

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

October 8, 2014  
Report No.: AB7655

<b>Operation Name</b>	Mozambique Tenth Poverty Reduction Support Credit
<b>Region</b>	AFRICA
<b>Country</b>	Mozambique
<b>Sector</b>	General public administration sector (35%);General industry and trade sector (35%);Other social services (30%)
<b>Operation ID</b>	P146537
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	REPUBLIC OF MOZAMBIQUE
<b>Implementing Agency</b>	Ministry of Planning and Development
<b>Date PID Prepared</b>	October 8, 2014
<b>Estimated Date of Appraisal</b>	September 29, 2014
<b>Estimated Date of Board Approval</b>	December 12, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the appraisal of the operation.

**I. Key development issues and rationale for Bank involvement**

**Mozambique's economy has grown rapidly since the end of the Civil War in 1992.** Annual GDP growth averaged 7.4 percent over the past two decades. Robust growth was made possible by sound macroeconomic management, a number of large-scale foreign-investment projects and significant donor support. Mining, electricity and services led the expansion, and in recent years growth has increasingly been driven by massive FDI inflows focused on the extractive industries. Major discoveries of coal and natural gas may transform Mozambique into a significant player in global fuels markets, but in order to reap the benefits of a growing resource sector the government will need to develop the capacity to manage the country's extractive industries and ensure that they contribute to sustainable, broad-based growth and shared prosperity.

**Mozambique's rapid economic expansion over the past twenty years has had only a moderate impact on poverty reduction, and the geographical distribution of poverty remains largely unchanged.** In 2013 Mozambique's per capita income was US\$593, less than one-third of the Sub-Saharan Africa (SSA) average. Economic growth in the 1990s was accompanied by a significant drop in poverty rates, but since the early 2000s the link between growth and poverty reduction has weakened. Between 1997 and 2003 the poverty headcount rate fell from 68 to 56 percent, a decline of 12 percentage points, yet between 2004 and 2009 poverty fell by only four percentage points to 52 percent. Moreover, the returns to growth have been heavily concentrated in the country's southern regions and urban centers, while poverty remains pervasive in the north and rural areas nationwide. The weakened relationship between growth and poverty reduction is due to the changing pattern of growth, which in the past decade was driven by capital-intensive, import-dependent sectors and individual megaprojects (e.g. Mozal and Sasol). This pattern of growth is also reflected in Mozambique's labor markets, which

continues to be dominated by low skilled labor in the agricultural sector; meanwhile, the rest of the economy is unable to offer better-remunerated jobs for the 300,000 new workers entering the labor force every year.

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

## **II. Proposed Objective(s)**

**This programmatic series is designed to build the government's capacity to manage the country's large stock of extractive resources.** The series supports reforms in key policy areas, including: (a) *economic development*, by enhancing the legal and institutional framework for the resource sector, and simplifying business regulations for promoting broad-based growth, (b) *social protection*, by supporting inclusive growth and reducing economic vulnerability through well-targeted social-protection policies, and (c) *public finance management*, by improving the efficiency of public investment, debt and fiscal risks management.

## **III. Preliminary Description**

**The proposed PRSC-10 would be the second in a series of three annual operations supporting the implementation of the PARP.** The PRSC series is harmonized with the G-19 joint-donor mechanism for the provision of general budget support. Reforms supported by the PRSC series are in line with the PARP's strategic pillars and the objectives defined in the PARP results matrix, such as enhancing the transparency and efficiency of public finance management, the creation of an environment favorable to micro, small and medium enterprises (MSMEs), improving the sustainable use of natural resources and improving the access and quality of social services and basic social protection.

**The proposed operation will also support Mozambique in achieving the World Bank's twin goals of ending extreme poverty and promoting shared prosperity.** The ability of growth to reduce poverty in Mozambique has been disappointing over the past decade. This is related to the pattern of growth, partly driven by large capital intensive projects. The discovery and ongoing investments in the mining and hydrocarbon sectors, often through large capital intensive projects with limited links to the rest of the economy, may contribute to a growth pattern that as in the past does not lead to significant poverty reduction. Government interventions should promote a pattern of growth that is broad-based and that benefits the poorer segments of the population. The reforms supported by this operation will contribute to this. An improved business environment will contribute to increased investment and broad-based growth, creating more employment opportunities. Better management of natural resources, increased transparency and stronger PFM systems will contribute to maximizing the benefits of natural resources for the

population as a whole. And a scaling up and improvement of social protection programs will enhance the government's ability to support the poorest and most vulnerable in the population.

#### **IV. Poverty and Social Impacts and Environment Aspects**

**The policies supported by this series are expected to have a positive impact on poverty and social indicators.** The proposed PRSC directly contributes to poverty alleviation through its focus on enhancing the scope, targeting and overall efficacy of social protection programs. Detailed analysis of the social and poverty impact of enhancing social protection programs was done during appraisal of the Mozambique Social Protection Project (Report No: 73608-MZ). The proposed operation also supports improvements in the use of public resources by strengthening PFM systems, promoting transparency in the resource sector and reinforcing fiscal oversight by revising the regulatory framework for SOEs and curbing quasi-fiscal actions by government agencies. As PFM continues to improve and social spending becomes better targeted and more responsive to the needs of beneficiaries, the impact of government interventions on poverty and social conditions will be progressively enhanced. In addition, greater PFM efficiency is expected to expand the fiscal space necessary to finance further spending on poverty reduction.

**Efforts to promote job creation can have a strong and lasting impact on poverty reduction.** The reform actions included under the proposed PRSC will support broad-based growth by reducing administrative costs and unnecessary regulatory constraints to doing business. The relatively weak link between growth and poverty reduction over the past decade is not surprising given the capital-intensive nature of the investments contributing to strong growth (aluminum, gas and more recently coal). A recent study on jobs in Mozambique sheds more light on the relatively poor performance of the labor market in Mozambique, arguing that there has been little structural transformation in labor markets and that productivity remains very low across the board, but particularly in the primary sector. Efforts to improve the business environment, as supported by this operation, have the potential to increase investment and productivity, resulting in increased employment opportunities and a more inclusive and broad based growth pattern.

#### **Environmental Aspects**

**The legal framework for environmental protection is relatively well developed in Mozambique, but implementation and enforcement capacity remains limited.** The Law on the Environment (Law n° 20/97) is the basis for environmental regulations and applies to all public and private activities with potentially significant environmental consequences. These activities are subject to an Environmental Impact Assessment, which must precede any issuing of licenses or the approval of any new projects. The Ministry for the Coordination of Environmental Affairs (MICOA) is the agency responsible for conducting Environmental Impact Assessments. The capacity of MICOA, however, is limited due to financial and technical capacity constraints.

**The reforms supported by this PRSC series are not likely to have significant negative effects on the environment, forests, fisheries, wildlife habitats or other natural resources.** The PRSC series supports policy actions designed to accelerate poverty reduction, which by themselves have no direct impact on the environment. Regular private and public investment activities which may result from a more enabling business climate could have an impact on the

environment. The Bank—in this and other operations—is working to help the government develop and implement appropriate policies to reinforce the management of natural resources, particularly the extractive industries which by their nature could have a more significant impact on the environment. The proposed PRSC series is therefore expected to have a neutral or net positive impact on overall environmental quality in Mozambique.

**Neither specific environmental studies nor environmental impact management measures are anticipated for this operation.** Although the increase in economic activity that may result from the successful implementation of the proposed PRSC may have environmental effects, the domestic legal framework and regulatory mechanisms are judged to be fundamentally adequate to address them. Mozambican legislation requires that such effects would have to be identified as part of the preparation of the individual business projects, with credible evidence provided as to how the developer plans to manage potential environmental consequences. Improved public investment management will also contribute to early identification and evaluation of any environmental impact of projects before they are approved and start implementation. Through MAGTAP the Bank will work to enhance the environmental and social management of extractive industries. This will include (a) carrying out strategic environmental and social assessments for the mining and gas sectors; (b) supporting the continued elaboration of sector regulations and provisions for redressing social and environmental damage; (c) increasing Mozambique’s capacity to undertake economic and social impact assessments and to resolve disputes involving the sector; and (d) continuously enhance mechanisms for monitoring the sector’s environmental effects.

## V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
IDA Credit	110
Borrower/Recipient	
IBRD	
Others (specify)	
Total	110

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