adverse impacts. For example, the Mozambique Climate Change DPO will support policies that are expected to have a range of positive environmental impacts. It will promote wider use of conservation agriculture techniques, reduce

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<sup>21</sup> See *Conservation agriculture in Mozambique – experiences with a new technology*. CIMMYT. USAID Mozambique.



deforestation, and increase renewable energy generation from agricultural wastes. All of these engender significant environmental and social benefits.

### 5.3 PFM, DISBURSEMENT, AND AUDITING ASPECTS

107. **Addressing fiduciary concerns and strengthening the government’s financial infrastructure are essential to this operation.** PFM has improved steadily as a reflection of the government’s commitment to the reform program and the continued support of its development partners, and Mozambique’s PFM system is determined to be adequate to support the DPO series. While weaknesses in internal controls and the limited use of external audits remain a concern, the government continues to strengthen these systems with support from development partners. Mozambique’s State Budget is published by the government and accessible to the general public in printed form and through the website of the MEF Budget Directorate (both the proposed budget as well as that approved by the national assembly). Quarterly budget execution reports are also published, up to 45 days after the end of the quarter. According to the most recent Open Budget Survey, the Open Budget Index for Mozambique has risen significantly, from 28 in 2010 to 47 in 2012.

108. **Recent PFM assessments conducted in Mozambique confirm significant progress in improving PFM and identify areas in need of strengthening.** A recent IMF assessment<sup>22</sup> argues that Mozambique has made good progress with its PFM reform agenda, in particular with regards to treasury and budget management. It also argues that the reform agenda is fragmented and dominated by IT development processes. The overall reform agenda should be adjusted, moving from a focus on IT development toward a more effective use of the system for financial management and reporting. This would require stronger management and coordination of the overall reform agenda, driven by process and institutional development reforms. Areas that will need increased focus include planning and budgeting, internal control processes, public investment management, and debt and fiscal risks management. A recent assessment by the EU Delegation<sup>23</sup> offers largely similar views, arguing that a continued focus on procurement and the roll-out of e-SISTAFE will also be needed. The GoM is seeking to reinvigorate the PFM reform agenda through: a forum to be established in 2015 involving key stakeholders (including donors) to coordinate PFM reforms; a stronger emphasis on process and institutional reforms as suggested; and a renewed focus on some of the areas identified (e.g., planning and budgeting, public investment management, fiscal risks and debt management, etc.).

109. **Anti-fraud and corruption measures in Mozambique are established through various laws and regulations (including an outdated penal code; more recent anti-corruption laws; and a Defense of the Economy Law from 1982).** The Anti-Corruption Law, adopted in 2004 (Law No. 6/2004 dated June 17 and Decree No. 22/2005) and limited to corruption involving bribes, is being revised and strengthened. The Anti-Corruption Package, adopted by the Council of Ministers in July 2011, and submitted to Parliament for approval in December 2011, is yet to be approved in its entirety. Nonetheless, some important anti-corruption legislative pieces have recently been approved, including: (i) the Whistle-blower and Witness Protection Law, which

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<sup>22</sup> IMF. 2014. “Refocusing the Public Financial Management Strategy.” IMF, Fiscal Affairs Department.

<sup>23</sup> EU Delegation to Mozambique, 2014, “2013 PFM Annual Monitoring Report Mozambique.”

came into effect December 13, 2012; (ii) the Public Probity Law, which includes conflict of interest and asset declaration requirements; and (iii) the Organic Law of Prosecution Service, which allows the Anti-Corruption Agency (*Gabinete Central de Luta contra a Corrupção*) to investigate and prosecute corruption crimes, including embezzlement, illicit enrichment, and conflict of interest. The amendment of the Anti-Corruption Agency competencies is already in effect, but whistleblower and witness protection legislation will take time and resources to be fully implemented. If fully implemented, the new legislation will provide Mozambique with a strong anti-corruption framework consistent with best practices.

**110. The IMF concluded a Safeguards Assessment of the Mozambique Central Bank in mid-2011 that confirmed that its control, accounting, reporting, and auditing systems are adequate and aligned with international standards.** The assessment made recommendations to further strengthen the governance structure of the BdM, notably by opening the Central Board and the Audit Board to independent experts from outside the BdM and MoF. It also recommended that the Audit Board should ensure more systematic follow-up of audit recommendations and the audit charter be subject to an external quality assurance review in accordance with international standards. The authorities are in the process of implementing the action plan that was drawn-up as a result of the safeguards assessment. In the context of the IMF PSI, the government agreed to follow up on the recommendations of the assessment and implement a series of related measures. The government shall ensure that the annual financial statements of the BdM are audited in accordance with international standards on auditing as promulgated by the International Federation of Accountants and that they are publicly available. According to the most recent IMF review, the exchange rate is in line with the economy's fundamentals.<sup>24</sup> Mozambique has a *de jure* and *de facto* floating exchange rate arrangement, being largely determined in the interbank foreign-exchange market. No assessment of fiscal performance has been conducted.

**111. The proposed credit (the Financing) will be disbursed following standard IDA procedures for development policy lending.** The Financing will be made available upon effectiveness and disbursed as a single tranche following the submission of an acceptable withdrawal application by MEF. IDA will deposit the dollar-denominated funds into a dedicated foreign exchange account held by the BdM in Frankfurt, and the transaction will be recorded in the government's financial management system. Within two working days the BdM will credit the equivalent in *meticaís* to the Transit Account of MoF. These funds will then be transferred from the dedicated account to the Single Treasury Account and will be used as state budget revenue and recorded as such in the public accounts. The borrower will report to IDA on amounts deposited in the foreign exchange account and transferred to the Single Treasury Account. The G19 and the government conduct a yearly flow of funds audit on budget support. As in previous occasions, the auditor's opinion on the flow of budget support funds provided during 2013 was unqualified. A group of development partners and government staff are working together to follow up on some of the recommendations of the report.

**112. Disbursements from the Single Treasury Account by the government shall not be tied to any specific purchases and no special procurement requirement shall be needed.** Proceeds

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<sup>24</sup> Republic of Mozambique: Staff Report for the 2013 Article IV Consultation, IMF Country Report No. 13/200, July, 2013.

from the Financing shall not be used to finance expenditures on the prohibited list defined in Schedule 1 of the Financing Agreement. If any portion of the Financing is used to finance ineligible expenditures, IDA shall require the government to refund an amount equal to the amount of the said payment to IDA promptly upon notice. Amounts refunded to IDA under such circumstances shall be cancelled from the Financing. IDA will reserve the right to request an audit should it determine that circumstances warrant it. Should an audit be requested, a legally registered, private, and independent audit company meeting appropriate international standards will be contracted to perform it, and in accordance with the Terms of Reference to be agreed upon with the government, all audit costs will be borne by the government. Government accounts are audited by the Administrative Tribunal. The audited General State Accounts (*Conta Geral do Estado/CGE*) are sent to Parliament for discussion and published. In the past there has been limited management response to audit recommendations. The government began developing a database in an effort to improve monitoring of the implementation of audit recommendations by public institutions in 2009 and internal control units have increased resources allocated for follow-up of recommendations in their audit work plans. Audit follow up is an integral part of the dialogue between the government and budget support donors, and as a result of all these efforts, significant progress has been made in follow-up of audit recommendations in the past few years. A copy of the CGE shall be provided to IDA within one month after the lapsed period.

#### **5.4 MONITORING AND EVALUATION**

113. **The Ministry of Planning and Development (MPD), now the Ministry of Economy and Finance (MEF), has been responsible for overall implementation of the AgDPO series.** Within MEF, the lead agency for the AgDPO is the Agency for the Development of the Zambezi Valley Corridor (ADVZ). Created by decree in June 2010 as a public institution with financial and administrative autonomy under MPD, ADVZ has led and coordinated the identification and preparation phases for the AgDPO and heads the multi-sectoral, interministerial government AgDPO Task Force to prepare and implement the AgDPO series. As the regional agency coordinating activities in the Zambezi Valley Corridor, it already works with line ministries involved in the AgDPO, as well as with provincial and district authorities who are helping to develop a comprehensive multi-sectoral investment program for this corridor. The agency coordinates closely with MASA in the implementation of prior actions and triggers and in the internal GoM allocation of AgDPO resources. ADVZ is also the counterpart agency for the World Bank's Growth Poles Project and is familiar with Bank procedures and requirements.

114. **The policy and results framework developed for this AgDPO (Annex 1) is consistent with the broader results frameworks for the national poverty reduction and agricultural strategies.** Most indicators and targets were drawn from the country poverty reduction strategy, national sector strategy, and medium-term sector investment plan, and where necessary, were adjusted to the medium-term timeline of the AgDPO. Under the Growth Poles Project's institutional capacity-strengthening component, the ADVZ will receive financial support and TA that will be applied toward ADVZ's monitoring, evaluation, and reporting responsibilities for the AgDPO. Moreover, the government's PNISA will require development partners to strengthen their coordination and discuss modalities for potential joint funding of the investment plan. The AgDPO series, as the primary platform for a coordinated sector policy dialogue between development

partners and the government, will provide timely stimulus for coordinated M&E of the program of policy and institutional reforms promoted in the sector over the next three years.

115. **The World Bank will play a supervisory and monitoring role, reviewing progress and making adjustments as needed.** The World Bank AgDPO team uses the preparation of the AgDPO-2 and AgDPO-3 as an opportunity to monitor overall progress toward the expected outcomes of the DPO series. The World Bank team will focus on the impact outcomes of the program and identify the adjustments needed as the series evolves, particularly with respect to the subsequent selection of triggers and prior actions, to take into account the latest country developments, stakeholder support, and feasible options for realizing the intended development goals. The assessment will be based largely on the review of indicators and the goals of the program. At the same time, the overall status of the government program of reforms will be monitored to determine whether country conditions and the specific policy measures have been met.

116. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit [www.worldbank.org/GRS](http://www.worldbank.org/GRS). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## 6. SUMMARY OF RISKS AND MITIGATION

117. **The overall risk rating is “Moderate,” and institutional issues pose the most significant risk to this AgDPO series**—specifically the need to improve coordination of cross-sectoral mandates and implementation efficiency. The main risks identified that could prevent the proposed operation from fully achieving its medium-term outcomes as presented in the results matrix (Annex 1) can be summarized as follows:

### MACROECONOMIC

#### Risk rating: Moderate

118. **Despite its positive overall economic outlook, the Mozambican economy faces significant downside risks, such as a large decline in commodity prices or a worsening of the country’s security situation.** Current low commodity prices could dampen investment plans in the coal and gas sectors. Internal developments such a deterioration of the security situation could also affect the development of the coal and gas sectors. A delay in projected investments in coal and gas could lower Mozambique’s rate of growth. Expected investments and coal and gas exports would benefit external and fiscal balances in the medium term, but investment delays would not necessarily result in imbalances that jeopardize macroeconomic stability.

119. **Over the medium term, the government and the Central Bank are working on policies designed to counter real exchange rate appreciation.** The government has a stable working relationship with the IMF anchored by a PSI, which has contributed to ensuring sound macroeconomic management. The development of the new PARP further strengthened the policy dialogue between the government and its development partners, helping to address potential disagreements that could lead to reduced donor support. Over the long term, the government is committed to continuing to build its domestic revenue base and to gradually reducing its dependence on foreign aid. In light of these factors, the risk of macroeconomic shocks affecting the reform program is moderate, and constant attention will be required as external circumstances evolve.

### POLITICAL AND GOVERNANCE

#### Risk rating: Substantial

120. **Political risks and risks of policy reversal are associated with the incoming new government, following the October 2014 general elections, which may negatively impact the coordination of reforms, particularly on land.** The risk of potential loss of consensus is mitigated by the highly participatory process through which the AgDPO series was developed and by its strong contribution to the current PARP objectives. This process greatly strengthened the ownership of the AgDPO series by numerous stakeholders in various government agencies, reinforcing their commitment to the reform process. Even so, the absence of formal institutional mechanisms to coordinate the reform process creates the potential for bureaucratic resistance or new political disagreements, which may result in slow or uneven implementation of reforms. While the government’s overall commitment to the reform process is solid, the potential for

inadequate consensus on the part of all government agencies nevertheless poses a risk to the swift and consistent implementation of the reform agenda required for agricultural growth.

## **SECTOR STRATEGIES AND POLICIES**

### **Risk rating: Moderate**

121. **With a new incoming government, including changes in key ministerial positions, a risk of policy reversal exists**, particularly regarding the government's current commitment to private sector-led development of the sector. Policy risk may also arise in the form of government interventions in input or output markets, resulting in distortions that would provide disincentives to private investment.

122. **Institutional arrangements for the coordination and preparation of AgDPO-3 may need to be assessed.** The Bank recognizes ADVZ's and MPD's leadership in launching the AgDPO series and in promoting the interagency collaboration and agricultural policy dialogue required for the successful delivery of AgDPOs-1 and 2. ADVZ's mandate is limited to a particular geographic area, however, and it is unclear if the agency can maintain its convening power for a countrywide reform agenda. Once the new government is in place in February 2015, the World Bank and the GoM need to assess the efficiency of current institutional arrangements and, if needed, explore the possibility of transferring the lead role for the AgDPO to MASA.

## **TECHNICAL DESIGN OF PROGRAM**

123. **Risk rating: Low.**

124. **The operation's economic rationale is clear, and the technical developments that are to be achieved are not complex and fully consistent with ongoing government programs.** Most prior actions and triggers are technically feasible, but do need policy consistency to be effective.

## **INSTITUTIONAL CAPACITY FOR IMPLEMENTATION AND SUSTAINABILITY**

### **Risk rating: Substantial**

125. **As with other programmatic budget support operations, a key challenge for the AgDPO is to sustain the engagement of the agencies implementing the agreed reforms.** Satisfactory completion of prior actions is the responsibility of various Government institutes and directorates. Full implementation of the reform process will continue to require commitment by the government to the reform agenda, including budgetary resources. The participation of development partners in the sector reform agenda to be supported helped mitigate the risks of delays in the completion of AgDPO-2 prior actions, as several partners involved in specific subsectors provided support to the MASA directorates and institutes and assisted them in the completion of prior actions.

## FIDUCIARY

### Risk rating: Low

126. **Mozambique is among the highest performing developing countries in Africa in terms of its aggregate “Public Expenditure and Financial Accountability” score.** As noted, reforming PFM has been a cornerstone of good governance and sound macroeconomic management under the country’s PRSC during the past few years. PFM reforms have been largely successful, as demonstrated by significant improvements in the country’s “Public Expenditure and Financial Accountability” indicators between 2006 and 2010. Despite successful PFM reforms, gaps remain between the reformed policies, laws, and systems and their implementation, and they constitute major impediments to the performance of sector delivery systems. These gaps were highlighted during the preparation of the FY13 Bank-funded Governance Program for Results (P124615), which included an agriculture component with MASA. They are being further addressed under the ongoing PRSC series, which includes a PFM pillar. Moreover, the agriculture PFM non-lending TA program will provide technical and capacity-building support to the GoM in implementing PNISA.

127. **AgDPO Policy Area 3 (Sector Performance Monitoring) directly addresses accountability issues.** The adoption of the Master Plan for Agricultural Statistics is of prime importance for governance and government accountability. With the implementation of the Master Plan, policy and decision makers as well as the public at large will have access to a set of core sector indicators and their intermediate target value. Policies and decisions will need to be based on evidence, including statistical data that are collected, processed, and published annually. The clearly defined mandate on statistical data within MASA, promoted under this AgDPO series, implies that the dataset published every year by MASA will be the unique, official agricultural statistics dataset, providing up-to-date empirical data that can serve as a basis for policy reforms.

## ENVIRONMENT AND SOCIAL

### Risk rating: Moderate

128. **The reforms proposed under the AgDPO series are unlikely to cause significant negative effects on the country’s environment, forests, or other natural resources.** Increasing fertilizer use and productivity would reduce land degradation and help avert the need for clearing land for low-productivity agriculture. Reforms intended to improve land tenure security on customary lands should provide the conditions necessary to increase investments in sustainable land management practices and hence reduce land degradation and deforestation. These reforms could therefore yield environmental benefits and could also reduce emissions from woodland clearance and land use change. To achieve productivity increases at the farm level, producers will gain better access to higher-yielding varieties suited to the local environment.

129. **On land reform, the risk exists of irregular land acquisition and rent-seeking behavior through speculative holding of land use rights, despite the built-in safeguards in the reforms.** The government has been proactive in the recent past on the “land grab” risk, as demonstrated by the moratorium on issuing user rights for areas greater than 1,000 hectares over 2009-11. A dispute resolution mechanism exists in Mozambique in the form of approximately 1600 community courts

that evolved separately from the formal court system. The community courts are highly accessible, and community members often elect to bring land disputes to these forums. Enhanced institutional capacity and more rigorous enforcement of the Land Law are required for speculative landholding to be tackled efficiently. Efforts to do so are underway, building on land programs funded by the Millennium Challenge Corporation (MCC) and support provided by the Governments of the Netherlands and Sweden. The World Bank has also been instrumental in the policy dialogue on land with the government by raising awareness of the need for community land delimitation and for a review of the land taxation system. Moreover, creation of the Consultative Forum on Land has enabled a broad spectrum of stakeholders to engage on land issues. The risk of excessive “land grabbing” resulting from authorizing user-to-user transfers of land use rights (AgDPO-1 prior action) is mitigated by the limit of 10 hectares as well as measures underway to accelerate the national community land delimitation campaign and the issuance of user rights to farmer associations.

## STAKEHOLDERS

**Risk rating: Low.**

130. **The policy reform agenda pursued in the AgDPO series has been developed in close consultation with sector stakeholders and complements government programs and various donor funded activities.** Close engagement by stakeholders, including civil society and private sector, has been embedded in a number of policy reform areas, notably on land and agricultural inputs.

**Table 10. Summary of risks**

<b>Risk Categories</b>	<b>Rating (H, S, M, L)</b>
Macroeconomic	Moderate
Political and governance	Substantial
Sector strategies and policies	Moderate
Technical design of program	Low
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Low
Environment and social	Moderate
Stakeholders	Low
<b>Overall</b>	<b>Moderate</b>



## ANNEX 1: POLICY AND RESULTS MATRIX

**PDO (revised from AgDPO-1): To improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance**

Reform theme	Prior Actions AgDPO-1 (completion in 2012)	Prior Actions AgDPO-2 (completion in 2014)	Triggers AgDPO-3 (completion in 2015)	Medium-term outcomes of prior actions and triggers supported by the DPO series	Indicators Baseline (2012) Target (2016) Source of verification
<b>Policy Area 1: Improving agricultural technology</b>					
<b>Seed subsector</b>	1.1.1 Ratification by the Council of Ministers of SADC-compliant national seed regulations governing production, trade, quality control, and certification	<b>1.2.1 Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol</b>	1.3.1 Seed inspection and certification services are operational. Adoption by MASA of: i) the revised official texts governing the roles and responsibilities of the multi-stakeholder National Seeds Committee (CNS), including a medium-term activity plan and budget, and ii) publication of list of seed varieties authorized by CNS for release and a list of seed dealers.	Participation of the private sector in the supply chains for agricultural inputs (seeds & fertilizer) has increased.	Use of certified seed among farmers (% women): Base 2012: 6% Target 2016: 9% (women 30% increase)  MASA annual survey
<b>Fertilizer subsector</b>	1.1.2 Ratification by the Council of Ministers of the regulations governing the fertilizer subsector that include: i) details on the role of the Fertilizer Authority in providing public good type services, and ii) the requirements for economic agents that encourage private sector participation in the fertilizer value chain	<b>1.2.2. Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector</b>	1.3.2 Fertilizer registration and inspection services are operational. Publication by MASA of the complete lists of fertilizers licensed by CATERF for production, marketing, and use in the country and a list of registered fertilizer dealers.		Use of fertilizer among farmers (% women): Base 2012: 2.7% Target 2016: 4.0% (women 30% increase) MASA annual survey  Base 2012: 50,000 tons Target 2016: 80,000 tons  Annual industry estimate by Fertilizer Platform

Reform theme	Prior Actions AgDPO-1 (completion in 2012)	Prior Actions AgDPO-2 (completion in 2014)	Triggers AgDPO-3 (completion in 2015)	Medium-term outcomes of prior actions and triggers supported by the DPO series	Indicators Baseline (2012) Target (2016) Source of verification
Irrigation subsector	1.1.3 Ratification by the Council of Ministers of the medium-term investment plan for agriculture (PNISA) that includes the irrigation subsector with a policy agenda supporting private sector participation, clear institutional coordination arrangements, a detailed costing, and an M&E framework	<b>1.2.3 Request for authorization submitted by the Council of Ministers to Parliament for approval of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure</b>	1.3.3 Approval by the Council of Ministers of the regulations for PPPs that govern the development, management, operation, and maintenance of public irrigation schemes by private entities.	Improved management arrangements in public irrigation schemes have led to enhanced performance of the irrigation subsector.	Additional irrigated area managed by Irrigation Associations  Base 2012: 0 Target 2016: 2,900 ha (10% of total area, 10% of associations include women)  Annual report from MASA/INIR
Nutrition	1.1.4 Adoption by the National Institute for Quality Standards (INNOQ/MIC) of the food quality standards for nutrient-fortified wheat flour and edible oil	<b>1.2.4 Creation of a Joint Commission on Food Fortification by MIC and MISAU and commencement of a food fortification program with the private sector</b>	1.3.4 Mandatory nutrient fortification of wheat flour sanctioned by the ratification by MIC and MISAU of a joint <i>Ministerial Diploma</i> that endorses the corresponding legal and regulatory framework.	The availability of food fortified with micronutrients has increased	Share of fortified wheat flour relative to total volume of wheat flour processed  Fortified wheat flour: Base 2012: 0% Target 2016: 10%  Annual Report from MIC (Fortification Commission)
<b>Policy Area 2: Enhancing access to productive assets and financial services</b>					
Land administration	2.1.1 Publication of the outcomes of the process on simplification and reduction of the timelines for the transfer of rural land user rights (DUAT) for parcels measuring less than 10 hectares	<b>2.2.1 Stakeholder consultation process on new procedures for issuance of third-party land use rights by communities, individuals, and associations (i.e., land lease), led by the multi-stakeholder Consultative Forum on Land, completed and recommendations reflected in draft implementation procedures</b>	2.3.1 Approval by Council of Ministers of operational procedures for the issuance of third-party land use rights (land lease) by communities, individuals, and associations that hold the primary user rights in the form of community land certificates or DUATs.	Access to land, and land tenure security have improved, particularly for smallholders, as a result of increased efficiency with land administration services.	Cumulative number of land user rights issued to associations and certificates of delimitations issued to communities  Base Dec. 2011: 52 user rights; 80 certificates Target 2016: 260 user rights and 280 certificates  Annual Report (DNTF/ MASA); ITF progress report

Reform theme	Prior Actions AgDPO-1 (completion in 2012)	Prior Actions AgDPO-2 (completion in 2014)	Triggers AgDPO-3 (completion in 2015)	Medium-term outcomes of prior actions and triggers supported by the DPO series	Indicators Baseline (2012) Target (2016) Source of verification
Finance and markets	2.1.2 Adoption by the Council of Ministers of the country's strategy for agribusiness (PNDA) that includes a sound policy agenda and a comprehensive implementation plan to promote the development of rural financial services and private sector investment in agriculture		2.3.2 Ratification by the Council of Ministers of the legal framework for the establishment, operation, and monitoring of a warehouse receipt system.	A policy environment conducive to rural economic growth has led to an increase in rural finance operators and the emergence of innovative financing instruments for production and markets, thereby enhancing access to financial services.	Share of rural households with access to credit (%female-headed)  Base 2012: 2.3% (15%) Target 2016: 3.5% (25%)  MASA annual agriculture survey
<b>Policy Area 3: Monitoring Sector Performance</b>					
Monitoring & evaluation	3.1.1 Consolidation under a single agency within MINAG of the institutional mandate for agricultural statistics and adoption of a single list of core sector indicators to be monitored and reported upon annually (as per the Master Plan for Agricultural Statistics, 2012-22)	<b>3.2.1 Implementation of the new integrated agriculture household survey covering the 2012/13 agriculture season that replaces the Early Warning System (Aviso Previo) and the Agricultural Household Survey (TIA)</b>	3.3.1 Resources and operational management authority decentralized at provincial level for improved implementation of the integrated agricultural household survey.	A single, nationally representative agricultural statistical system is operational and managed by one entity within MASA that publishes data and sector assessment reports on an annual basis.	Official publications of the annual reports based on the new integrated survey framework: i) annual sector performance report ( <i>Balanco do PES</i> , published in April of the next year) and ii) the agriculture statistical publication (published in June of the next year)  Baseline 2012: not available Target 2016: available

Note: The original PDO for the AgDPO series was “to promote private sector-led agricultural growth in order to improve food and nutrition security.” The results framework does not support the measurement of private sector-led growth, food security, or nutrition security, so the PDO was modified to more directly reflect the policy areas and enable attribution of results.

## ANNEX 2: COMPARISON OF AGDPO-2 TRIGGERS AND PRIOR ACTIONS

The original PDO, “to promote private sector-led agricultural growth in order to improve food and nutrition security” was changed to “to improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance.”

	AgDPO-2 trigger identified in AgDPO-1	Modification	AgDPO-2 Prior Action
Seed subsector	1.2.1 Adoption by MINAG of the detailed regulations for the implementation of the decree on plant breeders’ rights that includes sound provisions for the protection of breeders’ intellectual property rights	Instead of developing regulations to implement the old plant breeders’ right decree, a new decree with regulations pertaining to breeders’ rights (protection of plant varieties) was developed. This required the Council of Ministers’ approval.	1.2.1 Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol
Fertilizer subsector	1.2.2. Adoption by MINAG of the composition and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from private sector	No change.	1.2.2. Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF), which includes a representative from MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), which includes a representative from the private sector
Irrigation subsector	1.2.3 Adoption by MINAG of an updated legal and regulatory framework for associations that formally recognizes the legal status of water user associations and local irrigation organizations, and outlines their mandates and accountabilities	The regulations refer to “irrigation associations,” not water user associations and local irrigation organizations, and require prior authorization by Parliament, then Council of Ministers’ approval.	1.2.3 Request for authorization submitted by the Council of Ministers to Parliament for approval of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure
Nutrition	1.2.4 Creation of a Joint Commission on Food Fortification sanctioned by a <i>Ministerial Diploma</i> by MIC and MISAU, and implementation of an MoU approved by MIC on the operationalization of the food fortification program with the private sector	Operationalization of the food fortification program occurred without the need for a MoU between MIC and the private sector.	1.2.4 Creation of a Joint Commission on Food Fortification by MIC and MISAU, and commencement of a food fortification program with the private sector
Land administration	2.2.1 Adoption by MINAG of operational procedures (developed in consultation with the Consultative Forum on Land) for communities seeking to enter into an agreement with a third party on the use of the land for which the community holds the user rights	The consultation process led by the Consultative Forum on Land on this land reform, which requires mitigation of potential “land grab” risk, was extensive and transparent, but took a long time. The recommendations were reflected in the draft procedures that will be approved by the Council of Ministers of the new government in 2015. Progress is substantial and completion of the consultations and drafting of the	2.2.1 Stakeholder consultation process on new procedures for issuance of third-party land use rights by communities, individuals, and associations (i.e., land lease), led by the multi-stakeholder Consultative Forum on Land, completed and recommendations reflected in draft implementation procedures

	AgDPO-2 trigger identified in AgDPO-1	Modification	AgDPO-2 Prior Action
		procedures constitutes the new Prior Action, while final approval is the trigger for AgDPO-3.	
Finance and markets	2.2.1 Implementation of revised regulations ratified by the Council of Ministers that govern the creation, operation, and reporting of Savings & Credit Cooperatives (CCP) and Rural Finance Associations (OPE) and facilitate the transition from informal savings and loans groups to CCP and OPE	The regulations in question were revised and ratified in 2004, following the revision of the underlying law. Implementation, using the regulations, of the 2011 Rural Finance Strategy is ongoing. No specific reform measures were identified and no Prior Action was formulated for AgDPO-2.	
Monitoring & evaluation	3.2.1 Implementation of the integrated survey framework for agricultural statistics that links the Early Warning System ( <i>Aviso Previo</i> ) with the Agricultural Household Survey (TIA), in the 2013 integrated agricultural household survey	The new survey framework replaces rather than links <i>Aviso Previo</i> and TIA.	3.2.1 Implementation of the new integrated agriculture household survey covering the 2012/13 agriculture season that replaces the Early Warning System ( <i>Aviso Previo</i> ) and the Agricultural Household Survey (TIA)

## ANNEX 3: LETTER OF DEVELOPMENT POLICY



REPÚBLICA DE MOÇAMBIQUE  
MINISTÉRIO DA PLANIFICAÇÃO E DESENVOLVIMENTO  
GABINETE DO MINISTRO

Letter nº 241 /MPD/GM/ /2014

Maputo, November 5, 2014

**Subject: Letter of Development Policy for the Second Agriculture Development Policy Operation (AgDPO-2)**

**Dear Mr. Lundell,**

1. I am writing on behalf of the Government of the Republic of Mozambique to request a Credit in the amount of US\$50 million (AgDPO-II) from the International Development Association (IDA), to support a reform program in the agriculture and fishery subsectors under a Development Policy Operation credit.
2. The aforementioned Credit will help to meet the financing requirements that Mozambique faces to implement the Action Plan for the Poverty Reduction (PARP2010-2014), through the Economic and Social Plan (PES) and the annual budget (OE) for the year 2014. The requested credit will be directed to support the GoM-PARP Objective I with the second of three operations in the proposed program.
3. We would like to commend your commitment to continuous support of the Government's program as we progress with the implementation of the PARP 2011-2014 through the support of the World Bank DPO support series. The Development Objective of the Ag DPO series is to improve agricultural technology, enhance access to productive assets and financial services, and improve monitoring of sector performance.

To:  
**Mr. Mark Lundell**  
Country Director for  
Mozambique, Madagascar, Mauritius, Comoros e Seychells  
The World Bank

A handwritten signature in black ink, appearing to be 'A. S.' or similar.



4. The Development Objective of the AgDPO series is consistent and aligned with the objectives of the World Bank Country Partnership Strategy (CPS, FY12-FY15) in particular to promote inclusive and broad-based growth by focusing on agricultural productivity. The DPO series directly supports the CPS cross-cutting Pillar I on Competitiveness & Employment.

### ***Overview of Country Recent Progress***

5. Mozambique has made macro-economic progress in recent years. The country experienced average annual economic rates of over eight percent between 1996 and 2011, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa. Tight monetary policy, a significant influx of foreign investment and high levels of donor support have contributed to this economic growth. The economic growth was accompanied by significant poverty decline over the last 20 years. However, the country remains one of the poorest countries of the world – ranking 180<sup>th</sup> for per capita GDP at US\$671 per year and 178<sup>th</sup> out of the 187 countries included in the 2014's Human Development Index.
6. The PARP-II implementation in 2011 was broadly satisfactory. The Mozambican economy continued to grow rapidly, achieving a GDP growth rate of 7.3 percent in 2011 following a 7.1 per cent in 2010. Inflation declined from 12.7 per cent in 2010 to 10.4 percent in 2011 and ranged from 2 to 5 percent in the following years.
7. The results of household budget survey done in 2008-09 (DF09-09) provide solid evidence of significant progress across a range of non-monetary poverty indicators at both the national and regional levels. These include large improvements in access to education (at both primary and secondary levels); improved access to health services particularly in rural areas; increases in asset ownership by households; improvement in access to electricity and improvements in housing quality. These improved indicators attest to important positive long-run development trends as well as success in meeting strategic government priorities. At the same time the 2008/09 measures of poverty based on consumption, particularly food consumption, did not decrease as planned. While consumption poverty fell significantly from 1996/97 to 2002/03 (69% to 54%). The 2008/09 IDF shows that consumption poverty (as measured by the headcount rate) at the national level remained the same as in 2002/03. The advances observed in non-monetary poverty indicators are associated



in part with the large efforts made by the government in the provision of social services. The government has invested massively in education and health, along with investments in transport infrastructure, which has resulted in significant improvements in school attendance rates and in the average proximity of health posts. Alongside these gains in social sectors, improvements in durable goods ownership and housing quality were observed despite these advances, consumption poverty rates at the national level remained stable. Factors behind these results include:

- Slow growth rates in agricultural productivity, especially with respect to food crops, observed in the TIA surveys since 2002;
- Weather shocks that impacted the harvest of 2008, particularly in the Central provinces associated with the impact of the increased food prices under the international food and fuel price increases.

### ***Sector Reforms***

8. As set out in 2011-14 PARP, the Government's main objective is the reduction of the levels of absolute poverty in Mozambique. To achieve this goal, the PARP-II, adopted a strategy and programme focused on the following key priorities areas: human capital development (including education, health and access to potable water); governance (good governance, legality and justice including public and legal sector reform). Economic development (including the promotion of national entrepreneurship and infrastructure development); and cross-cutting issues including environment, HIV/AIDS and gender.
9. The GoM introduced in agriculture sector a set of reforms and management to boost overall performance and improve productivity. The most important are the following:
  - a. The PEDSA – the government's strategic plan for the development of the agricultural sector for the 2011 to 2020 period, is a multi-sector, inter-ministerial approach to improve agricultural performance. PEDSA is built around the following strategic pillars and corresponding goals (i) Agrarian productivity. (ii) Market Access; (iii) natural resources; (iv) Institutions capacity building. With the implementation of PEDSA the government seeks to achieve an annual growth rate in agriculture of at least 7 percent. Through a combination of farm productivity increase (i.e. higher yield per ha) and expansion of cultivated area increase of 25 percent by 2020 of the



area cultivated for food crops). The PEDSA promotes the creation of an environment conducive of a stronger private sector participation (including smallholders and other economic actors) in the various commodity value chains the PEDSA prioritizes public investments in areas of strong economic potential, while supporting local initiatives and non-farm activities elsewhere.

- b. Mozambique embarked on the AU/NEPAD's CAADP agenda and signed its national CAADP Compact in December 2011. CAADP represents Africa leader's collective vision for agriculture in Africa. It aims at helping African countries reach a higher path of economic growth through agriculture-led development. To achieve this goal by 2015, countries commit to reforms designed to bring about an average annual growth rate of 6 percent in agriculture; they also commit to increasing public investment in agriculture to at least 10 percent of their national budgets. CAADP revolves around four pillars for agricultural improvement at the investment; (i) sustainable land and water management; (ii) market access; (iii) food supply and hunger; and (iv) agricultural research Mozambique's CAADP Compact outlines a set of sector priorities aligned with the CAADP pillars committed by GoM, Donors, producers, other private sector agents, and civil society. As Mozambique's PEDSA implemented under the CAADP framework, the Compact also highlights the linkages between PEDSA pillars and CAADP pillars.
- c. The GoM has prepared its first agricultural medium term investment plan, PNISA. Mobilizing resources through domestic and international alliances is a crucial element and output of the CAADP roundtable process. Mozambique's national Investment Plan for the Agrarian Sector (PNISA) is the result of a participatory process of a broad consultation and validation rounds launched in January 2012 with various stakeholders under the leadership of a technical unit at MINAG with support from FAO. PNISA encompasses the detailed costing the monitoring and evaluation framework and the arrangement for institutional coordination for areas derived from the pillars of the PEDSA, and is broken down into 21 programs. PNISA's total budget amounts to an equivalent of around US\$4 billion for the period 2013-17 or around US\$ 800.000 per year.



## *The Agriculture Program*

10. A recent assessment of the Agriculture subsector found that: (i) overall agricultural sub sector growth for the first half of 2012 (including the second crop) was 3.4 percent, lower than expected due to sub performance in the cashew, tea and copra subsectors. The activities and actions proposed in MINAG's PES 2013 for agriculture, forestry and livestock are supporting the PQG sector priorities and the project growth rate for the sector in 2013 is 4.8 percent. This remains well below the 7 percent target of the PEDSA and the 6 percent growth rate target the governments from African countries committed to under the Comprehensive Africa Agriculture Development Program (CAADP). The PES 2013 indicates for example that the distribution of seeds will be pursued using the mechanisms introduced with the GoM's Food Production Action Plan (PAPA), which include supplying seeds through agro-dealers at a subsidized price.
11. The tentative budget allocation to irrigation, research, and fisheries is around 22, 20 and 10 percent of the total PNISA budget, respectively. The GoM has officially presented the PNISA to potential investors (including private sector and development partners) and invited them to formulate the commitments to co-funding the PNISA using a range of mechanisms (eg. Program targeted basket funding, direct investments).
12. The GoM recognizes the need for actions and changes as illustrated by the country's 2011-14 poverty reduction strategy (PARP) devoted to agriculture. The stated objective is "to increase production and enhance productivity in the agriculture and fisheries sectors". To contribute to achieving the PARP Objective I, the AgDPO series is envisaged to support a GoM medium term program of policy and institutional reforms in agricultural sector. The basic premise in the design for the AgDPO series is that reforms in the core subsectors of agriculture and are necessary – but not sufficient. Rather, in order to achieve the comprehensive and lasting changes required to turn around the performance in agriculture, reforms need to extend to the enabling environment and be embedded in a foundation that allows to accurately monitoring progress towards the results expected from their implementation. Therefore, in addition to irrigation, land and technology adoption, the policy areas of the DPO-II include, rural finances agribusiness environment and sector statistics.



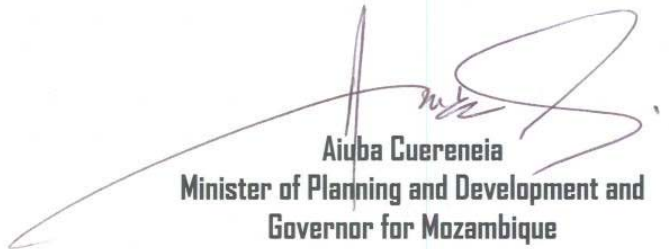
13. The AgDPO series complements operational and institutional engagement in agriculture. Amidst the various sector strategies, institutional development programs and operational projects the AgDPO series addresses policy constraints that, when addressed, expect to improve agriculture sector performance. The GoM needs to complement its new agricultural sector strategy (PEDSA) the national CAADP Compact and its subsequent medium term sector investment plan (PNISA), with the implementation of a medium term program of policy and institutional sector reforms: the AgDPO series provides the opportunity for the GoM to prioritize, select, implement and report on the implementation of rigorously selected sector policy instruments.
14. With GoM's clear prioritization of agriculture in its current economic growth and poverty agenda (e.g. Strategic Objective I of the PARP, GoM's CAADP agenda with PEDSA and PNISA), a more comprehensive framework for a tri-partite sector policy dialogue between GoM and development partners is required – which the AgDPO series provides.
15. The GoM has agreed upon and implement the following prior actions before the presentation of the credit to Executive Board:
  - a) Prior Action 1: Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol;
  - b) Prior Action 2: Adoption by MINAG of the composition of and operational procedures for: i) the Technical Evaluation Committee for the Registration of Fertilizers (CATERF) that includes a representative from MICDA, and ii) the Technical Advisory Committee on Fertilizer (CATF), that includes a representative from the private sector
  - c) Prior Action 3: Approval by the Council of Ministers of an updated regulatory framework for irrigation associations, defining mandates and accountabilities for the operation, maintenance and management of public irrigation infrastructure;
  - d) Prior Action 4: Creation of a Joint Commission on Food Fortification sanctioned by a ministerial diploma by MIC and MISAU, and commencement of implementation of the food fortification program with the private sector;

- e) Prior Action 5: Stakeholder consultation process on new procedures for issuance of third party land use rights by communities, individuals and associations (i.e. land lease), led by the multi-stakeholder National Land Forum, completed and recommendations reflected in draft implementation procedures;
- f) Prior Action 6: Implementation of the new integrated agriculture survey in 2013 that replaces the Early Warning System (Aviso Prévio) and the Agricultural Household Survey (TIA)

16. In this regard, and based on the progress we have made so far, we would like to thank the World Bank for all support provided and we express our readiness to negotiate the Agriculture Development Policy Operation.

With highest consideration

Yours Sincerely,



**Aiuba Cuereneia**  
**Minister of Planning and Development and**  
**Governor for Mozambique**

**Cc:**

**H.E. Manuel Chang**  
**Minister of Finance**

**H.E. Alcinda Abreu**  
**Minister for the Coordination of Environmental Action**

**H.E. José Pacheco**  
**Minister of Agriculture**

**H.E. Victor Borges**  
**Minister of Fisheries**

**H.E. Ernesto Gove**  
**Governor of Bank of Mozambique**



## ANNEX 4: FUND RELATIONS NOTE

Press Release No. 15/01  
FOR IMMEDIATE RELEASE  
January 5, 2015

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Third PSI Review for Mozambique**

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Mozambique's economic performance under the program supported by the Policy Support Instrument (PSI).<sup>1</sup> The Board's decision was taken on a lapse of time basis.<sup>2</sup>

The PSI for Mozambique was approved by the Executive Board on June 24, 2013 (see Press Release No. 13/231)

Mozambique's macroeconomic performance remains robust. Growth is forecast at 7.5 percent for 2014 with low inflation (12-month Maputo average through November was 2.4 percent) despite an expansionary and higher than programmed fiscal stance and reserve money running modestly above target. Performance under the PSI-supported program has been mixed—while all but one of the quantitative assessment criteria were met at end-June, there were some slippages during the second half of the year and some delays in implementing structural reforms.

The main short-term challenge is to maintain the growth momentum while preserving fiscal and debt sustainability. Fiscal consolidation needs to be initiated in the 2015 budget to restore prudent fiscal management. While low import prices have dampened inflation, the Bank of Mozambique should stay vigilant and adhere to its medium-term inflation target. Key structural reform priorities include improving VAT and overall tax administration, continuing public financial management reforms, strengthening institutional capacity to ensure transparent public investment management and borrowing, and enhancing the business environment and financial sector development. Completion of the contract negotiations for the production of liquefied natural gas (LNG) is a critical milestone for the launch of this project, one of the largest in sub-Saharan Africa.

Despite the heightened risks from an uncertain global outlook, growth is expected to remain strong and be broad-based in the medium term, boosted by the natural resource boom and infrastructure investment. Fiscal adjustment over the medium term will be essential to preserve debt sustainability and macroeconomic stability. This requires measures to contain current spending pressures while bringing investment to a more sustainable level. With foreign aid likely to decline over the medium term, Mozambique will need to borrow in order to provide additional resources for achieving targeted improvements in physical infrastructure and human capital. To ensure the efficiency of investment and borrowing, it is essential to further strengthen investment planning and implementation, as well as debt management. Structural reforms focusing on public financial management, monetary policy tools, banking supervision, and business facilitation should be implemented vigorously to sustain growth and render it more inclusive.

<sup>1</sup> The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Mozambique's PSI program are available at <http://www.imf.org/mozambique>.

<sup>2</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

# ANNEX 5: MOZAMBIQUE AT A GLANCE

## Mozambique at a glance

9/3/14

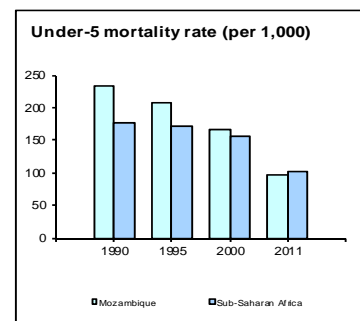
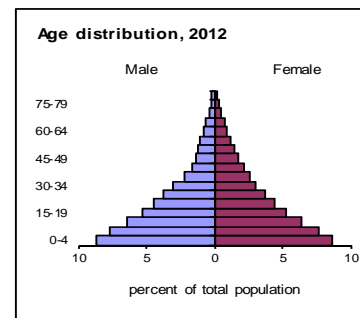
### Key Development Indicators

(2012)

	Mozambique	Sub-Saharan Africa	Low income
Population, mid-year (millions)	25.2	910	846
Surface area (thousand sq. km)	799	24,262	16,198
Population growth (%)	2.5	2.7	2.3
Urban population (% of total population)	31	37	28
GNI (Atlas method, US\$ billions)	12.9	1,225	494
GNI per capita (Atlas method, US\$)	510	1,345	584
GNI per capita (PPP, international \$)	1,020	2,247	1,387
GDP growth (%)	7.4	4.2	5.9
GDP per capita growth (%)	4.7	1.5	3.6

(most recent estimate, 2005–2012)

Poverty headcount ratio at \$1.25 a day (PPP, %)	60	48	48.3
Poverty headcount ratio at \$2.00 a day (PPP, %)	82	70	74.3
Life expectancy at birth (years)	50	56	61
Infant mortality (per 1,000 live births)	63	64	56
Child malnutrition (% of children under 5)	16	21	22
Adult literacy, male (% of ages 15 and older)	71	69	69
Adult literacy, female (% of ages 15 and older)	43	51	54
Gross primary enrollment, male (% of age group)	110	104	111
Gross primary enrollment, female (% of age group)	100	96	106
Access to an improved water source (% of population)	49	63	67
Access to improved sanitation facilities (% of population)	21	30	37



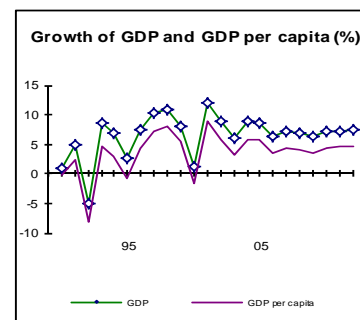
### Net Aid Flows

	1980	1990	2000	2012 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	167	998	906	1,952
<i>Top 3 donors (in 2010):</i>				
United States	9	62	116	278
European Union Institutions	7	81	79	192
Portugal	..	43	33	113
Aid (% of GNI)	4.7	43.0	22.9	20.6
Aid per capita (US\$)	14	74	50	81

### Long-Term Economic Trends

Consumer prices (annual % change)	4.2	43.7	12.7	2.1
GDP implicit deflator (annual % change)	4.1	34.1	12.0	3.0
Exchange rate (annual average, local per US\$)	32.4	947.5	15,689.5	28,373.0
Terms of trade index (2000 = 100)	87	112	100	108

Population, mid-year (millions)	12.1	13.6	18.3	25.2
GDP (US\$ millions)	3,526	2,463	4,183	14,244
<i>(% of GDP)</i>				
Agriculture	37.1	37.1	24.0	30.3
Industry	34.4	18.4	24.5	22.9
Manufacturing	..	10.2	12.2	12.7
Services	28.5	44.5	51.5	46.8
Household final consumption expenditure	96.7	92.3	80.6	79.2
General gov't final consumption expenditure	12.2	13.5	9.0	14.0
Gross capital formation	7.6	22.1	31.0	48.3
Exports of goods and services	10.9	8.2	16.5	29.8
Imports of goods and services	27.4	36.1	37.0	71.3
Gross savings	-6.9	2.1	13.8	4.9



1980–90 1990–2000 2000–12  
(average annual growth %)

GDP	1.1	3.0	2.7
GDP per capita	-0.1	6.1	7.5
Agriculture	6.6	5.2	7.6
Industry	-4.5	12.3	7.8
Manufacturing	..	10.2	6.9
Services	6.5	5.0	7.9
Household final consumption expenditure	-1.2	5.8	5.8
General gov't final consumption expenditure	-6.7	3.2	9.3
Gross capital formation	4.1	8.6	7.5
Exports of goods and services	-6.8	13.1	13.7
Imports of goods and services	-3.8	7.6	8.3

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

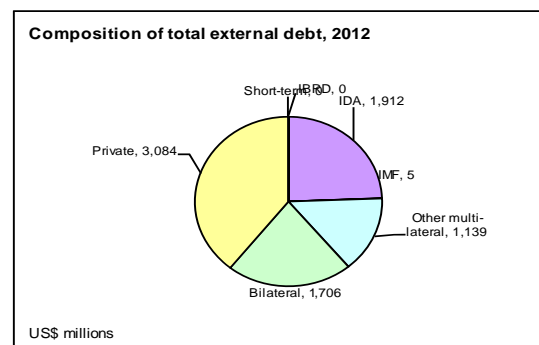
<sup>a</sup> Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

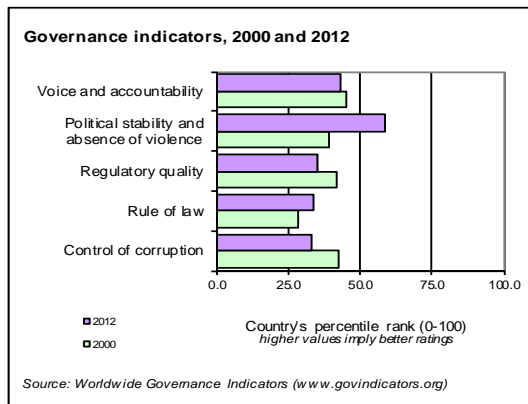
Balance of Payments and Trade	2000	2012
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	364	3,470
Total merchandise imports (cif)	1,163	6,331
Net trade in goods and services	-819	-5,908
Current account balance as a % of GDP	-6.7	-16.7
Personal transfers and compensation of employees (receipts)	37	157
Reserves, including gold	745	2,799
<b>Central Government Finance</b>		
<i>(% of GDP)</i>		
Current revenue (including grants)	15.2	25.6
Tax revenue	10.5	20.0
Current expenditure	11.7	19.4
Overall surplus/deficit	-8.4	-7.4
Highest marginal tax rate (%)		
Individual	20	32
Corporate	35	32

**External Debt and Resource Flows**

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	7,258	7,846
Total debt service	166	62
Debt relief (HIPC, MDR)	3,085	1,437
Total debt (% of GDP)	173.5	55.1
Total debt service (% of exports)	2.16	19.5
Foreign direct investment (net inflows)	139	1,340
Portfolio equity (net inflows)	0	1



Private Sector Development	2000	2012
Time required to start a business (days)	-	13
Cost to start a business (% of GNI per capita)	-	19.7
Time required to register property (days)	-	42
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2012
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	8.2	9.0



Technology and Infrastructure	2000	2011
Paved roads (% of total)	18.7	20.8
Fixed line and mobile phone subscribers (per 100 people)	1	33
High technology exports (% of manufactured exports)	9.0	26.5
<b>Environment</b>		
Agricultural land (% of land area)	61	63
Forest area (% of land area)	52.4	49.4
Terrestrial protected areas (% of land area)	14.8	15.8
Freshwater resources per capita (cu. meters)	5,192	4,080
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.07	0.2
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	13	2.0
Energy use per capita (kg of oil equivalent)	392	415

World Bank Group portfolio	2000	2011
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
<b>IDA</b>		
Total debt outstanding and disbursed	760	1,912
Disbursements	125	291
Total debt service	6	10
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	99	70
Disbursements for IFC own account	49	25
Portfolio sales, prepayments and repayments for IFC own account	3	21
<b>MIGA</b>		
Gross exposure	114	152
New guarantees	74	9

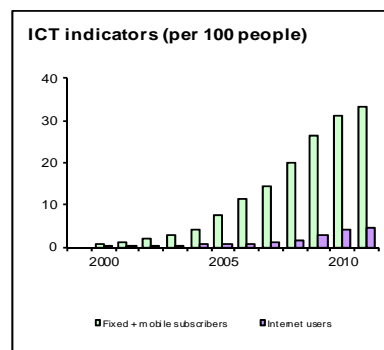
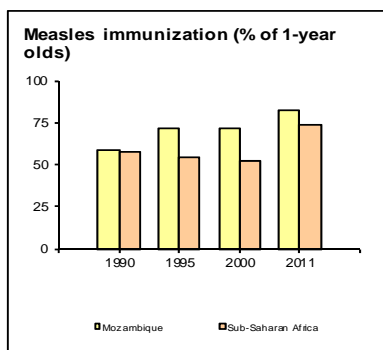
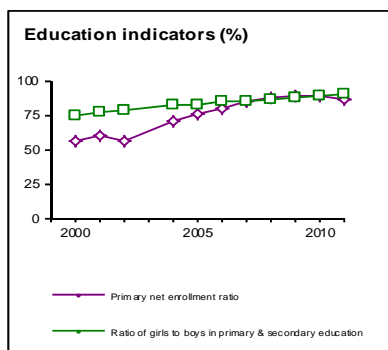
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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Mozambique			
	1990	1995	2000	2011
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$ 1.25 a day (PPP, % of population)	..	80.6	..	59.6
Poverty headcount ratio at national poverty line (% of population)	..	69.4	..	54.7
Share of income or consumption to the poorest quintile (%)	..	5.6	..	5.2
Prevalence of malnutrition (% of children under 5)	..	23.9	23.0	15.6
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	44	44	56	86
Primary completion rate (% of relevant age group)	27	26	16	53
Secondary school enrollment (gross, %)	7	7	6	26
Youth literacy rate (% of people ages 15-24)	..	47	..	67
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	73	69	75	90
Women employed in the nonagricultural sector (% of nonagricultural employment)	11	..	..	..
Proportion of seats held by women in national parliament (%)	16	25	30	39
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	233	208	166	96
Infant mortality rate (per 1,000 live births)	155	139	112	67
Measles immunization (proportion of one-year olds immunized, %)	59	71	71	82
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1300	1,100	870	540
Births attended by skilled health staff (% of total)	..	44	..	54
Contraceptive prevalence (% of women ages 15-49)	..	6	..	12
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	0.4	4.7	9.0	11.3
Incidence of tuberculosis (per 100,000 people)	401	478	513	548
Tuberculosis case detection rate (% , all forms)	29	23	23	34
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	34	37	41	49
Access to improved sanitation facilities (% of population)	9	11	14	20
Forest area (% of land area)	55.2	53.8	52.4	49.4
Terrestrial protected areas (% of land area)	14.8	14.8	14.8	15.8
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	0.9	1.0	1.3	2.0
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	0.4	0.4	0.5	0.4
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	32.8
Internet users (per 100 people)	0.0	0.0	0.1	4.3
Households with a computer (%)	..	..	0.2	5.3



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

9/3/14