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The World Bank

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Report No. 91867-MZ

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED CREDIT AND GRANT

IN THE AMOUNT OF SDR 34 MILION

(US\$50 MILLION EQUIVALENT)

TO

THE REPUBLIC OF MOZAMBIQUE

FOR THE

SECOND CLIMATE CHANGE DEVELOPMENT POLICY OPERATION

November 25, 2014

Environmental and Natural Resources
Country Department AFCS2
Africa Region

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MOZAMBIQUE - GOVERNMENT FISCAL YEAR

January, 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 30, 2014)

Currency Unit = New Metical (MZN)

MZN 30.98 = US\$1

US\$1 = SDR 0.67643895

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ANE	National Roads Administration (Administração Nacional de Estradas)
ARA	Regional Water Authority (Administração Regional de Águas)
BdM	Bank of Mozambique (Banco de Moçambique)
CCAP	Climate Change Action Plan
CCGC	Coordinating Council for Disaster Management (Conselho Coordenador de Gestão de Calamidades)
CENOE	National Operational Emergency Center (Centro Nacional Operativo de Emergência)
CFL	Compact Fluorescent Lamp
CONDES	National Sustainable Development Council (Conselho Nacional de Desenvolvimento Sustentável)
COP	Conference of the Parties
CPS	Country Partnership Strategy
CSA	Climate Smart Agriculture
CTGC	Technical Council for Disaster Management (Conselho Técnico de Gestão de Calamidades)
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK Aid)
DNA	National Directorate of Water (Direcção Nacional de Águas)
DNEA	National Directorate of Agrarian Extension (Direcção Nacional de Extensão Agrária)
DPO	Development Policy Operation
DPL	Development Policy Lending
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
EACC	Economics of Adaptation to Climate Change
EDAP	Energy Development and Access Project
EdM	Public Electricity Utility (Electricidade de Moçambique)
EITI	Extractive Industries Transparency Initiative

ENGRH	National Water Resources Management Strategy (Estratégia Nacional de Gestão de Recursos Hídricos)
ENAMC	National Climate Change Adaptation and Mitigation Strategy (Estratégia Nacional de Adaptação e Mitigação das Mudanças Climáticas)
ENSSB	National Basic Social Protection Strategy (Estratégia Nacional de Segurança Social Básica)
EU	European Union
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FUNAE	National Energy Fund (Fundo de Energia)
FY	Fiscal Year
GCM	Global Circulation Model
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFDRR	Global Facility for Disaster Risk Reduction and Recovery
GII	Gender Inequality Index
GoM	Government of Mozambique
HDI	Human Development Index
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
INAM	National Meteorological Institute (Instituto Nacional de Meteorologia)
INE	National Institute of Statistics (Instituto Nacional de Estatística)
INGC	National Institute of Disaster Management (Instituto Nacional de Gestão de Calamidades)
IPCC	International Panel for Climate Change
JICA	Japan International Cooperation Agency
LIDAR	Light Detection and Ranging
LPG	Liquified Petroleum Gas
M&E	Monitoring and Evaluation
MAE	Ministry of State Administration (Ministério da Administração Estatal)
MDG	Millennium Development Goal
ME	Ministry of Energy (Ministério da Energia)
MICOA	Ministry for Coordination of Environmental Affairs (Ministério para a Coordenação da Acção Ambiental)
MINAG	Ministry of Agriculture (Ministério da Agricultura)
MISAU	Ministry of Health (Ministério da Saúde)
MPD	Ministry of Planning and Development (Ministério de Planificação e Desenvolvimento)
MOPH	Ministry of Public Works and Housing (Ministério de Obras Públicas e Habitação)
NAPA	National Adaptation Program of Action
NCB	Non-Concessional Borrowing
NDF	Nordic Development Fund

PARP(A)	Mozambican Action Plan to Reduce (Absolute) Poverty (Plano de Acção para a Redução da Pobreza (Absoluta))
PDO	Project Development Objective
PEDSA	Strategic Development Plan of the Agricultural Sector (Plano Estratégico de Desenvolvimento do Sector Agrário)
PEFA	Public Expenditure and Financial Accountability
PESOD	District Socio-economic Plan (Plano Económico e Social Distrital)
PESS	Health Sector Strategy (Plano Estratégico do Sector de Saúde)
PFM	Public Finance Management
PNISA	National Investment Plan for the Agriculture Sector
PPCR	Pilot Program for Climate Resilience
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Strategy Credit
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
REFIT	Renewable Energy Feed-in-Tariff
SDR	Special Drawing Rights
SEA	Strategic Environmental Assessment
SISTAFE	Integrated Financial Management System (Sistema de Administração Financeira do Estado)
SOPs	Standard Operating Procedures
SPCR	Strategic Program for Climate Resilience
SSA	Sub-Saharan Africa
UMC	Climate Change Unit (Unidade das Mudanças Climáticas)
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
WB	World Bank
WSP	Water Support Program

Regional Vice President:	Makhtar Diop
Country Director:	Mark Lundell
Senior Global Practice Director:	Paula Caballero
Practice Manager:	Magda Lovei
Task Team Leaders:	Giovanni Ruta, Ross Hughes

REPUBLIC OF MOZAMBIQUE

SECOND CLIMATE CHANGE DEVELOPMENT POLICY OPERATION

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The Second Climate Change Development Policy Operation was prepared by an IDA team consisting of: Giovanni Ruta (TTL and Senior Environmental Economist, GENDR), Ross Hughes (Co-TTL and Senior Climate Change Specialist, GENDR), Enrique Blanco Armas (Senior Economist, GMFDR), Luz Meza-Bartrina (Senior Counsel, LEGAM), Humberto Cossa (Senior Health Specialist, GHNDR), Louise Croneborg (Water Resources Specialist, GWADR), Angela Dengo (Team Assistant, AFCS2), Nevena Ilieva (Senior Operations Officer, GENDR), Aya Ishizuka (Health Specialist, GHNDR), Kazuhide Kuroda (Senior Operations Officer, GPSOS), Isabel Neto (Senior Operations Officer, GEEDR), Mustafa Zakir Hussain (Senior Energy Specialist, GEEDR), Clarisse Nhabangue (Team Assistant, AFCS2), Jan Joost Nijhoff (Senior Agriculture Economist, GAGDR), Kulwinder Rao (Senior Highway Engineer, GTIDR), Julio Revilla (Program Leader, AFCS2), Aurore Simbananiye (Program Assistant, GENDR), Paolo Sithoe (GENDR), Isabel Soares (Senior Operations Officer, AFCS2), Furqan Saleem (Senior Financial Specialist, GGODR), Luis M. Schwarz (Senior Finance Officer, WFALA), Simon Croxton (Consultant, GENDR) and Roberto White (Consultant, GURDR).

SUMMARY OF PROPOSED CREDIT AND GRANT

REPUBLIC OF MOZAMBIQUE
SECOND CLIMATE CHANGE DEVELOPMENT POLICY OPERATION

Borrower	Republic of Mozambique
Implementation Agency	Ministry of Planning and Development
Financing Data	IDA Terms: 38-year maturity with a 6-year grace period Amount: SDR 34 million (US\$50 million equivalent), of which SDR 17 million as credit and SDR 17 million as grant
Operation Type	Single tranche programmatic Development Policy Operation (DPO), the second in a series of three that supports a medium-term reform program for climate change.
Pillars of the Operation and Program Development Objective(s)	Reforms are organized under two pillars: (i) Pillar 1 – To strengthen the national policy and institutional framework for climate resilient planning; (ii) Pillar 2 – Strengthening climate resilience of sectors. The Program Development Objective is to build effective institutional and policy frameworks for climate resilient development.
Result Indicators	<ul style="list-style-type: none"> • Number of districts that budget the climate change actions identified in the district socio-economic plan (PESOD) in annual district budgets. Baseline (2012): 0; Target (2017): 10 • Number of sectors included in the National Climate Change Adaptation and Mitigation Strategy reporting through the national climate change M&E framework. Baseline (2012): 0; Target (2017): 13 • Changes in lead time between warnings issued by ARAs/DNA on the basis of flood and weather alert monitoring to when INGC (Institute of Disaster Management) declares Red status in the lower Limpopo and Incomati River basins. Baseline (2007): 2 days; Target (2017): 5 days • Number of households engaged in climate smart agriculture in all ten provinces (as measured through quarterly reporting to MINAG from agricultural extension workers). Baseline (2012): 15,000; Target (2017): 32,000 • Change in average maize yield (tonnes per hectare) from farms engaged in improved soil and water conservation techniques in all ten provinces (as measured through quarterly reporting to MINAG from agricultural extension workers). Baseline (2012): 1.5; Target (2017): 2.5 • Number of households in climate vulnerable districts listed by the INGC benefiting from the National Productive Social Action Program (as measured in INE household survey data). Baseline (2012): 0; Target (2017): 10,000 • Number of high-risk districts and municipalities listed by the INGC that have introduced and tested disaster preparedness and response protocols for health service delivery. Baseline (2012): 0; Target (2017): 10 • Percentage of district roads that are re-constructed or upgraded from 2014 onwards in pilot provinces (Gaza and west Inhambane) in compliance with revised guidance and design standards. Baseline (2012): 0%; Target (2017): 80% • Expected additional energy availability through: (i) proposed renewable energy generation; and/or (ii) projected savings from identified efficiency measures. Baseline (2012): 0; Target (2017): 45MW.
Overall risk rating	Moderate
Operation ID	P146398

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1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **The proposed operation is the second, single tranche operation in a series of three climate change Development Policy Operations (DPOs).** Each operation will deliver US\$50 million of International Development Association (IDA) financing in support of a medium-term reform program across several sectors. The reform agenda is consistent with the objective of the country's Poverty Reduction Strategy Paper (PARP - *Plano de Acção para a Redução da Pobreza*) and seeks to reduce vulnerability to climate risks. Reforms are aligned closely with the National Climate Change Adaptation and Mitigation Strategy or *Estratégia Nacional de Adaptação e Mitigação das Mudanças Climáticas* (ENAMC)¹.

2. **Mozambique's economic performance has been very strong since the end of the Civil War in 1992. The country's Gross Domestic Product (GDP) growth from 1993 to 2013 averaged 7.4 percent.** Its strong performance was made possible by sound macroeconomic management, number of large-scale foreign-investment projects ("mega projects") and significant donor support. These factors contributed to robust growth across most sectors of the economy, especially mining, electricity and services. Although the relative growth rates of different sectors were highly uneven, overall growth has been stable and consistent. Mozambique has received massive Foreign Direct Investment (FDI) inflows for extractive industries in the past few years, and these are likely to continue in the foreseeable future. Developments in the coal and gas sectors could turn Mozambique into a key global player in both coal and gas markets. One of the country's main development challenges will be to manage the natural resources in a way that maximizes the benefits for the country and contributes to sustainable and inclusive growth.

3. **Over the past decade rapid growth has not translated into significant poverty reduction. With a population of 23.9 million, per capita income in 2012 was US\$565, less than 40 percent of the Sub-Saharan Africa (SSA) average.** Economic growth in the 1990s was accompanied by a decline in poverty rates, but since the early 2000s the link between growth and poverty reduction has weakened. The poverty headcount fell by an estimated 12 percentage points between 1997 and 2003 to 56 percent, but between 2004 and 2009, poverty fell by only four percentage points to 52 percent². The geographical distribution of poverty is also changing, with much faster poverty reduction in urban areas and the country's Southern region.

¹ Government of Mozambique (2012). *National Climate Change Adaptation and Mitigation Strategy 2013-2025*. Approved during the 39th Session of the Council of Ministers, Maputo. 13th November 2012.

² Poverty head count as estimated by Alfani, Federica, Azzarri, C., d'Errico, M. and Molini, V., 2012, "Poverty in Mozambique - New Evidence from Recent Household Surveys", World Bank Policy Research Working Paper No. 6217. Government official headcount figures are slightly higher (56 percent in 2009) with significant differences in the regional distribution of the poor.

The weakening correlation between economic growth and poverty reduction suggests that growth has become less inclusive in recent years, the result of recent patterns of growth driven by capital intensive mega projects accompanied by poor income distribution. This pattern of growth is also reflected in labor markets, which continue to be dominated by relatively low productivity jobs in the agricultural sector, with the rest of the economy failing to create better jobs for an estimated 300,000 people entering the workforce every year.

4. **Mozambique has made considerable strides in improving human development indicators but continues to face development challenges.** Starting from a low base, Mozambique has been making considerable progress as illustrated by a number of social indicators. School enrollment rates and gender parity in enrollment have increased dramatically over the past decade, while infant and maternal mortality rates have consistently declined. However, progress has not been even across all dimensions of human development, with slower progress in water and sanitation, hunger and malnutrition, and some health indicators such as HIV prevalence. Mozambique ranked 178th out of 187 countries in the Human Development Index (HDI) in 2013, reflecting some of the worst development indicators globally. The adult literacy rate is 50.6 percent, and average life expectancy at birth is 50.3 years. The prevalence of moderate to severe malnutrition (stunting) in children under 5 was 42.6 percent in 2008-2012. Malaria remains the most common cause of death, responsible for 35 percent of child mortality and 29 percent for the general population.

5. **Climate change and extreme weather-related shocks pose a significant risk to growth and efforts to address the World Bank's twin goals of eliminating extreme poverty and boosting shared prosperity.** Mozambique is exposed to risks from multiple weather-related hazards, suffering from recurrent floods, cyclones and drought. Indeed, Mozambique is the only country in Africa considered to be at high risk from all three of these extreme weather-related hazards³. In the past 30 years, at least 14 percent of the population has been affected by a drought or a flood/storm. Floods, epidemics and cyclones are the most frequent disasters, although droughts affect by far the largest number of people. Coastal erosion, storm surges and rising sea levels threaten Mozambique's coastal zone and cities - the largest cities in Mozambique are mostly located along or near the coast.

6. **Without changes in policy, climate change is expected to cause economic damages between US\$2.3 billion and US\$7.4 billion during the period 2003–50 (discounted and in 2003 prices)**^{4,5}. The source of these damages varies across climate change scenarios and by sector. For example, the Mozambique Agricultural Risk Assessment⁶ showed that droughts and floods lead to substantial income and asset losses for individual farming households, create food supply shortages, result in price spikes and food inflation, create transient food insecurity, and

³ World Bank (2013). *Insurance Instruments for Africa Climate Adaptation – First Phase*. Final Report. April 2013.

⁴ World Bank (2010). *The Economics of Adaptation to Climate Change – Mozambique*. Arndt, C., Paul Chinowsky, Kenneth Strzepek, and James Thurlow (2012) *Climate Change, Growth and Infrastructure Investment: The Case of Mozambique - Review of Development Economics*, 16(3), 463–475, 2012.

⁵ Arndt, C., Paul Chinowsky, Kenneth Strzepek, and James Thurlow (2012) *Climate Change, Growth and Infrastructure Investment: The Case of Mozambique. Review of Development Economics*, 16(3), 463–475, 2012.

⁶ World Bank (2013). *Agriculture Sector Risk Assessment. Risk Prioritization*. August 2013.

lead to declines in agricultural growth. These climatic risk factors were followed by pest and disease outbreaks, international price volatility and domestic price volatility⁷.

7. **The Climate Change DPO series addresses the challenges to inclusive growth and poverty reduction described** above by strengthening the institutional and policy framework necessary for integrating climate change considerations into development policies at national and sectoral levels. It is the first such DPO series in SSA to focus on measures to address climate change risks. The series supports national level strategy work, helps develop a set of policy instruments for the integration of climate change consideration in sectoral policies, and aims to mainstream climate change dimensions in the key socio-economic documents of the country at the national, district and sectoral levels. The DPO series was designed in collaboration with the Ministry of Planning and Development (MPD). This ministry is taking the leadership, in cooperation with the Ministry for the Coordination of Environmental Affairs (MICOA), to identify priorities and communicate and coordinate the inputs and reviews of the relevant sectoral ministries.

8. **The elaboration of the proposed policy actions and triggers was based on a series of inter-sectoral and sectoral meetings within the Government and with other key stakeholders including non-Governmental organizations.** The preparation process has built upon the coordination functions of both Ministries and reflects a common understanding of the roles and responsibilities of the respective institutions included in the proposed actions. The dialogue in the basis of the series had its roots in a key study⁸, led by the National Disaster Management Institute that assessed the potential impacts of climate change for Mozambique in detail. In 2010, the WB study of the Economics of Adaptation to Climate Change (EACC) drew the attention of policy makers and development partners to the cost of inaction - estimated at US\$400 million per year between 2003 and 2050 - or one third of annual Official Development Assistance (ODA) to Mozambique. In 2011, Mozambique had been selected as one of the pilot countries for the Pilot Program for Climate Resilience (PPCR) and the Government of Mozambique (GoM) prepared a US\$100 million Strategic Program for Climate Resilience (SPCR) with the assistance of IDA, the African Development Bank (AfDB) and the International Finance Corporation (IFC). Most of these funds have now been programmed and implementation of the SPCR is now well underway. The SPCR aims to introduce climate resilience into development planning through a combination of pilot investments in different sectors (hydro-meteorology, rural roads, agriculture, private sector and urban), support for knowledge management, and policy and institutional reforms. The preparation of the SPCR, led by the MPD and MICOA, marked a significant shift towards strong ownership from the GoM on the climate change agenda.

9. **The proposed operation has two pillars:** (i) Strengthening national policy and institutional frameworks for climate resilient planning; and (ii) Strengthening climate resilience in sectors. The first pillar supports cross-cutting reforms that will institutionalize and implement climate change actions at the national, sector and provincial levels. The second pillar supports the integration of climate resilient planning and development at the sectoral level and focuses

⁷ World Bank (2010). *The Economics of Adaptation to Climate Change – Mozambique*.

⁸ INGC (2012). *Responding to Climate Change in Mozambique. Phase II Synthesis Report*. National Institute for Disaster Management (INGC). October 2012.

support on agriculture, hydro-meteorological services and disaster risk management, human development (health and social protection) and infrastructure (energy, roads and hydro-meteorology). The sector areas included in this DPO series have been identified as priority reform areas by the GoM. The latter embarked on an ambitious program to build the climate resilience of the country, and introduced six reforms under the first operation. Seven reforms have been introduced under the proposed second operation of this series. There is strong demand to continue with support for further reforms in the sectors covered under the series.

10. Targeted technical assistance is supporting the implementation of the DPO series. The companion Climate Change Technical Assistance Project (CCTAP – P131195) is strengthening capacity for the implementation of all three pillars of the SPCR, namely: (i) policies and institutional building; (ii) investments; and (iii) technical assistance. The CCTAP is also supporting preparation of the DPO series. It was approved by the Board on June 26, 2012 and became effective in January 2013. The CCTAP will close in October 2016.

11. The Second Climate Change DPO is one of several budget support operations that are being prepared for Fiscal Year 2015. The Country Partnership Strategy (CPS) foresees support for the new Poverty Reduction Strategy Credit (PRSC10 - US\$110 million), the Second Agriculture DPO (US\$50 million), a Financial Sector Development DPO (US\$50 million) and a Regional Trade DPO (US\$10 million). The PRSC is supporting the broader poverty reduction and development agenda that the GoM has laid out in the PARP. The sectoral DPOs are building on that framework and are fully consistent with the PARP, but aim to deepen reform efforts in targeted sectors. The Government has asked the Bank to focus resources and attention on selected reforms at the sectoral level, beyond what can be done within the framework of the PRSC, which is designed as an umbrella operation to have broad outreach and more emphasis on economic policies. The PRSC covers several sectors and issues (including public financial management, private sector development, and social protection). Whilst its elements have to be largely conducive to the G19⁹ donor support, it does not provide a suitable vehicle for multi-sectoral thematic operations such as those in climate change or agriculture. On climate change, the Bank is engaged in an in-depth and substantive policy dialogue which provides strong justification for a thematic DPO support on climate change.

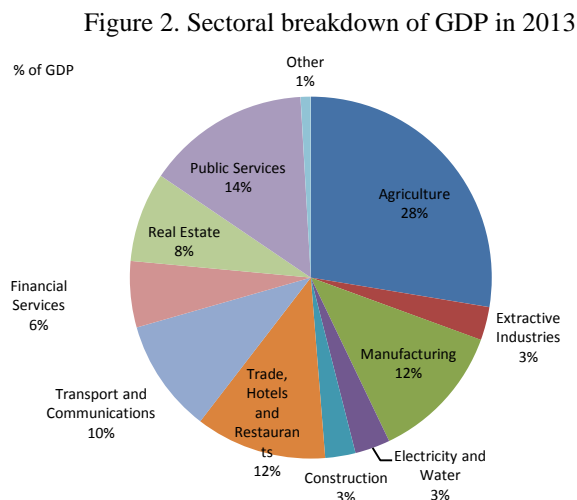
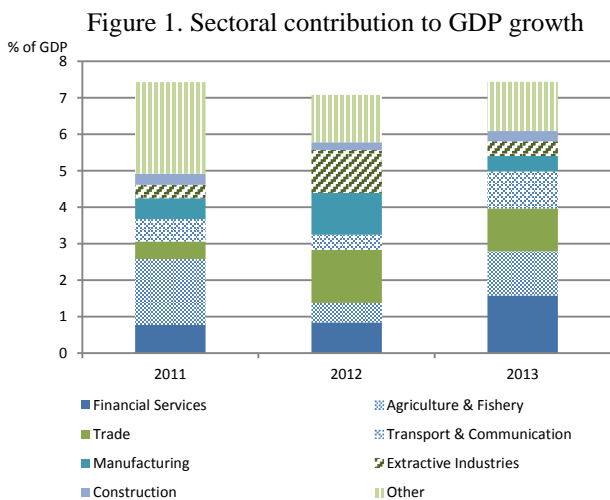
2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

12. Mozambique's GDP growth rate exceeded 7 percent in the past three years. Growth in 2013, at 7.4 percent, was slower than initially projected as floods in much of the country diminished agricultural production and damaged infrastructure (see Figure 1). Agriculture employs 78 percent of the labor force and accounts for about 28 percent of GDP (see Figure 2). 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, the aluminum smelter joint venture project in Beluluane Industrial Park,

⁹ The G19 is a system of coordination involving all partners of cooperation that provide direct support to the Mozambican state budget. The Government of Mozambique and the Program Aid Partners (PAPs) have signed a Memorandum of Understanding in 2004, laying down the principles for this partnership.

Maputo, 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 is the most dynamic sector in the economy but its contribution to growth remains limited given its relatively small share in the economy.



Source: Instituto Nacional de Estatística (INE) and World Bank Staff Calculations.

13. **Extreme climate related events such as cyclones and floods have shown to have strong effects on the economy.** They affect agriculture, electricity generation, mining and transport and communications. Economic gains from growth and infrastructure development are significantly undermined as a result of recurrent water and weather related hazards. The country ranks third in Africa most exposed to climate-related hazards and economic losses average 1.1 percent of GDP annually, costing US\$1.75 billion between 1980 and 2003. GDP fell following the 2000 floods from a forecast 7 percent to 1.5 percent.

14. **The January 2013 Limpopo floods have been the worst disaster to hit Mozambique since the year 2000.** There were 44 reported direct fatalities, 170,000 people evacuated in Gaza province alone, and a high prevalence of water-borne diseases and malaria amongst affected populations. The floods severely damaged the complex system of transport, irrigation, water supply, urban drainage, sanitation and flood protection dykes on the Lower Limpopo. Estimates indicate damages to affected settlements and infrastructure in the order of US\$135 million and loss of US\$112 million in crops. Pre-floods GDP growth projections for 2013 were 8.4 percent, while actual data for 2013 showed a decline in growth of 1 percentage point of GDP. Government expenditures rose substantially in 2013. In addition, the report of the World Bank Flood Assessment Mission and subsequent estimates put short-term reconstruction needs at approximately US\$403 million. The total fiscal impact (in the form of additional expenditures) is likely to be higher for the 3-year reconstruction period anticipated by Government.

15. **The economy grew at 6.9 percent in the second quarter of 2014, 3 percentage points lower than in the second quarter of 2013.** While growth in agriculture and manufacturing accelerated, it moderated in the extractives sector to 12.6 percent, the result of low commodity prices and infrastructure constraints that continue to affect the coal sector. Domestic savings continue relatively low and unable to finance the large public and private investments being

implemented, resulting in large current account deficits. 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).

16. The extractive industries are Mozambique's most dynamic sector, growing by 90 percent over the past few years. Over the next decade resource extraction will alter the structure of the economy through large-scale investment in the infrastructure and facilities necessary to extract, process and transport minerals and natural gas. Strong growth in the extractive industries could negatively affect economy-wide competitiveness by exerting upward pressure on the exchange rate and diverting scarce capital away from the non-resource sectors (a phenomenon known as Dutch Disease). There is no sign of this in the economy yet. Upward pressure on the exchange rate has been partially contained by the foreign-financed and import-intensive nature of the sector. Over the long term, though, as the sector goes into the operational phase and exports grow, the exchange rate may appreciate and affect competitiveness.

Table 1: Key Macroeconomic Indicators, 2011-2017

	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.	Proj.	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	7.5	7.5	8.1	7.8
CPI inflation (% annual average)	10.4	2.1	4.2	2.6	4.4	5.2	5.6
CPI inflation (end of period)	5.5	2.2	3.0	3.0	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	8.25*	--	--	--
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	--	--	--	--

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

*Note: 8.25 percent until October 2014.

17. 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 extractives industries. Without capital gains taxes, tax revenues have increased by 1 percentage point per year over the past few years. This increase in revenue has compensated for a decline in aid flows, which in 2013 financed less than 30 percent of expenditures. Spending has been growing at a rapid rate, reaching 35 percent of GDP in 2013 and projected at 42 percent in 2014. The wage bill has 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) has increased by almost 5 percentage points over the past two years as infrastructure investment increased.

18. **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 projects¹⁰. 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.

Table 2: Fiscal Framework, 2011-2017

	2011 Act.	2012 Act.	2013 Est.	2014 Proj	2015 Proj.	2016 Proj.	2017 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

Sources: Government of Mozambique (GoM), IMF and World Bank estimates and projections.

Note: * Consistent with DSA definition, includes non-concessional Portuguese credit line, may differ from GoM definition.

¹⁰ 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.

19. **Inflation rates have been relatively low and stable during the past two years.** An inflationary spike in 2010 led to the adoption of tighter monetary policies by the Mozambican Central Bank (*Banco de Moçambique* – BdM), and inflation has since been contained below the BdM target of 5-6 percent. Inflation, estimated at 1.4 percent (year-on-year) in September 2014, remains low. Low inflation and a weaker external environment enabled BdM to ease its monetary policy, and policy rates are at a record low of 8.25 percent. These efforts had limited impact on market rates and credit growth has accelerated slowly given a weak monetary transmission mechanism. Given the more expansionary fiscal policy in 2014 it will be necessary to monitor inflation and proactively coordinate fiscal and monetary policies.

20. **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.

21. **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 SSA 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 been rising steadily, though slowly, since 2009 and remain relatively low at 3.2 percent.

22. **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. In the first quarter of 2014 exports fell by around US\$100 million, the result of relatively low commodity prices.

23. **Imports are rising rapidly, resulting in persistent current account and trade deficits.** 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 2013 current account deficit reached US\$5.9 billion or 38 percent of GDP. The current account deficit narrowed to US\$1 billion in the first quarter of 2014, supported by record high capital gains taxes paid by foreign firms engaged in the development of the gas sector. Capital gains taxes had also narrowed the deficit in 2013. 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 or 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 1/3 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 continue to increase and reached US\$3.2 billion or 3.9 months of imports excluding mega projects by end 2013.

Table 3: The Balance of Payments, 2011-2017

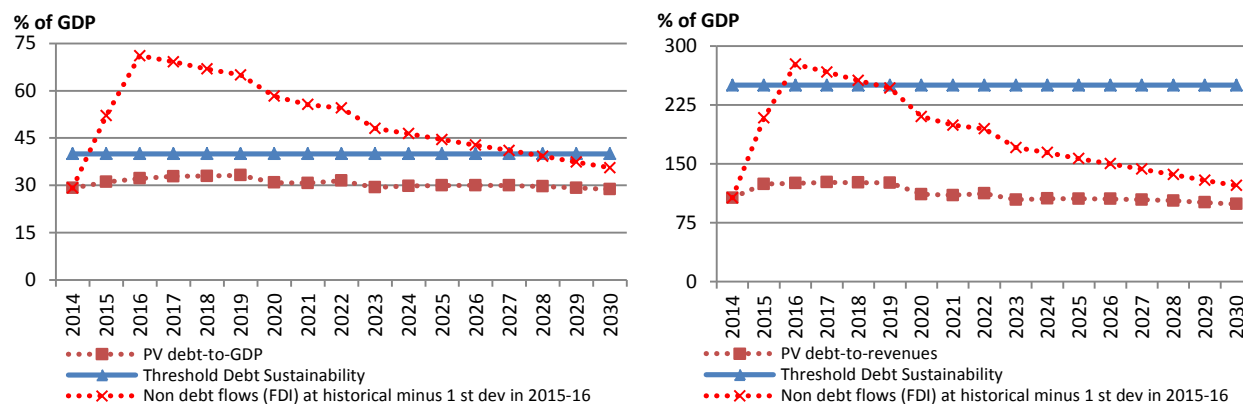
	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.	Proj	Proj.	Proj.	Proj.
	(US\$ millions)						
Trade balance (goods)	-	-4,048	-4,357	-4,594	-6,012	-6,971	-6,155
Exports, f.o.b.	2,249	3,856	4,123	4,610	4,958	5,367	6,780
<i>Of which:</i> megaproject exports	2,015	2,219	2,201	2,604	2,675	2,908	4,061
Imports, f.o.b.	-	-7,903	-8,480	-9,204	-10,971	-12,338	-12,934
<i>Of which:</i> megaproject imports	5,368	-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
<i>Of which:</i> 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
<i>Of which:</i> 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)	3,041	546	1,055	1,673	1,162	1,150	1,184
Net foreign borrowing (nonfan. private sector)	531	516	148	411	1,692	2,902	3,396
Net Foreign Direct Investment	-39	5,215	5,055	4,230	4,833	4,952	5,015
Other investments	2,599	14	-1,385	-99	550	658	442
Overall Balance	-482	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	3,310	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.

24. **Public debt (in nominal terms) has grown rapidly, from 37 percent of GDP in 2011 to 52 percent in 2013.** 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 WB-IMF debt sustainability analysis (DSA) for Mozambique has 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 the management of these.

Figure 3: The Evolution of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014-30



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

25. **The EMATUM operation 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.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

26. **Mozambique's medium-term macroeconomic outlook is positive.** Annual growth is projected between 7.5-8 percent during 2014-17 driven by the resource sector, agriculture, construction, transportation and communications. In the short run coal exports, resource-related FDI and infrastructure investments, both public and private, are expected to be major contributors to growth. Inflation is projected to stay between 5 and 6 percent through 2017.

27. **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 would be achieved as expenditure returns 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 a 1 percent of GDP surplus by 2019. The new Government and national assembly will be inaugurated in early 2015 and the state budget for 2015 will only be approved in March 2015. The 2015 budget prepared by the outgoing government reflects the 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, as reflected in the fiscal framework in this document.

28. **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 2014, and favorable import prices are expected to support these efforts. In the context of a relatively expansionary fiscal policy 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.

29. **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 2014-15. 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.

30. **The total public debt stock is reaching 57 percent of GDP by 2014 will and continue rising 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 it 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.

31. **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 leave 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 which 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 year 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 year are a reminder of the potential for such tensions to have devastating economic and social consequences.

32. **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 PSI review and evidenced by the fiscal consolidation effort reflected in the proposed 2015 budget which will narrow the deficit by over 2.6 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 technical assistance and by the companion PRSC series.

2.3 IMF RELATIONS

33. **The IMF concluded its mission to hold discussions towards completing the 3rd PSI review.** The 2nd review, presented to the Board in May 2014, acknowledged Mozambique's strong growth record and reform agenda, but also highlighted a number of areas where additional efforts would be needed. In addition to stressing the need to tighten fiscal policy, the review recommended renewed efforts to reform Public Financial Management (PFM) systems, in particular the management of fiscal risks and public investments. The 2nd PSI review increased the limit on public commercial borrowing to US\$1.5 billion for the duration of the program (2013-16), based on discussions on potential projects as well as taking into account the DSA. The current mission concluded that Mozambique's economic performance remains robust and reached agreement with the government on slowing expenditure growth in 2015. Program performance is mixed, and authorities committed to reforms to (i) further strengthen public resources management, (ii) enhancing transparency and efficiency of public investment, and (iii) strengthening the management of public enterprises. The 3rd PSI review will be presented to the board in early January 2015 (see press release in Annex 5 on this IMF mission).

3. THE GOVERNMENT'S PROGRAM

34. **Mozambique's Poverty Reduction Strategy Paper (PARP) is based on three strategic pillars supported by two cross-cutting pillars.** It fosters inclusive growth and includes measures to 'prevent and adapt to climate change'. The PARP's overarching focus is on achieving accelerated economic growth and employment creation, and its key objective is to reduce the national poverty rate from 54.7 percent in 2009 to no more than 42 percent by 2014. The PARP's three strategic pillars are: (i) boosting productivity in the primary sector,

particularly agriculture and fisheries, by expanding access to inputs and better integrating domestic producers into national and international markets; (ii) promoting strong employment growth by attracting increased investment and building the human capital of the labor force; and (iii) supporting improvements in social indicators by extending access to public services and basic infrastructure. The two cross-cutting support pillars are good governance and macroeconomic stability, which are regarded as necessary conditions for the realization of the PARP's strategic goals.

35. The Government's program on climate change resilience has evolved rapidly in recent years. The National Adaptation Program of Action (NAPA) in 2007 represented the first major step in addressing climate change impacts and laid the foundations for a multi-sector adaptation agenda. This was followed by the Strategic Program for Climate Resilience (SPCR) in 2011, which set out an ambitious program of reforms and investments that 'mainstream' climate resilience into key and vulnerable economic sectors - including policy and institutional reforms, pilot investments, studies and knowledge management initiatives. The SPCR is supported by US\$91 million from the Pilot Program on Climate Resilience (PPCR) and was prepared with support from IDA, the AfDB and the IFC.

36. A National Climate Change Adaptation and Mitigation Strategy or *Estratégia Nacional de Adaptação e Mitigação das Mudanças Climáticas* (ENAMC) was approved by the Council of Ministers in November 2012, and represented an important milestone in climate policy development. The strategy integrates disaster risk management actions, and consolidates priorities and targets for action on climate change into national socio-economic planning. The strategy identifies priorities for all sectors as well as 'cross-cutting' issues such as institutional reform, research, capacity building and technology transfer. The strategy is informed by the findings of two phases of climate change related studies coordinated by the National Institute for Disaster Management (INGC - *Instituto Nacional de Gestão de Calamidades*) and by a range of other analytical studies. The Government also approved a new disaster risk management law in 2014 that sets out the principles for preparedness and prevention, and specifies the legal requirements for developing early warning systems and maps that identify areas and populations at risk from disasters. Preparation of the law was included under the first DPO in this series (DPO 1).

37. Efforts to strengthen institutional and policy frameworks are now visible at the implementation level. For example, strengthened disaster risk planning and management systems resulted in an effective response to the disastrous floods in the Limpopo valley in 2013, as compared with a similar flood event in 2000. Early warning systems performed reasonably well, and there were far fewer fatalities in 2013 as compared with 2000. Local climate adaptation plans and budgets are now being prepared and adopted in around twenty vulnerable districts with more expected to follow. These are helping to promote dialogue and investment in climate resilient development at local level. There is also a much-improved analytical basis for climate resilient planning and development.

38. The strategy relies on a strong suite of inter-ministerial coordination mechanisms. These include the National Sustainable Development Council (CONDES - *Conselho Nacional de Desenvolvimento Sustentável*), created in 1997, chaired by the Prime Minister, and which coordinates policy and planning on sustainable development and climate change. It also includes the Coordinating Council for Disaster Management (CCGC - *Conselho Coordenador de Gestão*

de Calamidades), created in 1999, and also chaired by the Prime Minister, that ensures multi-sectoral coordination of disaster prevention, response and recovery.

39. **Gender considerations have been integrated into climate change planning.** The 2011 Gender Inequality Index (GII) published by UNDP assigns Mozambique a value of 0.582, ranking the country 125 out of 148 countries in the 2012 index, ahead of some of its neighbors, and slightly ahead of the SSA average of 0.577. Mozambique has a relatively strong commitment to women's political participation – nearly 40 percent of Parliamentary seats are held by women (2012), compared with a SSA average of 20.9 percent. However, the scoring is lowered by a patriarchal culture, drawing from a mix of religious and traditional practices and values, coupled with structural limitations that maintain the relatively dominant position of men, and which restrict the majority of women from gaining enhanced economic self-reliance and social independence. Mozambique analyzed issues of gender and climate change to integrate these into mainstream planning through the Gender, Environment and Climate Change Strategy and Action Plan – published in 2010. This made Mozambique's one of the first countries in the world to create such a policy and program for implementation. An ongoing initiative is reviewing implementation progress and updating the plan in line with ENAMC.

40. **GoM has engaged extensively with different stakeholders during preparation of key strategic documents.** For example, the preparation of the ENAMC was based on an extensive consultative process at local, district and provincial level - including engagement with civil society and private sector groups¹¹. MICOA is now prioritizing the development of participatory local adaptation plans as part of the first phase of strategy implementation, and the Ministry of Energy has also undertaken an extensive round of public and private sector consultation meetings at national, regional and provincial level under the framework of the renewable energy strategy. MICOA has also engaged extensively in provincial, district, local level and civil society consultations on the design of the national M&E strategy.

41. **Sector reforms that mainstream climate resilience and strengthen capabilities for disaster risk management have started already.** The implementation status of reforms supported under the first operation in this DPO series is summarized in Table 4.

¹¹ This has included stakeholder consultations with nine provinces, three regions, the private sector, the international development partners, and with civil society and the media.

Table 4. Implementation Status of Reforms Supported under the First Cycle of Climate Change DPO Support (DPO 1)

DPO 1 prior action	Update on implementation status
A national climate change adaptation strategy has been approved by the Recipient's Council of Ministers on November 13, 2012.	Strategy under implementation. e.g: (i) sector and local action plans under development, and (ii) national climate change M&E framework establishing a mandatory national reporting responsibility. Approved by Cabinet in 2014.
Preparation and submission to Parliament of a new disaster risk management bill that clarifies legal and institutional responsibilities for disaster preparedness and response measures.	The Bill was approved and enacted by Parliament in 2014. Revised statutes for the National Emergency Operations Centre (CENOE) are now under development.
Approval of the strategic plan of the National Institute of Meteorology to strengthen the delivery and economic sustainability of hydro-meteorological services in order to improve weather and flood forecasting, and improve early warning systems down to local level.	Following approval of the strategic plan, a new Decree will provide the legal basis for revising INAM's (National Meteorological Institute) mandate in line with recommendations set out in the strategic plan. Priority investments set out in the strategic plan are now being made with support from the World Bank and other development partners.
Integration of climate resilience measures into the investment plan of the national agricultural strategy and into emerging social protection programs.	PNISA enabled development of the climate resilient agriculture action plan (to be introduced in late 2014), and has encouraged scale-up of support for climate resilient agriculture with funding from development partners, including FAO, IFAD and GEF.
Cabinet approval of the National Productive Social Action program incorporating climate risks and adaptation options.	Registration systems for eligible households are currently being developed and these should be completed by end of 2014. Social protection payment systems under development. IDA support is expected to start in 2015, as part of the Social Protection Project (P129524).
The launch of a process to develop Mozambique's first wind power park by an independent power producer.	The tender process has been completed and technical studies by the selected firm to determine site-specific wind speeds are underway. The concession document is scheduled for signature in late 2014.

4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

42. **The Program Development Objective of the Climate Change Development Policy Operation Series is to build effective institutional and policy frameworks for climate resilient development.** The series is structured around two pillars aligned to the Government's national strategy on climate change. Actions under Pillar 1 seek to strengthen the national policy and institutional framework for climate resilient planning - including reforms that will strengthen institutional coordination, monitoring and reporting. Actions under Pillar 2 seek to strengthen the climate resilience of selected sectors – including reforms in agriculture (considered particularly vulnerable to climate risks), roads and energy. This pillar also includes a reform that will strengthen hydro-meteorological services to contribute to disaster risk reduction and management, and to improve early warning systems. The reforms selected for support address key poverty issues – including the resilience of smallholder farmers to short-term weather risks and longer-term climate change, and access to effective early warning systems, as well as sustainability issues - including climate resilience of infrastructure, energy efficiency and renewable energy access.

43. **The National Climate Change Adaptation and Mitigation Strategy (ENAMC) provides the overall policy framework to guide climate resilient planning and development at sector and sub-national level.** ENAMC was developed through a broad and inclusive stakeholder engagement process at local, provincial and national level. This built on a growing platform of analytical work – including a series of studies implemented by the Institute of Disaster Management (INGC) and previous policy frameworks, including the National Adaptation Program of Action (NAPA) – developed in 2007. The World Bank portfolio in Mozambique provides support to Government in most areas of the ENAMC. Such investment and development policy operations provide a platform for the design and implementation of policy actions included in this DPO series during the series period and beyond, contributing to the sustainability of the reforms process. Annex 2 summarizes this support including the one provided through the DPO series.

Lessons Learned from Previous DPO Support

44. **Early lessons from development policy lending in the environment sector have been taken on-board during the design of this operation.** Experience from development policy lending in the environment sector, including from case study examples in Mexico, Morocco, India and Indonesia is summarized in Table 5. This shows that DPOs can increase the 'visibility' of environmental and other sector ministries in national policy setting. In Mozambique, the First Climate Change DPO helped raise the profile of climate change at senior Government level, and supported six reforms involving the Ministries of Agriculture, Transport, Health, Social Protection, and Energy. High level engagement has been shown by the cabinet-level approval of Mozambique's first national strategy on climate change.

45. **The World Bank's support for Mozambique's three successive poverty reduction strategy papers has continued for almost a decade.** The overall PRSC series, which began in 2004, facilitated improvements in public sector capacity as a whole, and the efficiency of public finance management in particular. These operations have focused on public financial

management and private sector growth. One of the key challenges facing development policy lending operations has been the difficulty in monitoring and evaluating the progress and impacts of reforms. Experience has shown that this process has often been hampered by weaknesses in statistical and M&E capacity and the lack of adequate baselines.

46. **Weaknesses in M&E systems pose a major challenge to assessing progress and impacts of reforms aimed at building climate resilience.** Learning from broader experience derived from the PRSC series, complementary technical assistance is being deployed through the Climate Change Technical Assistance Project (CCTAP) supported the development of a national climate change monitoring and evaluation framework – approval of which has also been included as a DPO 2 prior action. This framework links local level to national level including full integration with the national M&E framework under development by the Ministry of Planning for the next cycle of Government commencing in 2015.

47. **Capacity constraints for the design and implementation of reforms can be substantial.** For this reason, and prior to the start of the climate change DPO series, technical assistance through the CCTAP was deployed alongside support from other development partners. This continuing technical assistance support is addressing key capacity needs. The PARP is ambitious and complex, and capacity constraints at multiple levels of Government may affect the implementation of reforms. Meeting these challenges requires an appropriately-designed and targeted program of technical assistance in the short run, coupled with sustained capacity-building support over the long run. Complementarity with existing Bank sectoral operations will also be important to ensure sustainable and effective capacity building.

Table 5. Tabular Summary of Climate Change DPO Design Responses to Recent Experience of Development Policy Lending for Environment and Climate Change.

Lessons from Recent Environmental Policy Lending	CC DPO 2 design attributes
Focus clearly on measuring results and impact.	Inclusion of clear results and indicators for each reform sequence. Integration of all results/indicators into the national M&E framework. Adjustment of indicators based on assessment of baselines since DPO 1.
Strengthen measures to promote inter-institutional coordination.	DPO policy actions supported agreement on the institutional structures required to strengthen inter-sectoral collaboration (as part of the national climate strategy supported by DPO 1), and by supporting the establishment of the climate change coordination unit (supported by DPO 2). Technical assistance support from the CCTAP provides support for strengthening inter-institutional coordination capacity.
Support reforms with technical assistance.	Reforms receive support from technical assistance delivered from a range of World Bank operations (see Section 4.3). The CCTAP supports institutional coordination and M&E, and sector projects support reforms in Pillar 2. Additional support is also provided by other development partners, including from Germany, Denmark and UNDP.
Adopt a medium/long-term approach.	This is a programmatic DPO series supporting reforms over 3 cycles.
Strong supervision and adaptive management.	Reform dialogue and implementation support is integrated as part of ongoing sector dialogue. Reforms in some areas have been adjusted since DPO 1 in accordance with evolving policy support needs.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

48. **Six policy actions were supported during the first operation and a further seven policy actions are included in the second operation.** The reform series supports a general progression towards implementation-focused policy actions. Some changes to the policy actions have been proposed by MPD in response to changing institutional and policy developments and in one case, to take account of changed circumstances caused by severe flood damage in the Limpopo and Zambezi valleys after Board approval of DPO 1. These changes comprise the removal of one policy action – the approval of a DRM master plan. The Government decided that, following approval of the DRM Law, a more immediate priority is the revision of statutes for the National Operational Emergency Center (CENOE) to ensure these are aligned with the new institutional arrangements approved in the DRM Law. This process is now ongoing. Adjustments to the focus of three policy actions were proposed in response to evolving institutional and policy priorities. Four policy actions remain largely unchanged compared with the triggers included at DPO 1 stage. Table 6 provides a summary of adjustments to the policy actions anticipated at design, based on ongoing dialogue with Government.

Table 6. Comparison of triggers and prior actions for CC DPO 2

CC DPO 2 trigger identified in CC DPO 1	CC DPO 2 proposed prior action	Comments/ Status
Coordination		
Establishment of a Climate Change Coordination Unit under the inter-ministerial Council for Sustainable Development (CONDES) with functions for coordinating implementation of climate change policies across Government.	(a) The Council of Ministers established the mandate of the National Council for Sustainable Development (CONDES) to host technical coordination units for issues related to international environment conventions; and (b) CONDES approved the terms of reference of a climate change coordination unit.	Adjustments ensure consistency with wording of the reform instruments. Status: met
M&E		
A national M&E framework for climate change and disaster risk management is established to deliver reporting to the Council of Ministers and the international conventions.	The Council of Ministers approved the climate change monitoring and evaluation framework including the requirement for MICOA to prepare and deliver annual reports on the national adaptation and mitigation strategy.	Adjustment specifies the instrument of approval and clarify focus of reporting. Status: met
DRM and Early Warning Systems		
A decree on a disaster risk management Master Plan that complements the National Climate Change Strategy is approved by the Council of Ministers.		MPD requested removal of this policy action. INGC was requested by Parliament (following approval of the DRM Law supported under DPO to prioritize the revision of

CC DPO 2 trigger identified in CC DPO 1	CC DPO 2 proposed prior action	Comments/ Status
		statutes for the National Operational Emergency Centers (CENOE) to ensure these align with the new Law. Completion of the DRM master plan is expected to follow and will inform the national and district level planning exercises during DPO3 preparation.
A protocol for the management and exchange of data is approved through a joint ministerial diploma of the Ministry of Transport and Communications and the Ministry of Public Works and Housing.	The Council of Ministers approved the establishment of regional meteorological centers as specified under Pillar 1 of the Recipient's National Meteorological Institute (INAM) Strategic Plan (2013-2016) and mandated the Ministry of Transport and Communications to issue within 90 days a new organizational statute for INAM to deliver forecasts and early warnings at regional level more efficiently.	MPD requested introduction of a revised institutional reform as a DPO 2 prior action, achievement of which has been supported by World Bank. Status: met Data exchange protocol has been re-scheduled to DPO 3 to enable completion of an ongoing hydro-meteorological optimization study, which is integrating hydrological and meteorological systems – including data collection and management.
Climate resilient agriculture		
Ministry of Agriculture diploma approved defining norms and incentives for scale-up conservation agriculture in Mozambique.	The Ministry of Agriculture (MINAG) established a national agriculture sector adaptation to climate change action plan to: (a) support the scale up of climate resilient agriculture in small-holder farming, with a focus on extension services, knowledge management and coordination; and (b) strengthen the unit in charge of climate resilient agriculture within the Recipient's National Directorate for Agricultural Extension (DNEA).	Adjustments ensure consistency with wording of the reform instruments. The trigger has been adjusted to be more specific – and now supports an action plan and institutional reform for scaling-up climate smart agriculture. Status: met.
Health and climate change		
The 2013-17 national health strategy (PESS) that adopts measures to address severe and longer-term climate risks is approved by the Council of Ministers.	The Council of Ministers established the National Health Strategy (PESS) (2014-2019) adopting measures to address severe and longer-term climate risks.	Unchanged. Status met.
Climate resilient roads		
A vulnerability survey of the	The Council of Ministers established	Major flood damage to the road

CC DPO 2 trigger identified in CC DPO 1	CC DPO 2 proposed prior action	Comments/ Status
<p>unpaved rural roads network for three provinces is approved by the Ministry of Public Works and Housing. Design standards and maintenance approaches are revised to strengthen climate resilience and approved by the Ministry of Public Works and Housing.</p>	<p>an institutional unit within the Recipient's National Administration of Roads (ANE) with a mandate to ensure that post-flood reconstruction and rehabilitation of roads and bridges are executed in coordination with all relevant authorities and by following improved standards of climate resilience.</p>	<p>network in the Limpopo and Zambezi valleys during January 2013 has required an adjusted focus towards ensuring that reconstruction efforts address climate resilience issues, and in the longer term, that new roads investments are systematically screened to climate risks.</p> <p>Work is now underway on the vulnerability survey and in preparation of climate resilient roads standards (approval of which is now included as a DPO 3 trigger). Ministry of Public Works and Housing has also indicated it will introduce a reform for mandatory climate risk screening of all new roads investments from 2015 onwards.</p> <p>Status: met.</p>
Renewable energy access		
<p>A Feed in Tariff mechanism to encourage private sector investment to boost medium term energy supply and access from renewables is approved by the Council of Ministers</p>	<p>The Council of Ministers established a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investment to boost medium term energy supply and access from renewables.</p>	<p>Slight adjustment to wording to improve clarity.</p> <p>Status: met.</p>

Pillar 1: Strengthening national policy and institutional framework for climate resilient planning

Strengthening Cross-Sectoral Policy Implementation

Prior Action 1 - (a) The Council of Ministers established the mandate of the National Council for Sustainable Development (CONDES) to host technical coordination units for issues related to international environment conventions as evidenced by Decree Nr. 13/2013 dated 13 April 2013 published in the Boletim da República Nr. 29/2013; and (b) CONDES approved the terms of reference of a climate change coordination unit as evidenced by a CONDES Communication (Ofício) No. 122/CONDES/150/2014 dated 11 November 2014.

49. **Climate change poses challenges to many sectors in Mozambique.** Until recently, the Government lacked a strategy for addressing them in a coordinated way. The Government has started to address this issue with the introduction of the first National Climate Change Adaptation and Mitigation Strategy (ENAMC) - approved by the Council of Ministers in 2012 (a prior action under DPO 1). ENAMC is a long-term strategic planning document (2013-2025) and is being implemented through local and sectoral Climate Change Action Plans (CCAPs). The strategy consists of three pillars: (i) adaptation and disaster risk management, (ii) mitigation and low carbon development, and (iii) crosscutting aspects. Progress has been made since approval of the strategy in November 2012. The Government has established an inter-sectoral working group that now meets regularly, and has also completed the design of the national M&E framework for climate change – one of the first national M&E frameworks in SSA. Local adaptation plans for ten of the 38 districts considered most vulnerable to climate risks are now under preparation of which several are at an advanced stage of preparation, and one has already been approved (for Guija District in Gaza Province). Experience from this planning process will inform a larger scale-up of local level planning and budgeting for climate change.

50. **CONDES and MICOA have established the *Unidade das Mudanças Climáticas* (UMC, assigned to CONDES) to support day-to-day coordination, monitoring and reporting functions.** This followed a two-step process - Council of Ministers approval of a broadened mandate to encompass climate change coordination for CONDES - followed by CONDES approval of the terms of reference of the unit. The unit is now operational and coordinating climate resilient planning across Government, promoting the exchange and management of knowledge, and leading on the development and piloting of a national monitoring and evaluation framework. The unit comprises core staff from the CONDES and the National Environment Fund, counterparts in key line ministries and institutions (including Academy of Sciences/University of Eduardo Mondlane), and was supplemented initially by contract staff supported by the CCTAP.

Box 1. International experiences informing the design of prior actions

Design of the prior action reflects best practice in the international experience on climate change coordination. The upcoming PPCR report on “Lessons from Phase 1 for Developing Strategic Investment Frameworks for Climate-Resilient Development” highlights a number of key features for successful institutional structure under the

PPCR program and different approaches taken to build the institutional mechanisms for PPCR. The report concludes that institutional structures for climate resilience need to be: (i) able to ensure coordination across government departments, (ii) respected across government departments, (iii) seen as permanent, and (iv) capable of driving forward the relevant strategic investment program set out in the country's climate resilience strategy. Mozambique features all these characteristics. The report notes that anchoring the program in a lead ministry, such as the Ministry of Finance or Planning, which has the authority to implement projects across ministries, provides a strong basis for inter-governmental coordination, increasing confidence that the program will achieve its objectives. In the case of Mozambique, Ministry of Planning and Development plays a strong role in mainstreaming climate change into planning and works in close support of the coordination unit established under CONDES. In PPCR Phase 1, most pilot countries selected the Ministry of Finance, Planning, Prime Minister's office or the cabinet office as the institutional lead, although some countries opted to anchor the PPCR in other government entities. The approach to build the institutional mechanisms for PPCR has been reflective of the country readiness and existing institutional structure for climate resilience in the pilot countries. Some countries were able to employ existing institutions (e.g. Mozambique, Cambodia, Nepal), while others built upon *ad hoc* institutions (e.g. Zambia), and some built new institutions (e.g. Tajikistan).

51. **Triggers for DPO 3 would support the further integration of climate change into planning and budgeting at decentralized and sector levels.** The DPO 3 triggers currently are: (i) District socio-economic plans and budgets that incorporate local climate adaptation plans, measures and budgets are approved in at least 10 districts, and (ii) Climate change action plans (2015-2019) to operationalize the climate change strategy are approved for at least four key sectors.

Monitoring and Evaluating Climate Change Actions, Impacts and Results
Prior Action 2 - The Council of Ministers approved the climate change monitoring and evaluation framework including the requirement for MICOA to prepare and deliver annual reports on the national adaptation and mitigation strategy as evidenced by minutes of the 26th Ordinary Session of the Council of Ministers dated 28 October 2014 and published online at <http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%2026%20SOCM.pdf> and letter issued by the Minister of Planning and Development dated November 19, 2014.

52. **A national climate change M&E framework, establishing a mandatory national annual reporting responsibility on the National Adaptation and Mitigation Strategy was approved by Cabinet in November 2014.** Since approval of the Strategy, CONDES and MICOA have been working across Government, and with provinces, districts and civil society partners to put in place the national monitoring and evaluation framework that will cover both resilience and mitigation aspects of climate change. The framework is designed to support national and international reporting requirements, improve access and accountability in use of domestic and international climate finance and in the longer-term, to improve the formulation of

future policies and programs by learning from past implementation. The framework includes all indicators included in the DPO program. The engagement of sectors during the design of the framework provided a platform for the development of the forthcoming sectoral climate change action plans. MPD have engaged extensively in the process to ensure alignment with the national monitoring and evaluation framework. The UMC is also preparing a public expenditure review of climate expenditures with support from CCTAP, the results of which will be used in monitoring and reporting to the Council of Ministers.

53. **Triggers and results:** One trigger is currently included for DPO 3: the inclusion of climate change indicators in the new Government Five Year Plan and Poverty Reduction Action Plan. The result indicator is designed to measure the uptake of reporting by sectors on the implementation of ENAMC as measured by their reporting through the national M&E framework – from zero at the beginning of the series to all 13 key sectors included in ENAMC by 2016.

Pillar 2: Strengthening the climate resilience of selected sectors

54. **The Government’s reform agenda set-out in ENAMC aims to strengthen climate resilience of 13 different sectors.** Under this pillar of the DPO, policy and institutional reforms are included for hydro-meteorology and disaster risk management, agriculture, infrastructure and human development sectors to adapt to current and future climate shocks.

Strengthening Hydro-meteorological Services and Disaster Risk Management
Prior Action 3: The Council of Ministers approved the establishment of regional meteorological centers as specified under Pillar 1 of the Recipient’s National Meteorological Institute (INAM) Strategic Plan (2013-2016) and mandated the Ministry of Transport and Communications to issue within 90 days a new organizational statute for INAM to deliver forecasts and early warnings at regional level more efficiently as evidenced by minutes of the 27th Ordinary Session of the Council of Ministers dated 4 November 2014 and published online at <http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%2027%20SOCM.pdf>, and letter issued by the Minister of Planning and Development dated November 19, 2014.

55. **Efforts are underway to modernize hydro-meteorological services and strengthen DRM arrangements.** These efforts are supported by the World Bank with the PPCR-funded ‘Transforming Hydro-meteorological Services Project (P131049)’, and by a range of other development partners (including the Nordic Development Fund – NDF; and Japan International Cooperation Agency - JICA). The National Institute of Meteorology (INAM) recently introduced a new Strategic Plan for 2013 to 2016 (a reform supported under DPO 1). The INAM Strategic Plan sets-out clear objectives for upgrading weather forecasting and placing these on a more sustainable financial basis through the introduction of cost recovery measures. This plan also called for the establishment of regional meteorological centers that could deliver more accurate forecasting and early warning at sub regional level. Establishment of these centers would also resolve financial flow issues that currently comprise a constraint to sub-national meteorological service delivery.

56. **A decree that clarifies and updates INAM’s roles and responsibilities and enables the establishment of regional meteorological centers is supported by DPO 2.** The prior action includes the mandate to the Ministry of Transport and Communications to update, within 90 days, INAM’s statute in order to implement the decree’s principles¹². These will enable more efficient and locally responsive observation and forecasting of weather conditions and better coordination with agencies based at regional level responsible for flood modeling and disaster risk management. Since approval of the Strategic Plan, INAM and DNA have embarked on a major optimization process to fully-integrate hydrological and meteorological systems. This process will improve cost-effectiveness for data collection, management and analysis. It will also overhaul data management systems to improve data flows between agencies. Investments are also being made to introduce automated weather stations at 10 locations, and these should be in place by the end of 2014. Taken together, these reforms and investments will greatly improve capacity for forecasting. Investments and capacity building are also supported by the Pilot Program for Climate Resilience (PPCR) and NDF. This pilot project is investing in strengthening hydro-meteorological systems operated by INAM, the National Water Directorate (DNA) and the regional water authorities (ARAs). Support from the GFDRR (financed by DFID) is also being provided to improve flood modeling in the lower Zambezi and Limpopo valleys through the extensive deployment of Light Detection and Radar (LiDAR) surveys.

57. **A new Disaster Risk Management Law was supported during the first cycle of DPO support and this was approved by Parliament in 2014.** This will be followed by a revision of the statutes for the National Emergency Operations Centre (CENOE) and a Disaster Risk Management Master Plan. Work is well-advanced on the development of standard operating procedures (SOPs) that will accelerate the flow of monitoring information on hydro-meteorology to local level. INGC has also made good progress in improving flood risk modeling through development of digital elevation models in the lower Limpopo Valley through use of LiDAR. These efforts are now being scaled-up to cover the entire lower floodplains of the Limpopo and Zambezi. Once completed, this should greatly improve the accuracy of flood forecasting, and will also provide a powerful tool in support of climate resilient development planning.

58. **Triggers and results:** Triggers for DPO 3 are designed to address improved data sharing and to improve ‘last-mile connectivity’ in early warning systems. Specifically, these will include (i) approval of a protocol for the management and exchange of data through a joint ministerial diploma of the Ministry of Transport and Communications and the Ministry of Public Works and Housing, and (ii) Ministerial approval of protocols and agreements between Government and the community radio regulator that enable an increase in airtime coverage before and during emergencies to facilitate the transmission of alert information to local communities. The results indicator will assess changes in the lead time between warnings issued by ARAs/DNA on the basis of flood and weather monitoring to when INGC declares Red status in the lower Limpopo and Incomati River basins.

Improving the climate resilience of agriculture
Prior Action 4 –The Ministry of Agriculture (MINAG) established a national agriculture sector

¹² The draft statute of INAM have been consulted with development partners, including the World Bank, to ensure consistency with the reform’s intended objective to make meteorological services more efficient and responsive to local needs.

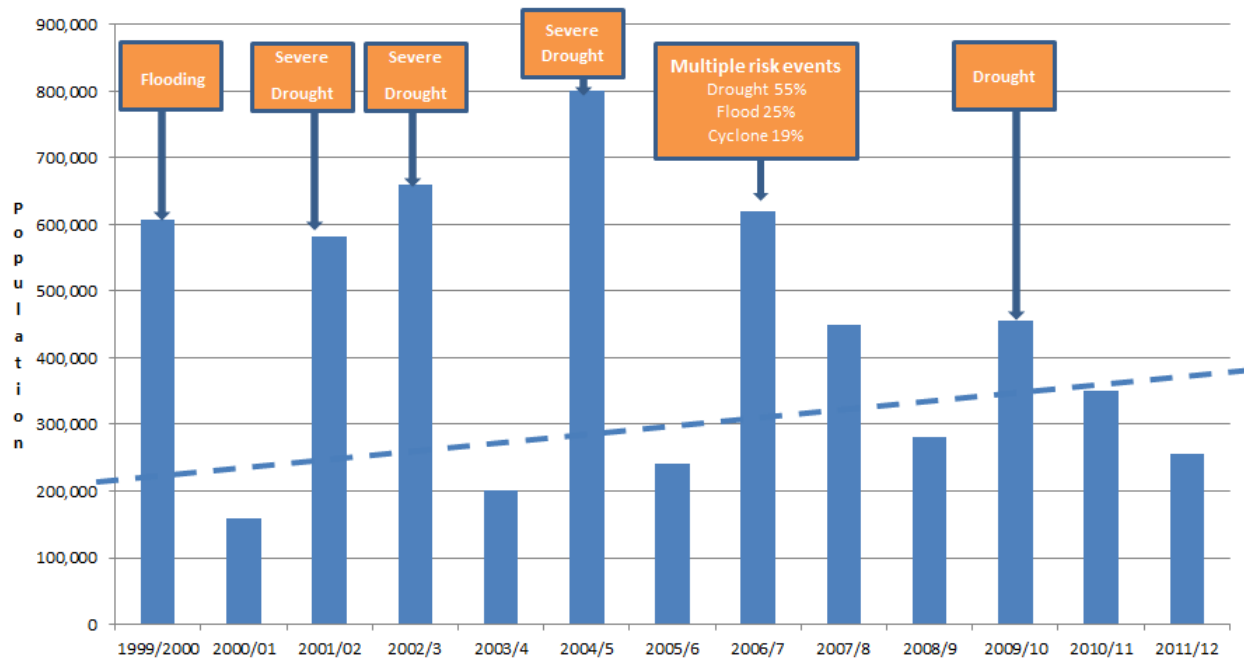
adaptation to climate change action plan to: (a) support the scale up of climate resilient agriculture in small-holder farming, with a focus on extension services, knowledge management and coordination; and (b) strengthen the unit in charge of climate resilient agriculture within the Recipient's National Directorate for Agricultural Extension (DNEA) as evidenced by Communication (Oficio) No. 155/GMINAG/2014 dated 30 October 2014.

59. DPO 1 supported the approval of an Investment Plan for the agriculture sector (PNISA) under MINAG that included a costed program for conservation agriculture. The PNISA was approved by the Council of Ministers in December 2012. This provided the Directorate of Agrarian Extension (DNEA) with a mandate for elaborating 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 technical assistance provided by World Bank. MINAG has also decided to coordinate and 'drive' implementation of the action plan by strengthening an existing unit under DNEA. This unit will have responsibility for monitoring the scaling-up process. Efforts to improve monitoring and evaluation of this scale-up process are now underway. This improved system will disaggregate data between male and female headed households and will be implemented by DNEA with data collection by extension workers aggregated by provincial Directorates of Agriculture. A Ministerial Oficio of MINAG approved the action plan and measures to strengthen the technical unit that will drive implementation of the plan. Implementation will focus on strengthening the links between farmer, agricultural extension and agricultural research and will also promote demand-led extension approaches. This will include contracting extension service providers from the private, NGO and public sectors to increase geographical coverage of climate smart extension advice.

60. Since approval of the PNISA, considerable progress has also been made at project level. Over 15,000 farmers are now adopting climate smart agricultural practices that include zero tillage, use of drought tolerant seeds and improved soil and moisture management. Crop production and food insecurity are closely correlated with the occurrence of severe weather-related events (See Figure 4). 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 to the sector. 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 agriculture¹³ has demonstrated their value in increasing yields of key crops (e.g. maize). As the PEDSA moves into implementation, there are trade-offs between aspirations to promote commercialization, and what is possible given the actual resources and capacities of smallholders. Farmers with favorable endowments of land, labor and finance and with access to markets are well placed to move to a more commercialized production system. For less well-endowed farmers, the focus and outcome of additional support are more likely to be a more secure subsistence-based livelihood. Improvements in farm practices that build climate resilience have the potential to benefit all farmers.

¹³ See *Conservation agriculture in Mozambique – experiences with a new technology*. CIMMYT. USAID Mozambique.

Figure 4. Acute food insecure population in Mozambique



Source: World Bank (2013). Agriculture Sector Risk Assessment. Risk Prioritization. August 2013

61. **Experience from the DNEA and from development partners indicate that, where consolidated support is provided to smallholders, adoption of improved techniques increases, and this leads to increases in yields and productivity.** However, initiatives to build resilient agriculture are constrained by weak coordination and a lack of structured sharing of information and experience, particularly between research institutions and extension services. There are currently multiple initiatives in the agriculture sector that are intended to build the resilience of smallholder farmers, but these are not well coordinated. There are often overlaps in coverage and/or poor communication between projects. The result is that lessons are not shared and learned, and synergies are not exploited. Currently, there is no structured way that information, analysis and lessons are shared between the multiple actors seeking to build climate resilience into smallholder agricultural systems. In addition, much formal agricultural research is still driven by the priorities of researchers rather than farmers, and as a result is not adding the value that it could to initiatives attempting to address climate change impacts on farming. The national action plan supported by DPO 2 responds to these challenges.

Box 2. What is 'Climate Smart Agriculture'?

Climate Smart Agriculture (CSA) aims to address food security and climate challenges by addressing economic, social and environmental aspects of agricultural development, and the protection of natural resources with a focus on

the challenges faced by smallholder farmers. Climate Smart Agriculture has three pillars:¹⁴

- Sustainably increasing agricultural productivity and incomes;
- Adapting and building resilience to climate change;
- Reducing and/or removing greenhouse gas emissions, where possible.

It is a flexible approach that responds to local conditions and requirements. It aims to strengthen both livelihoods and food security, especially of smallholders, by improving the production, processing and marketing of agricultural goods, and the way that natural resources are managed and used. CSA is not a single specific agricultural technology or practice that can be universally applied. It is an approach that requires site-specific assessments to identify suitable agricultural production technologies and practice.

62. **Triggers and results:** The trigger for DPO 3 will comprise the approval of incentives, with adequate and assured financial backing, that overcome current barriers to widespread adoption of climate resilient agriculture in smallholder farming. These will include supply-side incentives for extension services, such as career advancement for supporting the rapid adoption of new techniques, or developing innovative ways to share new knowledge and information. The Ministry of Agriculture (MINAG) also envisages demand-side incentives for farmers, such as prizes and certificates to reward increasing their own production through improved farm practices, or supporting others in their community to adopt them. Once a critical number of farmers have adopted climate smart agriculture practices it is envisaged that the need for these incentive payments will diminish. The adoption rates of climate resilient farm practices will be monitored by results indicators designed to track the changes in the number of households using improved, climate resilient farming techniques in all ten provinces, and the average maize yields from farms where these techniques are used.

Building climate resilience in the human development sectors
Prior Action 5 –The Council of Ministers established the National Health Strategy (PESS) (2014-2019) adopting measures to address severe and longer-term climate risks as evidenced by minutes of the 9th Ordinary Session of the Council of Ministers dated 1 April 2014 and published online at
<http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%209%20SOCM.pdf>, and letter issued by the Minister of Planning and Development dated November 19, 2014.

63. **Policy and institutional reforms supported by the DPO series pursue the integration of climate resilience into both social protection and health policy.** DPO 1 supported the integration of climate change considerations – including consideration of climate risks to vulnerable communities and the inclusion of adaption options to address these risks into the National Productive Social Action Program. This Program was approved by the Council of Ministers in November 2012 and is now being supported by IDA through the Social Protection Project (P129524). The prior action for DPO 2 - integration of adaptation measures to address

¹⁴ FAO, 2013, *Climate Smart Agriculture Source Book*, FAO, Rome, pp. ix-xi.

weather and climate risks into the new National Health Strategy (PESS) takes a similar approach in the health sector.

64. **Natural disasters such as floods, droughts and cyclones can have a severe and lasting impact on household income, and they disproportionately harm the poorest.** Weather-related shocks also have dramatic impacts on health outcomes – for example through disease outbreaks such as malaria and water-borne diseases, and nutrition related conditions. The impact of climate and weather variability on population health can also be modified significantly by non-climatic factors. These include improving access of the population to basic environmental infrastructure, such as safe drinking water and sanitation facilities, and improving the capacity of institutions to adapt, such as better climate forecasting, disaster management, and health service provision. Health service delivery often struggles to cope following such shocks. These shocks can also have longer-term consequences for the poor and vulnerable - especially female-headed households. A study commissioned by the World Bank¹⁵ estimated the relative impact of various shocks on poverty: floods and cyclones had the strongest impact, reducing household expenditures by about 32 percent and increasing the poverty rate by 2 percentage points. Agricultural pests and drought each diminished consumption by about 17 percent and added between 1 and 2 percentage points to the poverty rate.

65. **When facing a shock, poor households are often forced to sacrifice their long-term interests for the sake of immediate needs, for example by withdrawing children from school to supplement household labor, or by selling or consuming productive capital such as livestock or seed grain.** In the long run, coping mechanisms make households poorer and even more vulnerable, and they may transmit these adverse effects to future generations through their impact on education and health outcomes. For this reason, social protection and safety net programs have an important role to play in helping the poor cope and respond following severe shocks. Building gender-sensitive social protection systems is at the core of the Government's strategy for Mozambique and currently, women represent around 60% of the beneficiaries within the Productive Safety Net (PASP). Targeting mechanisms are needed to ensure that safety net resources are deployed effectively to reach key vulnerable groups.

66. **The 5 year national health strategy plan (PESS), established by the Council of Ministers, acknowledges the vulnerability of the health sector to climate impacts on health and states the need to strengthen understanding of effective interventions and long-term policies.** It calls for the development of a specific strategy on environmental health based on an evaluation of the health risks from climate change and their resilience mechanisms. This includes (i) measures to address risks associated with vector-borne and water-borne diseases, including measures to strengthen disease surveillance systems, (ii) measures to strengthen health integration into disaster risk management systems in order to improve the delivery of health services during and after disasters – including the introduction of standard operating procedures and pre-positioning of health supplies and equipment, and (iii) measures to address nutritional conditions associated with climate change. Currently there are no explicit policies and strategies to guide environmental health work and interventions in the context of emergency response and preparedness to severe climatic events and the Ministry of Health has been implementing emergency response interventions on an *ad hoc* basis. IDA support through the Health Service

¹⁵ World Bank (2008) *Mozambique Poverty, Gender, and Social Assessment*.

Delivery Project (P099930) will provide technical assistance and other support as required for the implementation of measures included in the PESS.

67. **Triggers and results:** The social protection trigger for DPO 3 is a reform to introduce the use of a climate change vulnerability index to geographically target social protection investments to areas at risk from climate change. Data from the first pilot of new household survey has just been made available by Government and technical assistance during DPO 3 will assist Government to review this data set to explore whether this data could be used to help in the development of a vulnerability index. The data might also be used to help monitor the impacts from climate change and interventions. The health trigger for DPO 3 will support the introduction of specific actions for addressing disaster risk management and climate change, and updated protocols and guidelines to (i) help the Ministry of Health (MISAU) respond to disease outbreaks that frequently follow severe climatic events e.g. malaria, cholera, diarrhea and other water-borne diseases; and (ii) monitor epidemiological patterns and nutrition problems resulting from environmental factors – including climate change. These will then be rolled out at district and municipal level. Results indicators will be used to (i) increase the number of households in climate vulnerable districts benefiting from the National Productive Social Action Program (as measured in INE household survey data); and (ii) increase the number of high-risk districts and municipalities that have introduced and tested disaster preparedness and response protocols for health service delivery.

Improving the Climate Resilience of Roads

Prior Action 6 – The Council of Ministers established an institutional unit within the Recipient’s National Administration of Roads (ANE) with a mandate to ensure that post-flood reconstruction and rehabilitation of roads and bridges are executed in coordination with all relevant authorities and by following improved standards of climate resilience as evidenced by Decree Nr. 55/2013 dated 6 November 2014 published in the Boletim da República Nr. 89/2013.

68. **Roads in many parts of the country are highly exposed to climate change impacts.** Mozambique has a classified road network of approximately 30,000 km, of which 24,000 km are unpaved roads which are particularly susceptible to damage from climate and weather induced problems. Heavy rains and floods increasingly cause roads to suffer ruptures leading to disruptions, which result in rural populations being cut off from markets and services, with the associated harmful effects on rural livelihoods. In January 2013, seasonal flooding inflicted severe impacts on the road systems in the lower Limpopo, Zambezi and Save river valleys. Flood damages to these road networks will take several years to remedy. The World Bank estimated that restoration of the lower Limpopo roads network damaged by the January 2013 floods would cost in the order of US\$106 million. The World Bank, UK DFID and other donors are contributing investment financing towards reconstruction efforts.

69. **For the medium to long term, GoM recognizes a need to improve climate resilient planning, design, construction and management of roads across the whole country.** Efforts to develop new national roads standards are underway with IDA support through the Roads and Bridges Management and Maintenance Project (P146402). This project includes specific activities designed to strengthen climate resilience (including activities co-funded by the PPCR and UK DFID). The standards are being designed to increase resilience from planning, through

design, construction, maintenance and monitoring. Reforms supported by the DPO seek to complement this work by strengthening the institutional and policy framework for building resilience into the roads sector. In cases where road networks are severely damaged, DPO-supported reforms will promote reconstruction implementation to high levels of climate resilience.

70. The DPO 2 reform supports the establishment of a unit within the National Roads Administration (ANE) with a mandate to ensure that roads are re-designed, maintained and reconstructed to high standards of climate resilience. This unit is now fully-operational supported with staffing and operational costs re-allocated from within the ANE budget. ANE has already issued interim guidelines for emergency road repairs and reconstruction works to help ensure that these are undertaken to acceptable levels of climate resilience. The Bank reviewed reconstruction works in the lower Limpopo Valley in September 2014 and found these had been undertaken to satisfactory levels of climate resilience. ANE has also identified measures that would contribute broader community resilience, e.g. by profiling burrow pits to create dry season water watering points for livestock. The new unit will also have a mandate for supporting ANE to ensure compliance monitoring of the new road standards – whether these roads investments are funded from ODA or domestic resources. The new standards are now under development (with IDA and PPCR support) and will be introduced during 2015. The African Development Bank and Nordic Development Fund are also providing support in the roads sector on climate resilient roads development, and the unit will also help to ensure coordination between these initiatives.

71. Triggers and results: Two triggers for DPO 3 have been proposed by Government for inclusion. The first will support the approval and introduction of national, climate resilient roads standards and maintenance approaches. The Ministry of Public Works and Housing has already started work on the new standards. It is anticipated that these will be ready for piloting during 2015. The second will be the introduction of mandatory climate screening of all new roads investments. Results indicators will be used to monitor changes in the proportion of district roads that are re-constructed or upgraded from 2014 onwards in pilot provinces (Gaza and west Inhambane) in compliance with revised interim guidance and eventually the design standards.

Promoting Energy Efficiency and Access to Renewable Energy
Prior Action 7 – The Council of Ministers established a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investment to boost medium term energy supply and access from renewables as evidenced by Decree Nr. 58/2014 dated 17 October 2014 published in the Boletim da República Nr. 84/2014.

72. Mozambique’s economy has been growing fast and needs to continue growing fast in order to meet the twin goals of eliminating poverty and increasing shared prosperity. Availability of electricity supply is a critical part of enabling this growth. Net power consumption is projected to increase by an annual average of 8–15 percent over the next 10-year period¹⁶ - mostly driven by demand from urban centers, especially those in the south of the

¹⁶ Estimates vary: **Business Monitor International** May 29 2012 (see <http://www.marketresearch.com/Business-Monitor-International-v304/Mozambique-Power-Q3-7011559/>) estimated a growth rate of 8.4 percent for the next

country. This growth rate, combined with limited generation expansion and exacerbated by severe bottlenecks in transmission means that peak demand is outstripping available generating capacity: in 2013, peak demand was 745MW and available capacity was 610MW, leading to a deficit of 135MW.

73. **In the medium term, Mozambique possesses abundant natural energy resources for power generation at regional scale – so much so that it should be able to meet domestic demand, and is looking for reliable infrastructure to export power.** This is particularly so for hydropower and coal in the Zambezi valley, as well as natural gas in the Pande/Temane area, and in the off-shore Rovuma Basin/northern Cabo Delgado province. The total hydropower resources are estimated at approximately 12,000 MW, and the proven gas and coal reserves are estimated at 127 billion cubic meters of gas and 13.1 billion tons of coal.

74. **In the short-term, these considerable resources will take some time to mobilize (with the exception of limited gas resources which are readily available from the Pande/Temane area, and are being used to fuel the new 175MW Ressano Garcia plant).** Whilst these longer-term resources are developed, the gap between rapidly increasing demand and supply can be met through a combination of energy efficiency measures and some diversification to broader renewable generation sources. Such short term options would be both environmentally sustainable, and should also be designed to be financially sustainable.

75. **Promoting energy efficiency and demand side management will improve resilience by reducing demand and consumption.** Improving demand side management through various energy efficiency measures will be an important and highly financially-sustainable approach to meeting the demand-supply gap. As power during peak periods is also being sourced from thermally generated sources, energy efficiency should also help to lower greenhouse gas (GHG) emissions. The recent energy strategy calls for the adoption of an action plan for energy efficiency to avoid unnecessary infrastructure investment. Specific actions would likely include, among other measures, the launch of a campaign to replace a sizable number of light bulbs, encouraging the use of natural gas, LPG and solar thermal, and increasing tariffs for non-efficient appliances and installing power limiters. The Government and the utility *Electricidade de Moçambique* (EdM) are currently working to establish actions in this area with a view of moving into implementation soon.

76. **The revised Energy Strategy under preparation also includes an expanded role for renewables (a target of 400MW is quoted).** The Government has also launched a National Strategy for New and Renewable Energy Development (EDENR)¹⁷ which, *inter alia*, encourages take-up of technologies that will improve access to modern forms of energy.

77. **Renewable energy resources have recently been mapped by the Ministry of Energy showing enormous potential.** Of this potential, about 7GW, equivalent to more than 500 projects, mostly hydropower but also wind, solar, biomass and geothermal, constitute alternative

10 years. The review of Mozambique's electricity law published in March 2011 estimated growth rates at around 15 percent.

¹⁷ MoE (2011). *Strategy for New and Renewable Energy Development (EDENR) 2011-2025*. Ministry of Energy, Republic of Mozambique.

solutions to be considered for Mozambique’s power system. Such sources could be made operational quite quickly, and could also boost grid stability and provide improved incentives for extending the grid further - hence increasing access to electricity. The Government has recently completed a tender process for what would be Mozambique’s first wind farm, and it is anticipated this will generate 30MW of power to the grid once completed.

78. **Policy measures such as the approval of Feed in Tariffs can facilitate investment in renewables projects.** The EDENR has identified the establishment of a Renewable Energy Feed in Tariff (REFIT) as critical to encourage and enable private sector investments by Independent Power Producers to supply electricity to the grid from installations of up to 10MW in size. The Government and the utility will still need to consider and improve the manner in which these investments will be integrated into the grid, and the respective cost implications. On this front, the Ministry is working on a Road Map to develop the intermediate steps required to ensure implementation of objectives set out in the recent strategy, including the objective of promoting the installation of 400MW of renewable energy. EdM is receiving support under the Sustainable Energy for All (SE4ALL) Initiative to develop its capability to work with private sector investors to develop renewable energy projects. This includes, *inter alia*, development of guidelines to investors on financing structures that EdM would expect to take part in, and guidelines on costs for projects to connect with the EdM grid.

79. **The prior action for DPO 2 is Council of Ministers approval of a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investment to boost short-medium term energy supply and access from renewables.** This reform was prepared by the Ministry of Energy with the support of USAID and has recently been reviewed and approved by the Council of Ministers for their review and approval. The REFIT design sets-out tariffs for four renewable generation technologies and installation capacities of up to 10MW in size. Renewable generation technologies included in the REFIT design are biomass, solar, wind and small hydro. It is anticipated that electricity generation from the burning of bagasse wastes from sugar processing plants in the south of the country will comprise some of the first Independent Power Producers to make use of the REFIT mechanism.

80. **Triggers and Results:** The two triggers for DPO 3 are (i) Ministerial approval and implementation program of the national energy efficiency action plan including the installation of solar water heaters in selected provincial hospitals - this is consistent with MoE’s energy efficiency program that seeks to reduce peak energy demand by 105MW through introduction of energy efficiency measures, including the substitution of 3 million light bulbs with more energy efficient compact fluorescent bulbs and expanding the use of solar water heaters. The baseline has been selected to monitor expected increases in availability of energy through a combination of renewable energy and energy efficiency measures; (ii) Ministerial diploma to approve the REFIT implementation program that will set supply ceilings for different renewable technologies. This would provide MoE with the ability to define the maximum amount and cost ceilings for supply from different renewable technologies, and align this to budget plans and allocations.

Table 7. DPO Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings (be specific about the finding informing the prior action)
Climate change strategy and	Modelling has showed that without changes in policy, climate change is expected

Prior actions	Analytical Underpinnings (be specific about the finding informing the prior action)
coordination	<p>to cause economic damages between US\$2.3 billion and US\$7.4 billion during the period 2003–50 (discounted and in 2003 prices). The source of these damages varies across climate change scenarios.</p> <p>World Bank (2010). <i>The Economics of Adaptation to Climate Change – Mozambique</i>. Arndt, C., Paul Chinowsky, Kenneth Strzepek, and James Thurlow (2012) <i>Climate Change, Growth and Infrastructure Investment: The Case of Mozambique - Review of Development Economics</i>, 16(3), 463–475, 2012.</p>
Early warning and disaster risk management	<p>Research indicates that as much as 58 percent of the population, and more than 37 percent of GDP, is at risk from two or more hazards (especially floods and droughts). World Bank, <i>Water Resources Assistance Strategy for Mozambique</i>, 2007.</p> <p>A subsequent World Bank study on disaster risk financing recommended that further research is undertaken that looks beyond weather index-linked products to other forms of micro-insurance.</p>
Climate resilient agriculture	<p>The Mozambique Agricultural Risk Assessment showed that droughts and floods lead to substantial income and asset losses for individual farming households, create food supply shortage, result in price spikes and food inflation, create transient food insecurity, and reduce agricultural growth. These climatic risk factors were followed by pest and disease outbreaks, international price volatility and domestic price volatility.</p> <p>Studies on agricultural risk assessment indicate that prospects for index linked micro insurance for farmers is limited, but further analytical work by World Bank/GFDRR indicated that the feasibility for developing alternative insurance instruments might be merited.</p> <p>(a) World Bank (2013). <i>Agriculture Sector Risk Assessment. Risk Prioritization</i>. August 2013; (b) World Bank/GFDRR (2012). <i>Disaster risk financing and insurance country note</i>, June 2012; (c) Ministry of Planning and Development (2013). <i>Feasibility study on weather index micro insurance in the Limpopo Valley, Mozambique</i>.</p> <p>A 2013 analysis of agriculture based livelihoods, supported by the PPCR, highlighted extremely low levels of uptake of improved, climate resilient agricultural practices, such as Conservation Agriculture or other improved soil and water conservation measures. The study recommended that the extension services adopt a more demand-led approach and improve the way relevant skills and knowledge are shared and validated. This analysis echoes findings across southern Africa (and further afield) which show that a ‘top-down’, supply driven extension approach with blanket recommendations, is ineffective in promoting rapid and widespread uptake of improved farming techniques.</p> <p>Croxtan, S, Petrie, B., Chapman,R.A and Midgely, S.J.E. (2013). <i>Assessment of Climate Resilient Livelihood Options in Drought Prone Areas of Mozambique</i>.</p>
Health and Social Protection	<p>Climate change will hit the poorest and most vulnerable the most. This issue is highlighted in the World Bank’s study of the social dimensions of climate change, which showed that those most at risk are subsistence farmers and the economically and socially-marginalized - such as the elderly, female-headed households, orphans and widows. The targeting of health and social protection</p>

Prior actions	Analytical Underpinnings (be specific about the finding informing the prior action)
	<p>programs is a key aspect of the human development policy area of the operation.</p> <p>Mearns, R., & Norton, A. (Eds.). (2010). <i>Social dimensions of climate change: equity and vulnerability in a warming world</i>. World Bank Publications.</p>
Roads infrastructure	<p>Economic analyses indicate that improved standards for construction and maintenance of rural roads offer an attractive option for building longer-term resilience.</p> <p>Arndt, C., Paul Chinowsky, Kenneth Strzepek, and James Thurlow (2012) Climate Change, Growth and Infrastructure Investment: The Case of Mozambique - <i>Review of Development Economics</i>, 16(3), 463–475, 2012.</p> <p>World Bank (2010). <i>The Economics of Adaptation to Climate Change - Mozambique</i></p>
Renewable energy access	<p>The review of Mozambique’s electricity law, published in March 2011, estimated growth rates at around 15 percent, and this implies a need to secure access to energy in the short term by taking full advantage of available, diverse and quickly deployable sources of energy as a more important priority than reducing emissions <i>per se</i>. Renewable energy sources can contribute an effective option to improve energy access in the short to medium term. In the medium term (10-15 years), significant indigenous large hydropower and gas resources are expected to play an important role in meeting supply needs.</p> <p>Similarly, improving demand side management and promoting energy efficiency is another means of increasing resilience of power supply and reduce shortages in the short-term. A program carried out in several countries in the region to introduce CFLs in selected companies has resulted in power savings of 2,045MW from 2009 to 2012.</p> <p>ESMAP (2014) <i>Building climate resilience in Mozambique’s energy sector – issues and options</i>. Briefing note (Draft).</p> <p>Ministry of Energy (2011). <i>Strategy for New and Renewable Energy Development (EDENR) 2011-2025</i>.</p> <p>MoE (2011). <i>Renewable Energy Tariff Models</i>. Ministry of Energy, Republic of Mozambique.</p> <p>EDM (2014). <i>Presentation on Energy Efficiency to the X Coordinating Council of the Ministry of Energy</i>.</p>

4.3 LINK TO COUNTRY PARTNERSHIP STRATEGY AND OTHER BANK OPERATIONS

81. **The Mozambique Country Partnership Strategy (CPS)¹⁸ for FY12-15 takes as its starting point the Government’s PARP, with its theme of inclusive and broad-based growth.** The Africa Regional Strategy also provides an overall framework for setting priorities. Like the Africa Regional Strategy, the CPS has two pillars (competitiveness and employment; vulnerability and resilience) and a foundation (governance and public sector capacity). Through its second pillar, given the country’s susceptibility to idiosyncratic and exogenous shocks, the

¹⁸ World Bank 2012, Country Partnership Strategy FY12-15 for the Republic of Mozambique, Washington DC.

Bank aims to help improve health services for the vulnerable; strengthen social protection; encourage climate change adaptation; and reduce vulnerability to natural disasters. The DPO series supports both pillars of the CPS (see Table 8).

82. **The DPO series complements other sectoral interventions by strengthening the institutional and policy framework for climate resilience.** While sector operations engage sectors individually through investment projects and TA, the DPO’s value added is to elevate ownership of supported reforms from the technical to the national policy level (Minister level and Council of Ministers), and accelerate the introduction of the reform. The roads sector provides a useful example of this as the debate on improved road standards has moved from the sector (technical) level to the national level through the engagement of Council of Ministers. This results in impact at a scale that goes beyond investment project boundaries. Annex 2 provides a summary of links with other lending and analytical operations.

Table 8. DPO support for Country Partnership Strategy Objectives and Outcomes

<i>CPS pillar</i>	<i>CPS objective</i>	<i>CPS outcomes</i>	<i>Climate Change DPO support</i>
Pillar I	Increase productivity in agriculture and other growth sectors	Increased crop yields and overall productivity	Support for priorities identified in the National Agriculture Strategy that boost yields and climate resilience
	Improved provision and management of public goods for growth	Improved provision and management of road infrastructure	Support to improve the climate resilience of road infrastructure to weather-related risks and damage Improving the investment environment for private sector participation in both off and on grid renewables
Pillar II	Effective response to idiosyncratic shocks	Improved health services for the vulnerable	Support for integrating climate change considerations into the next national health strategy and into National Productive Social Action Program
	Mitigate impacts of climate change and extreme weather	Adaptation to climate change & reduced risk of disasters	Pillars 1 and 2 of the DPO support cross-cutting and sectoral reforms to strengthen adaptive responses.
	Reduce vulnerability to exogenous and endogenous shocks	Strengthened social protection	Strengthening the contribution of social protection systems to lowering risks of vulnerable groups to climate shocks

4.4. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

83. **Consultations:** The preparation process for the National Adaptation Program of Action (NAPA) and the national adaptation synthesis study undertaken by INGC were based on

extensive consultations. Preparation of the SPCR built upon these processes, and the National Climate Change Adaptation and Mitigation Strategy (ENAMC) approved in November 2012 involved extensive stakeholder consultations at local, provincial and national level, including engagement with civil society and private sector groups¹⁹. The recent development of the national M&E framework for climate change provided an entry point for MICOA to engage with governmental, academic and civil society groups with an interest in different parts of the reform agenda. Given that engagement of various stakeholders can strengthen the sustainability of actions around climate change, the program of reforms will continue to foster this type of dialogue.

84. **Collaboration with Development Partners:** Annex 2 provides a summary of DPO support and its links to IDA lending and analytical work – much of which is undertaken in partnership with other development partners. A donor working group on environment and climate change, currently chaired by the United Nations Development Program, promotes dialogue and sharing of experience on environmental and climate change support²⁰. The World Bank participates in this group and, in partnership with MPD, presented the DPO series for discussions with development partners at this forum. The Bank also works closely with development partners on the reforms included in the DPO series including with United Kingdom’s Department for International Development (DFID) throughout the preparation of the DPO series (preparation of which is supported through a DFID-supported Trust Fund). Close collaboration is also undertaken with German and Danish-supported programs on cross-cutting reforms, for example those relating to the development and implementation of the ENAMC and national monitoring and reporting framework. Other development partners with whom the Bank and Government counterparts work closely include the Nordic Development Fund (e.g. on hydro-meteorology and roads reforms), USAID (climate change in municipal and urban planning and on renewable energy access reforms) and CARE International (climate resilient agriculture reforms).

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

85. The programmatic DPO series will have a number of poverty and social impacts. The first operation of the series supported reforms that were mostly on strategy, coordination and monitoring and evaluation, and so there were no directly-measurable social or poverty impacts. To ensure that poverty and social risks and opportunities were analyzed in a structured manner, the Bank team has prepared a rapid Poverty and Social Impact Analysis (PSIA) to inform the design of subsequent operations in the DPO series. The PSIA consisted of a comprehensive

¹⁹ This has included stakeholder consultations with nine provinces, three regions, the private sector, the international development partners, and with civil society and the media.

²⁰ The DPO was presented for discussion at the EWG by MPD and was broadly endorsed and supported. The meeting was hosted by MICOA and chaired by the Director for International Cooperation, MPD on 14 August 2012 and included representatives from the United Kingdom (DFID), France (AFD), Germany (GIZ), Embassy of Ireland, Japan International Cooperation Agency (JICA), and the United Nations Development Program (UNDP). A second discussion on the DPO took place during the December 2012 meeting of the EWG and this included representatives from African Development Bank (ADB), International Finance Corporation (IFC), United Nations Development Program (UNDP), Denmark (Danida), the United States (USAID) and the World Wide Fund for Nature (WWF).

literature review structured around sectors and tracing of potential impact of each prior action. The analysis shows that impacts from DPO prior actions are primarily neutral or positive, since the reforms will promote climate resilience in sectors of particular significance to the poor in Mozambique, in particular disaster risk reduction and management, agriculture, social protection and rural health service provision.

86. The PSIA made recommendations for the adjustment of policy actions to strengthen the DPO’s contribution to the World Bank’s twin goals of eradicating extreme poverty and promoting shared prosperity. The PSIA was designed to assess the potential impacts of reforms on different beneficiaries, including on women and other vulnerable groups, enhance existing positive impacts and to avoid potential poverty risks. Table 9 provides a summary of anticipated poverty and social impacts of the policy actions proposed for DPOs 2 and 3. An update of the PSIA could be envisaged to analyze data from recent piloting of the national household survey, explore the extent to which data can be disaggregated by gender or to analyze trends that relate to gender variables e.g. for female-headed households. This could capture data on exposure and vulnerability, including of food security, exposure to vector-borne diseases, access to land, water and to social protection programs.

Table 9. Expected Poverty and Social Impacts of the Climate Change DPO Program

Prior actions and triggers	Poverty and social impacts expected
Strengthening coordination: Creation of the UMC; integration of climate resilience into district level planning and budgeting; and sector level action planning.	Positive: Improved strategic planning and coordination functions at central level will contribute to more efficient allocation of climate finance at sector and sub-national level and will promote, support and monitor climate resilient planning and budgeting at district level.
Monitoring and evaluation: Annual reporting on ENAMC; integration of climate change indicators in Government’s next 5-year plan.	Neutral or positive: Medium and longer term, indirect impacts should be positive as lessons from M&E inform better climate resilient planning and development.
Hydro-meteorological services and improved early warning systems: Delivery of more effective regional forecasting at sub-national level; agreements and protocol for hydro-met data management and exchange; and increased airtime coverage to support delivery of disaster early warnings.	Positive: Local stakeholders (including the poor and women) will be enabled to respond better to severe weather-related and slower-onset climate risks.
Climate smart agriculture: National action plan on climate smart agriculture; approval of incentives for scaling up climate resilient agriculture.	Positive: Higher productivity (and hence improved food security), profitability and asset conservation. Potential challenges include (i) evidence gaps on small-holder impacts and distribution of benefits of farmers, (ii) resistance of farmers to the adoption of new approaches, (iii) access issues to improved seeds and tools. The program supported by the DPO 2 reform will address these challenges by

Prior actions and triggers	Poverty and social impacts expected
	strengthening extension provision and improving knowledge management and incentives for uptake of climate smart approaches.
Health and social protection: Approval of a new national health strategy that addresses climate change risks; adoption of a climate change vulnerability index; and approval of protocols to enhance post-disaster health responses.	Positive: Climate change may amplify existing health risks e.g. malaria and cholera, particularly after weather-related disasters occur. Enhanced disaster response by the health sector, and informed targeting to climate vulnerable communities by social protection seek to reduce vulnerability of most remote and poorer communities.
Roads: National Road Administration unit to monitor and supervise resilient road designs, maintenance and reconstruction; and introduction of national level climate resilient road standards. Mandatory screening of new roads investments.	Positive: Potential benefits include continued access to markets and services following floods and storms. A potential challenge is that road maintenance contracts may not provide employment opportunity for poor people. The revised roads standards are expected to address this issue through promotion of local contracting for maintenance purposes.
Energy: Introduction of a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investments in renewables; setting of supply ceilings for different renewable technologies and introduction of energy efficiency and demand side management reforms.	Moderately positive: Mozambique’s electricity demand is growing fast and renewable energy provides important short term opportunities for bridging a widening demand/supply gap. Potential challenges include low levels of access to electricity of poorest groups.

5.2. ENVIRONMENTAL ASPECTS

87. **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. The Ministry for the Coordination of Environmental Affairs (MICOA) is the agency responsible for conducting EIAs. The capacity of MICOA, especially for Strategic Environmental Assessment is limited due to financial and technical capacity constraints. Like most SSA countries, Mozambique lacks a legal framework for Strategic Environmental Assessment. This issue is currently being addressed by MICOA – two major SEA exercises have been commissioned to pilot SEA work²¹ and these will inform the finalization of Decree on Strategic Environmental Assessment which is currently at advanced draft stage.

²¹ The first SEA – of coastal development has now been completed and a second SEA – of the Zambezi Valley Development corridor is now underway.

88. **The DPO will support policies that are expected to be positive in terms of their environmental impacts.** The Bank commissioned a Strategic Environmental Assessment (SEA) of the CC DPO series to ensure that environmental impacts of the policies supported by the operation, and institutional capacity to manage and mitigate the impacts, are assessed in a comprehensive manner.²² The SEA found that DPO-supported reforms will likely result in either positive or neutral environmental effects, as most reforms are either benign - such as the development of improved legal frameworks, or the improvement of early warning systems - or will lead to positive environmental outcomes - such as the promotion of climate-resilient agriculture and the adoption of clean energy technologies. Annex 3 provides details. The analysis identified possible instances where DPO-supported reforms could induce indirect, negative environmental impacts, notably from the REFIT that seeks to improve access to renewable energy. The SEA commented that this could potentially generate impacts from policy implementation (e.g. for solar, wind generation or small hydropower). In each case, investments 'downstream' of policy reforms would be subject to environmental impact assessment under existing national legislation and regulations.

89. **An assessment of Mozambique's environmental assessment framework was included as part of the SEA.** The assessment focused on the Government's ability to deal with the potential environmental impacts emanating from DPO 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 DPO reforms is the lack of a regulatory instrument that can deal with cumulative effects from the future development of many small projects (for example, multiple renewable energy investments as a result of the REFIT reform). As mentioned above, this issue is currently being addressed by MICOA. The assessment of country environmental management systems showed that capacity is an issue and that capacity-building will be justified. The World Bank will be delivering training in EIA and SEA to all sectors participating in the DPO series in early 2015 under the framework of DPO 3 preparation. The World Bank will also support capacity building and preparation of Strategic Environmental and Social Assessments in ten 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.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

90. **Addressing fiduciary concerns and strengthening the Government's financial infrastructure are essential to this operation.** Public financial management has been improving 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 MoF's Budget Directorate, both the proposed budget as well as that approved by the national

²² World Bank (2013). *Strategic Environmental Assessment of the Climate Change Development Policy Operation Series*. Mozambique Climate Change Technical Assistance Project. October 2013.

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.

91. **Recent PFM assessments conducted in Mozambique confirm significant progress in improving PFM and identify areas in need of strengthening.** A recent IMF assessment²³ 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 a 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, debt and fiscal risks management. Another recent assessment by the EU Delegation²⁴ offers largely similar views, arguing that a continued focus on procurement and the roll-out of e-SISTAFE will also be needed. The Government of Mozambique 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.).

92. **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) Whistle-blower and Witness Protection Law, which came into effect December 13, 2012; (ii) Public Probity Law, which includes conflict of interest and asset declaration requirements; (iii) 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 Anti-Corruption Agency competences is already in effect, but whistle-blower and witness protection legislation will take time and resources to be fully implemented. If fully implemented, then new legislation would provide Mozambique a strong anti-corruption framework consistent with best practices.

93. **The IMF concluded a Safeguards Assessment of the Mozambique Central Bank in mid-2011, which 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

²³ IMF, 2014, “Refocusing the Public Financial Management Strategy”, IMF, Fiscal Affairs Department

²⁴ EU Delegation to Mozambique, 2014, “2013 PFM Annual Monitoring Report Mozambique”

recommendations and the audit charter be subject of 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 is audited in accordance with international standards on auditing as promulgated by the International Federation of Accountants and are publicly available. According to the most recent IMF review, the exchange rate is in line with the economy's fundamentals²⁵. 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.

94. **The proposed credit and grant (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 MPD. 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.

95. **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 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

²⁵ Republic of Mozambique: Staff Report for the 2013 Article IV Consultation, IMF Country Report No. 13/200, July, 2013.

is an integral part of the dialogue between the Government and budget support donors, and as a result of all these efforts there has been significant progress 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

96. **MPD is responsible for the overall implementation of the operation – including monitoring progress and evaluating results upon completion.** MPD works closely with MICOA. These Ministries work together to lead discussions with other sector ministries in developing and agreeing the proposed triggers and milestones. The Climate Change Coordination Unit (UMC) facilitates cross-governmental coordination, including ensuring that all results and indicators for the DPO series are identified and included in a national M&E framework. The Council of Ministers approved this framework in November 2014 – one of the first such frameworks in Africa. The framework has introduced mandatory annual reporting by MICOA to Cabinet on implementation and impacts of the ENAMC using the methodologies, baselines and indicators set-out in the framework. This national framework includes all indicators and baselines in the DPO series. MICOA works with focal points in each of the sectors and these have responsibility within their sectors for data collection and reporting (through an inter-institutional body) to MICOA. Implementation of this framework is the responsibility of MICOA with technical support from UMC. While specific results are the responsibility of the respective sectoral ministries, MICOA has the responsibility to coordinate and consolidate progress reporting before national M&E reports are submitted to the Council of Ministers.

6. SUMMARY OF RISKS AND MITIGATION

97. **The overall risk to achieving the objectives of this operation and of adverse unintended negative consequences is moderate.** Political and governance risks are substantial. Macroeconomic risks, institutional capacity risks, environmental and social risks; and sector strategies and policies risks are moderate. All other risk categories analyzed are low.

98. **Political and governance risks are substantial. Elections have recently taken place but the inauguration of a new Government after the general elections in October 2014 could delay the pace of the reform program.** The political climate in the last two years was characterized by significant tensions between ruling party Frente de Libertação de Moçambique (FRELIMO) and opposition parties. These tensions led to violent confrontations between the army and opposition-backed groups in the country's central region in 2013/14. Political dialogue between the ruling party and the opposition has resulted in mutually agreed-upon revisions to election legislation and recently into a cease-fire agreement, declaring the end of the violent confrontations. Political infighting, however, may threaten policy continuity, slow the implementation of reforms or even undermine macroeconomic stability. These risks may be partially mitigated if the new Government advances economic reforms and maintains a prudent macroeconomic stance. The next Government is likely to engage with development partners who still finance about 30 percent of the budget, and the likelihood of major policy reversals with a new Government is therefore limited. Furthermore, the role of civil society in promoting good governance and transparency is expanding, and the Bank is working with the authorities and

other donors, including the IMF, to ensure the reform program remains on track. Despite these ameliorating factors, political risks are considered substantial given recent events and the start of a new administration.

99. **Macroeconomic risks are moderate.** Although currently stable, Mozambique's macroeconomic stance could be threatened by worsening current account deficits, rising external debt, or unpredictable external shocks such as commodity price and demand shocks. Sustainable internal and external macroeconomic balances depend on anticipated inflows of FDI, as well as external debt conditions and continued foreign assistance. Current account deficits (after grants), though high, have to date been financed mostly by FDI. But the Government will continue to use external borrowing to finance public investments, and if these investments do not generate an adequate return in terms of increased productivity, rising debt levels could threaten macroeconomic stability. The Government is aware that strengthening public investment management is critical. The PRSC-10 will contribute to these efforts by supporting reforms in public investment management. Fiscal policy has become expansionary recently and public spending is projected to reach 42.7 percent of GDP in 2014. Current spending levels do not seem sustainable and will require tightening of policy in the near term. The Government has committed to tighten the fiscal stance and reduce public spending to 34 percent of GDP by 2019, as suggested in the "Memorandum of Economic and Financial Policies" included in the latest PSI review completed in June 2014. The 2015 budget prepared by the Government provides evidence of that commitment by reducing spending by 5.6 percentage points of GDP.

100. **Institutional capacity risks to implementation and sustainability risks are moderate.** Weak institutional capacity may slow the implementation of reforms. Despite ongoing improvements in the capacity of the public administration, a lack of institutional resources could limit the speed of implementation of reforms supported by the proposed operation. Sectoral projects in the Bank's portfolio (see Annex 2) – including three investment pilots supported by the PPCR, are providing both technical assistance and investment support to various aspects of the reform process. Putting in place cross-cutting institutional structures can be challenging. The Ministry of Planning and Development leads in dialogue with World Bank and with the sectors, and this helps to convene cross-ministerial discussion and delivery of the reform agenda. The chairmanship of CONDES by the Prime Minister is another mechanism that helps strengthen prospects for effective inter-sectoral 'mainstreaming.' The establishment of mandatory reporting requirements to the Council of Ministers on climate change action is another tool for strengthening such cross-cutting institutional coordination.

101. **Sector strategies and policies risks are moderate, particularly in relation to energy and agriculture.** In energy, weaknesses in institutional capacity could slow down renewable energy investment e.g. by the lack of Government capacity to process investments and remove other barriers to private sector investment. To mitigate this risk, the Bank has supported a study of barriers to private sector investment in renewables based on extensive consultations with private sector operators. In agriculture, the levels of uptake by smallholders of improved agricultural techniques such as conservation agriculture have been low, and this poses a sector level risk to achieving future scale-up of climate smart agricultural practices. Often the short-term costs of new techniques are perceived by farmers to be greater than the benefits. MINAG has included reforms that would help ensure that the Government extension service is more

demand-led. This will go some way to ensuring that improvements are both practical and presented in a context that matches farmers' own priorities.

Table 10. Summary of Risks

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

ANNEX 1. POLICY AND RESULTS MATRIX

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
Pillar 1: Development Objective: To strengthen the national policy and institutional framework for climate resilient planning			
<p>A national climate change adaptation strategy has been approved by the Recipient's Council of Ministers on November 13, 2012, as evidenced by a letter from the Minister of Planning and Development dated December 6, 2012.</p>	<p>(a) The Council of Ministers established the mandate of the National Council for Sustainable Development (CONDES) to host technical coordination units for issues related to international environment conventions as evidenced by Decree Nr. 13/2013 dated 13 April 2013 published in the Boletim da República Nr. 29/2013; and (b) CONDES approved the terms of reference of a climate change coordination unit as evidenced by a CONDES Communication (Oficio) No. 122/CONDES/150/2014 dated 11 November 2014.</p>	<p>District PESs and budgets that incorporate local climate adaptation plans, measures and budgets are approved and under implementation in at least 10 districts.</p> <p>Climate change action plans (2015-2019) to operationalize the climate change strategy are approved for at least four key sectors.</p>	<p>Number of districts that budget the climate change actions identified in the district socio-economic plan (PESOD) in annual district budgets.</p> <p>Baseline (2012): 0</p> <p>Target (2017): 10</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
	<p>The Council of Ministers approved the climate change monitoring and evaluation framework including the requirement for MICOA to prepare and deliver annual reports on the national adaptation and mitigation strategy as evidenced by minutes of the 26th Ordinary Session of the Council of Ministers dated 28 October 2014 and published online at http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%206%20SOCM.pdf and letter issued by the Minister of Planning and Development dated November 19, 2014.</p>	<p>Inclusion of climate change indicators in the new Government Five Year Plan.</p>	<p>Number of sectors included in the National Climate Change Adaptation and Mitigation Strategy reporting through the national climate change M&E framework.</p> <p>Baseline (2012): 0</p> <p>Target (2017): 13 (40%)</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
Pillar 2: Development objective: Strengthening climate resilience of sectors.			
<p>A disaster risk management bill, addressing climate change, has been endorsed by the Recipient's Council of Ministers on December 18, 2012, as evidenced by a letter from the Minister of Planning and Development dated December 18, 2012.</p> <p>The strategic plan for the Recipient's National Institute of Meteorology 2013-2016 has been approved by the Recipient's Council of Ministers on December 4, 2012, as evidenced by a letter from the Minister of Planning and Development dated December 6, 2012.</p>	<p>The Council of Ministers approved the establishment of regional meteorological centers as specified under Pillar 1 of the Recipient's National Meteorological Institute (INAM) Strategic Plan (2013-2016) and mandated the Ministry of Transport and Communications to issue within 90 days a new organizational statute for INAM to deliver forecasts and early warnings at regional level more efficiently as evidenced by minutes of the 27th Ordinary Session of the Council of Ministers dated 4 November 2014 and published online at http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%2027%20SOCM.pdf and letter issued by the Minister of Planning and Development dated November 19, 2014.</p>	<p>A protocol for the management and exchange of data is approved through a joint ministerial diploma of the Ministry of Transport and Communications and the Ministry of Public Works and Housing.</p> <p>Ministerial approval of protocols and agreements between Government and ICS (community radio regulator) that enables an increase in airtime coverage before and during emergencies to facilitate the transmission of alert information to local communities.</p>	<p>Changes in lead time between warnings issued by ARAs/DNA on the basis of flood and weather alert monitoring to when INGC (Institute of Disaster Management) declares Red status in the lower Limpopo and Incomati River basins.</p> <p>Baseline (2007): 2 days</p> <p>Target (2017): 5 days</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
<p>The investment plan for PEDSA, including specific programs and budget allocations to expand conservation agriculture and the uptake of climate resilient crops, has been approved by the Recipient's Council of Ministers on December 4, 2012, as evidenced by a letter from the Minister of Planning and Development dated December 6, 2012.</p>	<p>The Ministry of Agriculture (MINAG) established a national agriculture sector adaptation to climate change action plan to: (a) support the scale up of climate resilient agriculture in smallholder farming, with a focus on extension services, knowledge management and coordination; and (b) strengthen the unit in charge of climate resilient agriculture within the Recipient's National Directorate for Agricultural Extension (DNEA) as evidenced by Communication (Oficio) No. 155/GMINAG/2014 dated 30 October 2014.</p>	<p>Ministry of Agriculture Diploma approves incentives, with adequate and assured financial backing, that overcome current barriers to widespread adoption of climate resilient agriculture in smallholder farming.</p>	<p>Number of households engaged in climate smart agriculture in all ten provinces (as measured through quarterly reporting to MINAG from agriculture extension workers).</p> <p>Baseline (2012): 15,000 Target (2017): 32,000</p> <p>-----</p> <p>Change in average maize yield (tonnes per hectare) from farms engaged in improved soil and water conservation techniques in all ten provinces (as measured through quarterly reporting to MINAG from agriculture extension workers).</p> <p>Baseline (2012): 1.5 Target (2017): 2.5</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
<p>The national productive social action program, incorporating climate change risks and adaptation options, has been approved by the Recipient's Council of Ministers on November 13, 2012, as evidenced by a letter from the Minister of Planning and Development dated December 6, 2012.</p>	<p>The Council of Ministers established the National Health Strategy (PESS) (2014-2019) adopting measures to address severe and longer-term climate risks as evidenced by minutes of the 9th Ordinary Session of the Council of Ministers dated 1 April 2014 and published online at http://www.portaldogoverno.gov.mz/comunicados/COMUNICADO%20DA%209%20SOCM.pdf, and letter issued by the Minister of Planning and Development dated November 19, 2014.</p>	<p>Ministerial diploma approved by Ministry of Women and Social Action introducing the use of the National Institute of Statistics' climate change vulnerability index to geographically target social protection investments to areas at risk from climate change.</p> <p>Ministry of Health diploma approves protocols and guidelines following piloting disaster preparedness and response to water-borne and vector-borne disease pandemics following weather-related shocks. The protocols will also introduce measures to monitor changes in epidemiological patterns and nutritional status during the recovery phase of disaster response.</p>	<p>Number of households in climate vulnerable districts listed by the INGC benefiting from the National Productive Social Action Program (as measured in INE household survey data).</p> <p>Baseline: 0</p> <p>Target: 10,000</p> <p>-----</p> <p>Number of high-risk districts and municipalities listed by the Institute of Disaster Management (INGC) that have introduced and tested disaster preparedness and response protocols for health service delivery.</p> <p>Baseline (2012): 0</p> <p>Target (2017): 10</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
	<p>The Council of Ministers established an institutional unit within the Recipient's National Administration of Roads (ANE) with a mandate to ensure that post-flood reconstruction and rehabilitation of roads and bridges are executed in coordination with all relevant authorities and by following improved standards of climate resilience as evidenced by Decree Nr. 55/2013 dated 6 November 2014 published in the Boletim da República Nr. 89/2013.</p>	<p>Ministerial approval of national, climate resilient roads standards and maintenance approaches.</p> <p>Ministerial approval of mandatory climate risk screening for new roads investments.</p>	<p>Percentage of district roads that are re-constructed or upgraded from 2014 onwards in pilot provinces (Gaza and west Inhambane) in compliance with revised guidance and design standards.</p> <p>Baseline (2012): 0</p> <p>Target (2017): 80%.</p>

Prior actions under DPO 1 (completed 2012)	Prior action for DPO 2	Triggers for DPO 3	Results
<p>The process for the development of a wind power park, by an independent power producer, has been launched by the Recipient's Ministry of Energy through a call for expression of qualifications and information, as evidenced by the Minister of Energy's approval of the request of the Director of Renewable Energy, dated February 10, 2012.</p>	<p>The Council of Ministers established a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investment to boost medium term energy supply and access from renewables as evidenced by Decree Nr. 58/2014 dated 17 October 2014 published in the Boletim Oficial Nr. 84/2014.</p>	<p>Ministerial approval and implementation program of the national energy efficiency action plan including the installation of solar water heaters in selected provincial hospitals.</p> <p>Introduction by Ministerial diploma of a REFIT implementation program to set supply ceilings for different renewable technologies.</p>	<p>Expected additional energy availability through: (i) proposed renewable energy generation; and/or (ii) projected savings from identified efficiency measures.</p> <p>Baseline (2012): 0</p> <p>Target (2017): 45MW</p>

ANNEX 2. WORLD BANK SUPPORT TO THE GOVERNMENT CLIMATE CHANGE PROGRAM

World Bank Support to the National Adaptation and Mitigation Strategy (ENAMC)	
<i>ENAMC Pillar 1: Adaptation and climate risk reduction</i>	
Hydro-meteorological services and disaster risk management.	<p>The Climate Change DPO series supports reforms to improve early warning lead times and more accurate weather and flood forecasts through development of the Disaster Risk Management legal framework, strengthening of the Institute of Meteorology (INAM), and improvements in data sharing between key forecasting and disaster management agencies.</p> <p>The Transforming Hydro-Meteorological Services Project (P131049) is supporting institutional strengthening and modernization of national hydro-meteorological services. The project is funded by PPCR and the Nordic Development Fund.</p> <p>The Enhancing Spatial Data for Flood Risk Management Project (P149629) is building capacity of Mozambique to prepare for and manage flood events in the lower Limpopo and Zambezi river basins. This work is funded by UK DFID through the World Bank.</p>
Climate resilient agriculture. Food security and nutrition.	<p>The Climate Change DPO series supports reforms to scale-up climate resilient smallholder agriculture through support for its inclusion in the agriculture sector Medium Term Investment Framework (PNISA), and the development of a national action plan and institutional unit to promote uptake of climate smart agriculture.</p> <p>The Agriculture Development Policy Operation (P146930) promotes private sector-led agricultural growth in order to achieve improved food and nutrition security. This includes reforms to address seed supply and quality issues and to accelerate issuance of land users rights to associations and communities.</p> <p>The Climate Change Technical Assistance Project (P131195) includes support to Ministry of Agriculture to identify reforms in support of climate resilient agriculture.</p>
Vulnerability to vector-borne diseases.	<p>The Climate Change DPO series supports reforms to integrate climate risks into the national health sector strategy, and to introduce new protocols and guidelines for preparedness and response to water-borne and vector-borne disease pandemics following weather related shocks.</p> <p>The Health Service Delivery Project (P099930) supports increased access to, and utilization of, maternal and child health and nutrition services in target areas.</p>
Support for vulnerable communities.	<p>The Climate Change DPO series supports policy actions that help integrate climate risks into the national social protection program.</p> <p>The Social Protection Project (P129524) provides temporary income</p>

World Bank Support to the National Adaptation and Mitigation Strategy (ENAMC)	
	support to extremely poor households and to put in place the building blocks of a social safety net system.
Urban and infrastructure resilience.	<p>The Climate Change DPO series supports reforms to develop and introduce national design and maintenance standards for roads, and to strengthen institutional coordination on climate resilient reconstruction, planning and design. The World Bank is also supporting GoM efforts to introduce mandatory climate screening of all new roads investments.</p> <p>The Roads and Bridges Management and Maintenance Project (P146402) is supporting improved road infrastructure, better sector policies, and enhanced roads sector management. In order to address climate resilience, the project is helping Government to develop national design and maintenance standards, is supporting the development of screening tools for adoption at national level, and the introduction of institutional mechanisms to build climate resilience in the roads sector (Pillar 2).</p> <p>The Cities and Climate Change Project (P123201) provides support for improving municipal management and sustainable financing and building climate resilience of target coastal cities by integrating municipal development reforms, capacity building and climate related adaptation measures. Specifically, this project includes activities that address urban flooding and climate resilience through improving drainage and supporting sustainable development of ‘green infrastructure.’</p>
Water resources management.	The National Water Resources Development Project (P107350) is supporting Government efforts to strengthen water resources management and river basin planning, and includes activities that will improve water resources management and flood management in the Lower Limpopo and Incomati river basins.
Access to clean water.	The Water and Sanitation Program through the Rural and Town Water Supply (P132005) and the Peri-urban Water Supply and Sanitation Project (P132006) is supporting building the capacity of relevant national and local Government and municipal agencies and operators to plan, finance, and deliver sustainable water supplies to secondary towns and peri-urban areas.
Increase resilience of fisheries.	South West Indian Ocean Fisheries Governance and Shared Growth Project 1 (P132123) and the Artisanal Fisheries and Climate Change (P149992) will improve the management effectiveness of selected priority fisheries at regional, national and community level, and improve management effectiveness of selected priority fisheries at community level to reduce vulnerability to climate change.
<i>ENAMC Pillar 2: Mitigation</i>	
Increase resilience of power supply	The Climate Change DPO series supports reforms to increase resilience of the power sector by diversifying supply from renewable sources, and supporting energy efficiency and demand-side management

World Bank Support to the National Adaptation and Mitigation Strategy (ENAMC)	
	<p>measures.</p> <p>The Energy Development and Access Project (P108444) seeks to accelerate access to electricity and modern energy services in peri-urban and rural areas in a sustainable and commercially viable manner, including through supporting deployment of renewable energy technologies. This project has also supported an analysis of barriers to investment in off-grid renewable energy development.</p>
Low carbon agriculture	<p>The Climate Change Technical Assistance Project (P131195) includes support for the scale-up of climate smart agriculture.</p> <p>The Forest Carbon Partnership Facility Readiness Project (P129413) support for the National REDD+ Program and this includes a component on climate resilient agriculture.</p>
<i>ENAMC Pillar 3: Cross-sectoral</i>	
Deforestation, forest fires, biodiversity and the coastal ecosystems.	<p>The Conservation Areas for Biodiversity and Development Project (P132597) supports biodiversity conservation and forest management in conservation areas including activities to improve forest fire management and support for REDD+ pilot development.</p>
Systematic data collection, monitoring and reporting.	<p>The Climate Change Technical Assistance Project (P131195) is supporting the development of a national M&E framework that includes all results indicators included in the Climate Change DPO series. This project is also supporting the preparation of a Climate Change Public Expenditure and Institutional Review.</p>

ANNEX 3. EXPECTED ENVIRONMENTAL IMPACTS OF REFORMS INCLUDED FOR DPO 2

Prior actions and triggers	Possible environmental impacts
Strengthening coordination: Creation of the UMC; integration of climate resilience into district level planning and budgeting; and sector level action planning.	Neutral or Positive: Integration of measures adopted most frequently in local adaptation plans are conservation agriculture, use of drought tolerant seeds and improved soil and water conservation. UMC will play a role in capacity building for improved environmental assessment of climate change interventions
Monitoring and evaluation: Annual reporting on ENAMC; integration of climate change indicators in Government’s next 5-year plan.	Neutral or positive: Medium and longer term, indirect impacts should be positive as lessons from M&E inform better climate resilient planning and development.
Hydro-meteorological services and improved early warning systems: Delivery of more effective regional forecasting at sub-national level; agreements and protocol for hydro-met data management and exchange; and increased airtime coverage to support delivery of disaster early warnings.	Neutral: Strategy proposes 48 new automatic weather stations and 11 new manual stations. Potential for small cumulative effects from construction. The PPCR pilot prepared a Simplified Environmental Management Framework (EMF-EMP). The EMF-EMP predicts “very minor” impacts, which are dealt with through an EMP and a set of environmental rules for contractors.
Climate smart agriculture: National action plan on climate smart agriculture; approval of incentives for scaling up climate resilient agriculture.	Positive: Outcome will be environmentally positive where conservation agriculture directly replaces destructive agriculture. However, in the very unlikely instances in which conservation agriculture converts sensitive ecosystems, such as wetlands, there could be potential for localized negative impacts.
Health and social protection: Approval of a new national health strategy that addresses climate risks; adoption of a vulnerability index; and approval of protocols to enhance post-disaster responses.	Neutral: Most adaptation measures included in PESS will have neutral environmental effects.
Roads: National Road Administration unit to monitor and supervise resilient road designs, maintenance and reconstruction; introduction of national level climate resilient road standards and of mandatory climate risk screening.	Positive in longer term: Over time, potential benefits should include reduced need for public works associated with remedial works. Integration of climate risk screening with environmental planning and management could improve roads planning, design and management and reduce environmental impacts
Renewable Energy and Energy Efficiency: Introduction of a Renewable Energy Feed in Tariff (REFIT) mechanism to encourage private sector investments in renewables; setting of supply ceilings for different renewable	Net positive with some environmental risks: Environmental effect will be net positive when compared to energy supply from non-renewables. However, site-specific effects may be negative, and will require EIA. Cumulative effects may result from investment in multiple small hydropower

technologies and introduction of energy efficiency and demand side management reforms.	developments.
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ANNEX 4. LETTER OF DEVELOPMENT POLICY



REPÚBLICA DE MOÇAMBIQUE
MINISTÉRIO DA PLANIFICAÇÃO E DESENVOLVIMENTO
GABINETE DO MINISTRO

MUITO URGENTE

Ofício nº 248/MPD/GM/ /2014

Maputo, November 14, 2014

Subject: Letter of the Climate Change Development Policy Operation

1. Mozambique has made impressive macro-economic progress in recent years. The country experienced average annual economic growth rates of over eight percent between 1996 and 2013, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa. Pro-growth economic policies, 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 poverty decline from 69 percent in 1997 to 54.7 percent in 2009. However, the country remains one of the poorest countries of the world – ranking 178th for *per capita* GDP at US\$1011 per year and 178th out of the 187 countries included in the Human Development Index. The combined impact of floods, droughts and cyclones that affected the country in 2007 and 2008, has contributed to slow down the rates of poverty reduction in the country over the last years, where poverty rates have remained steady at the level of 54 percent between 2003 and 2009, after reduction of 15 percentage points from 1997 to 2003.
2. Recent assessments have demonstrated that Mozambique is one of the most vulnerable countries to climate risks in the world, ranking the third in the world in exposure to extreme climate events such as floods, affecting network infrastructure; droughts, which impact on agriculture, the backbone of the economy; cyclones and storm surges, threatening human settlements, infrastructure and businesses along the coastal areas where over 60 percent of the population and most economic assets are concentrated. With still low adaptation capacity, ranking the sixth most vulnerable country to climate change in Africa, future climate change scenarios predict increase in frequency and intensity of climatic extreme events, particularly floods and droughts in the Southern and central Mozambique, and cyclones and sea level rise along the country 2700 km coastline.

To:
Mr. Mark Lundell
Country Director for Mozambique, Madagascar, Comoros and Seychelles
Africa Region
International Development Association

3. Lessons from recent disasters have shown that the impact of extreme climate events can be extensive in the country, affecting both economy and human lives. In 2000, the consecutive four cyclones that hit the country caused catastrophic flooding that represented a cost of 20 percent of the GDP, loss of 800 lives and displacement of 500 thousand people. It is predicted that under future climate change scenarios, if no action is taken from now in transport, agriculture, water management and coastal zone management, annual losses to economy may reach USD450 million and 1 million people may be forced to migrate from coastal areas by 2030. In 2013, a new catastrophic flood event has caused damages of USD 517 million which represented 3.4% of the GDP, including loss of 30 lives and displacement of 178 000 people in the Limpopo River basin. This means that the country needs to firmly continue and strengthen the implementation of climate adaptation actions, and wherever possible, adopt specific measures to reducing greenhouse gas emissions.

4. Mozambique has made significant efforts to respond to climate change and disasters impacts over the recent years. Some recent notable examples are:

- i. The approval in 2008, by the Council of Ministers, of a National Adaptation Programme of Action (NAPA) that laid the foundations for a multi-stakeholder adaptation agenda with the following priorities: (i) Strengthening early warning systems, (ii) Strengthening the capacity of farmers to deal with climate change, (iii) Reducing the impacts of climate change along the coastal zone and its implications for water resources management.
- ii. The implementation, still ongoing, of a comprehensive Disaster Risk Management (DRM) Master Plan coordinated through the National Institute for Disaster Management (INGC) in collaboration with other Government institutions to support upgrading of the hydro-meteorological network, installation, rehabilitation and integration of weather radar systems and the establishment of a common fund to streamline disaster risk response financing.
- iii. The current implementation of the new Poverty Reduction Strategy Paper (PARP 2011-2014) approved by the Council of Ministers in May 2011, which addresses disaster and climate risks by requiring support for the adoption of measures to prevent and adapt to climate change across the sectors and local level, including communities.
- iv. The endorsement in 2011, by the PPCR Sub-Committee, of the Mozambique Strategic Programme for Climate Resilience (SPCR), an ambitious new program under the Pilot Program for Climate Resilience (PPCR), that aims to mainstream climate resilience into key and vulnerable economic sectors and regions of Mozambique and sets-out a program of policy and institutional reforms, pilot investments, studies and knowledge management initiatives and seeks to generate transformational change in climate resilience.



5. Despite all this progress, many challenges still remain to enable the country to build solid foundations towards the achievement of comprehensive climate resilience across all vulnerable sectors, economy and communities. These include: the creation of national capacity to mainstream climate change into sectors policies, plan and strategies; strengthening the capacity for coordination and monitoring and evaluation of climate change interventions and the establishment of national platform to coordinate climate change and disaster knowledge and information management and sharing are of great urgency.
6. Currently, at Ministerial level, coordination efforts are conducted through the National Sustainable Development Council (CONDES), for climate change and sustainable development, and the Disaster Management Coordinating Council (CCGC), for DRM aspects. Both institutions are chaired by the Prime Minister. At technical level, climate change and sustainable development is coordinated through a Technical Council of CONDES (CT-CONDES), chaired by the Ministry for the Coordination of Environmental Affairs. DRM is coordinated by the Technical Council for Disaster Management (CTGDC) which is chaired by the National Institute for Disaster Management (INGC). Ongoing efforts are focused on the establishment of national capacity at technical level to coordinate, report and evaluate the progress on Climate Change and Disaster risk management as part of national effort to protect and sustain the achievement of the national development goals.
7. Likewise, under the leadership of the Academia, the establishment of a climate change and DRM Knowledge Management Centre at the Academy of Science of Mozambique is underway, with the aim of facilitating training, information sharing and exchange between all stakeholders involved in climate change and DRM action across the country and all sectors.
8. The Government of Mozambique through Strategic Plan for Reduction of Poverty (PARP 2011-2014) aims at reducing poverty and promote sustainable economic growth through boosting agriculture and fisheries production and productivity, human development and employment creation. Building climate resilience of, and reduce risks to local communities, sectors and the economy is considered a critical challenge and a crosscutting issue to the achievement of this vision as a whole. Low carbon and green development have a role to play in achieving this vision. Therefore, and to ensure this vision is met, we need appropriate policy and institutional frameworks and we recognize it will take time to have all policies in place and the necessary institutions fully functioning. The three sets of reforms proposed in the programmatic Climate Change Development Policy Operation, for which the second one is under preparation, will help us put in place these frameworks, and the investment support already secured from the Pilot Program on Climate Resilience will complement and help us realize the objectives of these series.



9. The Government of Mozambique recognizes the important role and contribution of the World Bank to the ongoing national efforts to respond to climate change and disasters and welcomes the Bank commitment to continue supporting the preparation and implementation of the reforms under the programmatic Climate Change Development Policy Operation initiated in 2012 with the end foreseen to 2016.
10. Under this programmatic Climate Change Development Policy Operation, we have agreed to structure the operation around two pillars: i) National policy and institutional framework for climate action and ii) Climate resilience in sectors. We have also agreed with the sequencing of policy reforms and results indicators to provide a clear link between sector policy and institutional reforms and the impacts that will be achieved at the end of the three series of operations.
11. In December 2012, the Government of Mozambique successfully completed the first series of reforms with the approval of the following policy instruments:
- i) The National Climate Change Strategy was approved by the Council of Ministers. The strategy constitutes a long-term planning document (2013-2025) which is being implemented through local and sectoral Climate Change Action Plans (CCAPs). The strategy consists of three pillars: (i) adaptation and disaster risk management, (ii) mitigation and low carbon development, and (iii) crosscutting aspects;
 - ii) A new Disaster Risk Management law that addresses climate change was endorsed by Council of Ministers;
 - iii) The investment plan of the National Agricultural Development Strategy (PEDSA) that includes specific programs and budget allocations to expand conservation agriculture and the uptake of climate resilient crops was approved by the Council of Ministers;
 - iv) The National Productive Social Action Program that incorporates climate change risks and adaptation options was approved by the Council of Ministers;
 - v) The first agreement for an Independent Power Producer for renewable energy, was launched by the Ministry of Energy approval of the pre-qualification documents for a wind power park;
 - vi) The strategic plan of the National Institute of Meteorology was approved by the Council of Ministers.



12. In 2014, the Government of Mozambique proposes the following prior actions as the reforms for the second series of the Climate Change Development Policy Operation:

- i) Establishment of the Climate Change Coordination Unit (Unidade das Mudanças Climáticas) through approval on 11th April 2013 by the Council of Ministers of the decree that changes the mandate of CONDES to integrate climate change into the environment affairs. In addition, on 31st July 2013, approval by the National Council for Sustainable Development (CONDES) of the terms of reference, scope and institutional setting of the Climate Change Unit, an inter-sectoral climate change coordination unit with functions for coordinating the implementation of climate change action;
- ii) Approval on 25th October 2014, of the Climate Change Monitoring and Evaluation framework that mandates MICOA to prepare and deliver annual reports on the climate change strategy by the Council of Ministers through a resolution. The framework is designed to support national and international reporting requirements, improve access and accountability in use of domestic and international climate finance and in the longer-term, to improve the formulation of future policies and programs by learning from past implementation;
- iii) Approval on 04th November 2014 of a decree that establishes a new organization statute for INAM to deliver weather forecast and early warning at regional level by the Council of Ministers. The decree includes provisions that will enable INAM to establish regional meteorological centres for more efficient and locally responsive observation and forecasting of weather conditions;
- iv) Approval on 29th October 2014 of "Ofício" aiming to scale up of climate resilient agriculture in small holder farming by the Ministry of Agriculture. The Ofício also focus on strengthening the links between farmer, agricultural extension services and agricultural research.
- v) Approval on 1st April 2014 of the 2014-2019 Health Sector Strategic Plan (PESS) that adopts measures to address severe and longer-term climate risks by the Council of Ministers through a resolution. The strategic plan acknowledges the vulnerability of the health sector to climate impacts and states the need to strengthen understanding of effective interventions and long-term policies;
- vi) Approval on 06 November 2013 of a decree that establishes the institutional unit (Gabinete) in the National Roads Administration (ANE) with a mandate to ensure that roads are re-designed, maintained and reconstructed to improved standards of climate resilience is approved by the Council of Ministers. The name of Gabinete is (Gabinete de Emergência para a reconstrução pós-cheias);



vii) Approval on 17th October 2014 of a decree that establishes a Renewable Feed in Tariff (REFIT), a mechanism to encourage private sector investment to boost short term energy supply and access from renewables by the Council of Ministers. This reform is a key element in combing the gap between supply and rapidly increasing demand through diversification to readily available renewable energy generation sources, on the supply side, to be complemented by energy efficiency measures on the demand side.

13. 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 second operation in this series of three Climate Change Development Policy Operations in the proposed date of November 14, 2014.

Yours truly,



Alcina Cuerecia
Minister of Planning and Development
Governor of Mozambique

CC:
H.E. Manuel Chang
Minister of Finance

H.E. Alcinda Abreu
Minister for the Coordination of Environmental Affairs

H.E. Ernesto Gouveia Gova
Governor of Bank of Mozambique

ANNEX 5. FUND RELATIONS ANNEX

IMF Staff Concludes Review Mission to Mozambique, Calls for Fiscal Prudence, More Inclusive Growth, and Greater Public Investment Transparency

Press Release No. 14/502
November 5, 2014

A staff team from the International Monetary Fund (IMF), led by Doris Ross, visited Mozambique during October 22-November 6, 2014 to hold discussions towards the completion of the third review under the three-year Policy Support Instrument (PSI) ¹ approved in June 2013 (see [Press Release No. 13/231](#)). The team met with President-elect Filipe Nyusi, Finance Minister Manuel Chang, Planning and Development Minister Aiuba Cuereneia, Bank of Mozambique Governor Ernesto Gove, other line ministers, senior government officials, the private sector, civil society, and development partners. It also met with the presidential candidates of the three main parties. The team traveled to Tete, where it met with Governor Paulo Auade and got acquainted with the main economic challenges facing a region that exemplifies the importance of developing extractive industries while creating jobs and economic opportunities for the population, including in agriculture.

At the conclusion of the visit, Ms. Ross issued the following statement:

"Mozambique's economic performance remains robust. Real Gross Domestic Product (GDP) growth is projected at 7.5 percent in both 2014 and 2015, reflecting strong activity in all sectors, especially extractive industries, construction, transport and communication, commerce and financial services. Risks to this outlook have increased somewhat recently with the decline in commodity prices in world markets, especially for coal, and uncertainty about the large Liquefied Natural Gas (LNG) projects. While substantial natural resource revenues are 6-10 years away, efforts are needed to put in place adequate institutional arrangements and capacity to address the large new challenges associated with this sector and the promise it holds for the country.

"Inflation remains well-contained thanks to an increase in domestic food production and a decline in import prices. Average inflation stood at just 1.4 percent in September, well below the same period last year, and is expected to remain below 3 percent for 2014 as a whole. The external current account deficit is large due to imports for big investment projects financed by foreign direct investment (FDI). International reserve coverage seems broadly adequate.

"Recent program performance is mixed. The mission urged the authorities to step up implementation of key structural reforms, especially in the public financial management (PFM) area, financial system and market development. A focus on rural infrastructure development and further improvements in the business environment should help make growth more inclusive by enhancing agricultural productivity and job creation in the private sector.

"Regarding economic policies for the rest of 2014 and 2015, the staff team and the authorities agreed on the need to maintain revenue efforts and slow the growth of public spending, including the wage bill, goods and services and investment while enhancing the efficiency of spending, in order to preserve debt sustainability in the medium term. While the 2015 budget should begin to narrow the fiscal deficit, this should be achieved in a manner that protects social spending such as basic health and education, and social assistance programs.

"The authorities are appropriately committed to (i) further strengthening their management of public resources, including by adopting a fiscal rule to improve the management of windfall revenue; (ii) enhancing the transparency and efficiency of public investment; and (iii) strengthening the management of public enterprises and disclosing the audited annual reports of the largest ones, including the Mozambican Tuna Company (EMATUM). As economic challenges become more complex, the authorities should continue to sharpen their tools to monitor and guide macroeconomic developments.

"The Bank of Mozambique's commitment to keep money growth in check is welcome and will help to moderate the recent rapid pace of credit expansion to more prudent levels. Real interest rates in Mozambique are still high by international standards, and reforms should address the underlying structural factors to make financial markets more flexible, and thus reduce borrowing cost.

"On return to Washington D.C., the team will prepare a staff report that, upon management approval, is scheduled for discussion by the Executive Board in early January 2015.

"We would like to thank the authorities for the constructive policy discussions during this period of political transition and for their warm hospitality."

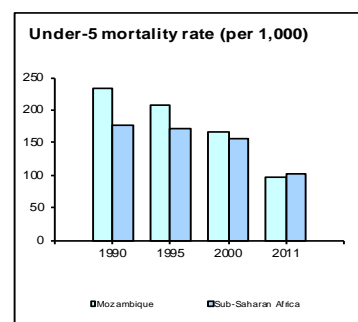
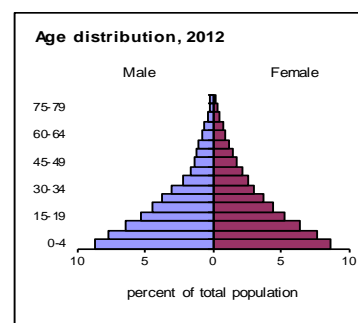
¹ PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement 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>.

ANNEX 6. MOZAMBIQUE AT-A-GLANCE

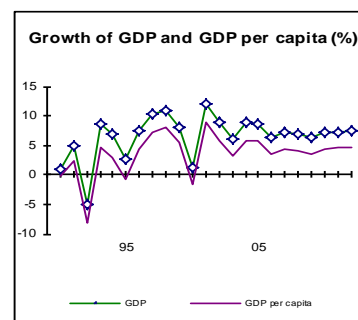
Mozambique at a glance

9/3/14

Key Development Indicators	Mozambique	Sub-Saharan Africa	Low income
(2012)			
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 ^a
<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
<i>(average annual growth %)</i>			
Population	1.1	3.0	2.7
GDP	-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.

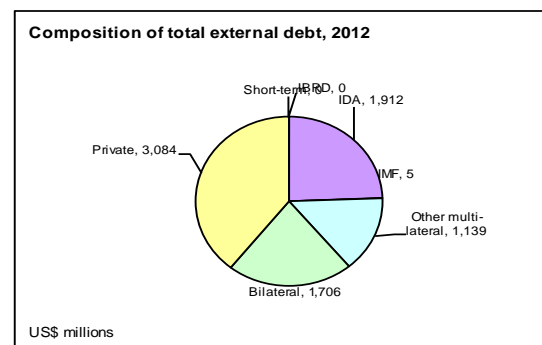
^a. Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

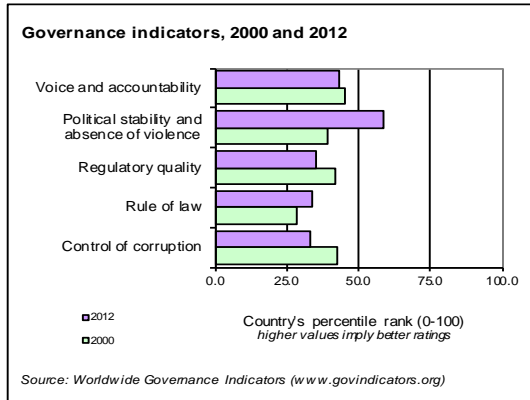
Balance of Payments and Trade	2000	2012
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	364	3,470
Total merchandise imports (cif)	1,163	6,331
Net trade in goods and services	-819	-5,908
Current account balance	-697	-5,189
as a % of GDP	-16.7	-36.4
Personal transfers and compensation of employees (receipts)	37	157
Reserves, including gold	745	2,799
Central Government Finance		
<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	612
Debt relief (HIPC, MDR)	3,085	1,437
Total debt (% of GDP)	173.5	55.1
Total debt service (% of exports)	21.6	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
Environment		
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	0.12
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	1.3	2.0
Energy use per capita (kg of oil equivalent)	392	415

World Bank Group portfolio	2000	2011
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	760	1,912
Disbursements	125	291
Total debt service	6	10
IFC (fiscal year)		
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
MIGA		
Gross exposure	114	152
New guarantees	74	9

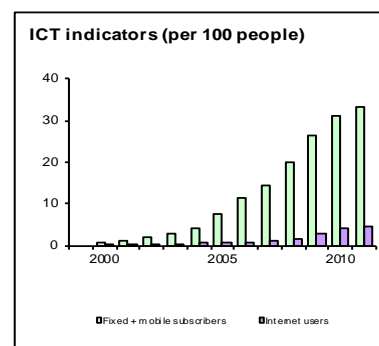
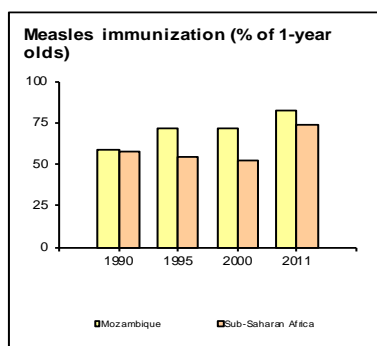
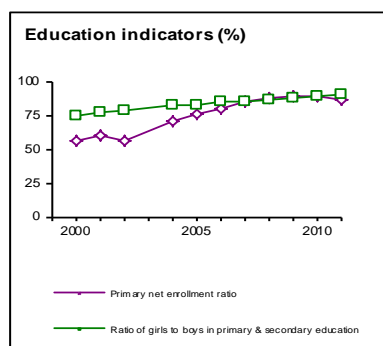
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With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Mozambique			
	1990	1995	2000	2011
Goal 1: halve the rates for extreme poverty and malnutrition				
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
Goal 2: ensure that children are able to complete primary schooling				
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
Goal 3: eliminate gender disparity in education and empower women				
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
Goal 4: reduce under-5 mortality by two-thirds				
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
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,300	1,100	870	540
Births attended by skilled health staff (% of total)	..	44	..	54
Contraceptive prevalence (% of women ages 15-49)	..	6	..	12
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
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
Goal 7: halve the proportion of people without sustainable access to basic needs				
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
Goal 8: develop a global partnership for development				
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



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Development Economics, Development Data Group (DECDG).