

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

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Operation Name	MZ Second Agriculture Development Policy Operation AgDPO-2
Region	AFRICA
Country	Mozambique
Sector	General agriculture, fishing and forestry sector (58%); Agro-industry, marketing, and trade (14%); Petrochemicals and fertilizers (14%); Central government administration (14%)
Operation ID	P146930
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF MOZAMBIQUE
Implementing Agency	Ministry of Planning and Development Av. Ahmed S. Toure, 21, 4th floor Maputo Mozambique Fax: (258-21) 492-625
Date PID Prepared	October 29, 2014
Estimated Date of Appraisal	November 14, 2014
Estimated Date of Board Approval	December 21, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Mozambique's economic growth continues to be strong and the medium-term macroeconomic outlook is positive. The authorities expect GDP to continue to grow between 7.5-8.2 percent during 2014-17 driven by the resource sector, agriculture, construction, transportation and communications. As discussed in Mozambique's Poverty Reduction Strategy Paper (*Plano de Acção para a Redução da Pobreza - PARP*), the GoM proposes reforms to support stronger growth in these labor intensive sectors, which will take time to implement.

The PEDSA is the government's strategic plan for the development of the agricultural sector for the period 2011 to 2020. It is characterized by a multi-sector, inter-ministerial approach to improving agricultural performance; its strategic objective is to "contribute to food security and producer income in a competitive and sustainable manner that guarantees social and gender equity." With implementation of the PEDSA, the government seeks to achieve an annual growth rate in agriculture of at least 7 percent, through a combination of increased farm productivity (i.e., higher yield per hectare (ha)) and an expansion of cultivated area (an increase of 25 percent by 2020 of the area

cultivated for food crops). The PEDSA promotes the creation of an enabling environment conducive to 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. Six development corridors are identified where agriculture-related investment operations financed by the Bank are already under implementation, including the Zambezi Valley and the Beira corridors in central Mozambique.

The programmatic series of three Agriculture Development Policy Operations (AgDPO) is a logical extension of the lessons learned by the government and donors after a decade of operational and institutional engagement in agriculture. Amidst the various sector strategies, institutional development programs, and operational projects, the AgDPO series fills the growing policy gap that has been a determinant of the mixed results in agriculture performance in recent years. To achieve agricultural growth, the GoM complements its agricultural sector strategy (PEDSA) and its subsequent medium-term sector investment plan (PNISA) with a medium-term program of policy and institutional sector reforms: the AgDPO series provides the GoM the opportunity to prioritize, select, implement, and report on the implementation of selected sector policy instruments.

II. Proposed Objective(s)

The 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*. To support the GoM's strategic objective of achieving food security through sustainable and equitable growth in the agriculture sector, the AgDPO series is articulated around three strategic thematic areas (agriculture technology, access to assets and financial services, and monitoring sector performance) that are aligned with the pillars of the Bank's Africa strategy for agriculture (land and water management, agricultural markets and infrastructure, food security and vulnerability, and agricultural technology).

The AgDPO series is designed as a programmatic series of three consecutive annual credits to support a sequence of medium-term policy and institutional reforms in agriculture. More specifically, the design of the DPO series and the choice of policy areas reflect the need for a broader approach to achieve the strategic objectives of the GoM as outlined in the PARP. In line with the PEDSA and PNISA, achieving significant results on the ground will require a multi-sector, inter-ministerial approach that addresses the policy and institutional bottlenecks hindering development and growth in the core areas of agriculture. It will further require the GoM to adopt measures that help improve the performance of sectors that influence the enabling environment, in turn generating positive outcomes for growth in the agriculture sector.

III. Preliminary Description

Policy Area 1: Improving Agricultural Technology

Mozambique's agriculture remains characterized as largely rainfed, subsistence, low

input use, and primarily smallholder operated. To bring about transformational changes that will help smallholder producers transition from being subsistence farmers to emerging market-led entrepreneurs, a significant increase in the adoption of new advanced technologies is required – and at a much larger scale than is currently happening. To achieve this, the AgDPO series addresses specific factors hampering the broader adoption of agricultural inputs (seeds and fertilizers); significantly higher and more efficient use of water for agriculture; and the wider dissemination of nutrition-related technologies. The policy and institutional measures the GoM seeks to implement in Policy Area 1 focus on: (i) increasing the participation of the private sector in the commodity value chains for seeds and fertilizers; (ii) enhancing performance in public irrigation schemes through improved management arrangements; and (iii) enhancing nutritional value of food through food fortification.

Prior Action 1: Approval by the Council of Ministers of regulations for the protection of plant varieties that recognize the SADC seed harmonization protocol.

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 MICOA, and ii) the Technical Advisory Committee on Fertilizer (CATF), that includes a representative from the private sector.

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.

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.

Policy Area 2: Enhancing access to productive assets and financial services

Mozambique's smallholder farmers are often rightly characterized as "asset poor households." Moreover, studies indicate that in the current context, a large share of farming households likely require a considerable span of time before they can develop a bankable asset base. Further, the scale of benefits to the agriculture sector from new mega-projects remains uncertain. There is a need for the GoM to speed up the community land demarcation initiative and issue land user rights (DUATs) to producer associations currently farming on that land. Finally, since in Mozambique land cannot be used as collateral and farming households are generally asset poor, access to financial services should be enhanced to promote private sector-led agriculture growth. To that effect, the AgDPO proposes to support the asset-building policy and institutional changes committed to by the GoM, with the goals of: (i) increasing smallholder land tenure security in the face of sustained interest in land from larger-scale investors; and (ii) developing a policy and institutional environment conducive to a significant increase in access to financial services in rural areas.

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.

Policy Area 3: Monitoring Sector Performance

The growing popularity in recent years of performance-based management systems has greatly increased the demand for statistical data and information on agriculture. The GoM has committed to addressing the policy and institutional bottlenecks affecting the monitoring and reporting of the performance of the agriculture sector. The multi-year program of reforms proposed under the AgDPO series seeks to build a sustainable agricultural statistics system, integrated with the national statistical system, that will enable evidence-based decision-making and facilitate the design of policies and programs, as well as allow informed assessment and reporting on the performance of the agriculture sector and progress on implementation of PEDSA, the country's CAADP agenda, and the AgDPO series.

Prior Action 7: Implementation of the new integrated agriculture survey in 2013 that replaces the Early Warning System (Aviso Previo) and the Agricultural Household Survey (TIA).

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The main objective of this AgDPO series is to contribute to increasing production and productivity in agriculture through reforms designed to alleviate existing policy and institutional constraints to agriculture growth. Since some 70 percent of the country's population is based in rural areas, with the vast majority of households dependent on agriculture for their livelihoods, agriculture growth-inducing reforms can be expected to have a direct and positive impact on overall rural poverty reduction. As such, the primary challenge for the GoM is to achieve agriculture-led, broad-based rural poverty reduction across the country (taking into account that 27 percent of rural farming households are women-led). Recent analytical work from the International Food Policy Research Institute¹ concludes that with the right investments and policies geared towards reasonable improvements in crop and livestock yields, Mozambique can achieve the 7 percent agricultural growth target agreed on under CAADP and the PEDSA. This growth rate would lift almost 1 million people above the poverty line, thus greatly reducing the national poverty rate.

Environment Aspects

The specific country policies supported by the proposed AgDPO-2 operation are not likely to cause significant negative effects on the country's environment, forests, or other natural resources. The proposed operation recognizes the GoM's sector strategy and participatory processes, which are geared towards promoting the agricultural sector while ensuring protection and sustainable use of natural resources. The multi-sectoral nature of the AgDPO series also implies that linkages exist with many other operations in the Bank's portfolio. Such linkages will result in a synergy that enhances better management of natural resources and minimization of adverse impacts. The irrigation sub-sector

¹ IFPRI (2012): Strategies and Priorities for African Agriculture – Economy-wide Perspectives from Country Studies. Washington, D.C.

provides a good example: implementation of a mid-term irrigation investment plan (an AgDPO Prior Action) will likely lead to an increase in land irrigated. However, the GoM's national irrigation policy clearly prioritizes the rehabilitation of existing irrigation perimeters (i.e., no clearing required). Further, given the nature of the investments, most of the works in rehabilitating irrigation schemes are likely to be occurring in the context of donor-funded operations for which rigorous environmental and social safeguards apply (e.g., the IDA funded PROIRRI project). Relatively adequate institutional capacity exists in Mozambique within the Ministry for Coordination of Environmental Affairs (MICOA) and its decentralized National Directorates for the Coordination of Environmental Affairs (DPCA) to develop and implement impact mitigation measures that could be necessitated with the implementation of the AgDPO-2 measures.

V. Tentative financing

Source:		(\$m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		50
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	50

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