I. Introduction and Context

Country Context

Mozambique has been a strong economic performer in Africa since the end of the Civil war in 1992. The growth record has been remarkable, averaging above 8 percent from 1993 to 2010, making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa. In the 2010 Worldwide Governance Indicators, Mozambique performed better than Sub-Saharan Africa and low income group averages on all six aspects of the index (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption). But, despite the promising progress, significant challenges remain. The country remains poor (US$440 per capita income in 2010, no change from 2009), below levels for Sub-Saharan region and low income countries; social indicators are low, infrastructure is inadequate, and the business environment remains unfriendly.

The healthy growth rates of the Mozambican economy paradoxically did not translate into any significant poverty reduction and impact of mega-projects (investments above $500 million) remained disappointingly low. The communities around mega-projects (such as Tete and Nampula Provinces) are, in fact, experiencing more of the negative impacts of these ongoing development operations, including inflation, as disparity in incomes between local populations keeps growing exponentially. To address this, the government strategy is evolving towards better integration of large investments into the overall socio-economic and environmental development targets through improving cross-sectoral coordination to maximize local employment and procurement and targeting pro-poor growth. The extractive industries sector can become the anchor industry which, with an adequate planning and conducive environment, could trigger improved access to better infrastructure across the country and further stimulate domestic market development, thus creating a benefit sharing environment through employment and income opportunities currently missing (especially among the young generation/youth, women and vulnerable groups). The process is in its early phase and requires strong and sustainable support and coordination between the government, development partners, private sector and local communities.

Sectoral and Institutional Context
The majority of current and forecasted mega-projects in Mozambique are in the natural resources sector dominated investment size-wise by natural gas production and transmission, mining, and mineral processing. With its vast natural resources potential, Mozambique may be able to not only achieve higher growth rates than ever before that would allow it to graduate to the middle income country status much sooner than originally anticipated, but also to play a key role in the regional economic development. Mining and hydrocarbon sector operations bring in enormous amounts of private financing and potentially can generate enough revenues from royalties and profit taxes and benefit sharing mechanisms at local level to (i) foster development of regional infrastructure, and (ii) facilitate local value addition and business development. As such, such projects can serve as anchors for the growth corridors development.

It is now key to ensure that (i) the gas and mining sectors (which will continue to dominate the investments for decades to come) are developed in a sustainable way, (ii) the revenues from the sector are collected and managed effectively and transparently to achieve the desired growth across all productive sectors, (iii) the resource curse is avoided, and (iv) that gas production and mining contribute to the overall economic growth agenda of Mozambique including infrastructure and power development and development of downstream and ancillary industries. Learning from the lessons from the past decade of large-scale investments in Mozambique and the experience in other countries, demonstrates that it is extremely important to provide targeted and sustainable technical assistance to the governments facing such massive investment and development decisions as soon as possible, while mineral production is still in early phases and before any large hydrocarbon discoveries are brought to production, to ensure best practice is embedded from the earliest stages and bad practice is avoided.

Cross-Sectoral Dimensions: Extractive industries affect multiple layers of the economy, impact the future generations livelihoods, affect environment and local demographics, and therefore related policy and investment decisions are often the most crucial ones made by the governments. A well-managed sector can bring huge positive and sustainable impacts including the development of domestic downstream markets and service industries, improved shape and scale of regional and local transport infrastructure, expanded power grids, townships developments, socio-economic growth and many positive economic externalities through forward looking management of the revenues generated. If left unmanaged, the impact of the extractive industries development can be disastrous and crippling for the economy - a resource curse.

To ensure broad participatory consultation and coordination on the various parts of this extremely complex agenda, Mozambique needs to operationalize and further strengthen its current cross-sectoral platform before major deals are finalized and infrastructure construction takes place. Mozambique cross-sectoral coordination has been so far largely driven by the regional Spatial Development Initiative (SDI) platform, which formed an Inter-Ministerial Coordination Committee. This approach is now operational and has ensured a certain level of awareness and coordination, but has not performed up to expectation in relation to large-scale extractive industries concessions and related infrastructure. Experiences with extractive industries cross-sectoral and tri-partite arrangements (such as Papua New Guinea Mining Development Board, Afghanistan International Advisory Panel, Maputo Corridor Authority, various Boards, Partnerships and Foundations in Canada) will serve as valuable examples to design a model customized for the unique resource mix of Mozambique in consideration of its political economy and the existing model.

Extractive Industries Value Chain Framework: A review of the extractive industries sector value chain in Mozambique was carried out in 2008. The analysis provided a sound framework of support for the reforms needed to ensure optimal and sustainable development of the extractive industries sector. Findings of the analysis remain largely valid:

- Mozambique has laid out a strong foundation for the proper management of its oil, gas, and mining resources. The legal, regulatory, and contractual framework is mostly in place, up-to-date, and largely in line with international good practice. The award of contracts and licenses has been made through open, transparent processes. Certain reforms are still ongoing.
- The major challenges for Government going forward include (i) ensuring the requisite human resource, training, and institutional capacity to implement and monitor oil, gas, and mining operations; (ii) implementing transparent revenue collection and reporting; and (iii) planning for the wise use of revenues generated by such operations. Improvements in coordination inside the government are essential to improve efficiency along the value chain.

The proposed mining and gas technical assistance project for Mozambique is being designed along the Value Chain approach and its layout across the five links will be further discussed in the Project Description section.

Extractive Industries/ General: The extractive industries sector in Mozambique currently accounts for about 5 percent of the country GDP, primarily from natural gas development. Expectations are that in as little as 5 years (i) coal and new natural gas projects alone could double their sector contribution to GDP; and (ii) with over a thousand active prospecting and exploration licenses, the metals and minerals sector has the potential to contribute an additional 5-8% of GDP based on global comparators.

Mining Sector: Mozambique is growing into a world-class mining destination with its (i) massive coal reserves that would eventually place Mozambique at par with the largest coal exporters in the world; (ii) massive titanium resources; (iii) other minerals such as tantalum, limestone, and high prospectivity for gold, platinum group, uranium, iron ore, and bauxites. The current coal production of about 3 million tonnes per annum is expected to go up to 11 million tonnes per annum within the next few years and bypass 20 to 50 million tonnes per mine per year afterwards (depending on infrastructure development which is a major bottleneck to production). Production of heavy mineral sands (limenite, rutile, zircon) is currently modest but is expected to double for the known projects alone in the short-run, the tantalum project in the Zambezia Province is also expanding and more exploration is taking place.

Mozambique has largely passed the first stage of reforms of its minerals sector governance (supported under the World Bank-funded Mineral Resources Management Capacity Building Project, completed in 2007, and projects by AfDB and NDF), which led to mineral exploration boom by mid-2000s which in its turn started converting into actual production starting 2011. The second generation reforms that Mozambique is currently facing would target optimizing sector revenues and economic benefits to the
Relationship to CAS

The new Country Partnership Strategy for Mozambique (FY12-15, under preparation) puts strong emphasis on development of growth opportunities, ensuring economic, social and environmental benefits sharing mechanisms from mega-projects. The public debate around the sector is on changing the earlier approach of providing incentives to investors to the approach which will ensure that future deals are entered in full compliance with the law, provide adequate fiscal revenues, as well as are structured in a way to maximize other economic, social and environmental benefits sharing mechanisms that are participatory, sustainable and can be triggered by these developments. As such, the proposed Mining and Gas Technical Assistance Project directly supports CPS and will build on a cross-sectoral approach, by stimulating industrial growth, foreign direct investment and domestic market development, poverty reduction and business creation.

The project is aligned with the regional integration strategies for Africa, including African Union Mining Vision 2050 and strategy for regional infrastructure development. It builds on such regional initiatives already under implementation as NEPAD Spatial Development Initiative as well as SADC regional integration targets for infrastructure. The World Bank’s new Africa Strategy (2011) is built around two pillars: (a) competitiveness and employment and (b) vulnerability and resilience, and a foundation - governance and public sector management capacity. Poor governance has been identified as the main challenges underlying Africa’s development. Building on lessons learned, governance and public sector capacity improvement should be approached from both the demand and supply sides. On the supply side, the project would support the improvement of government services. And on the demand side, the project strategy aims to strengthen citizen’s voices using social accountability tools such as the accountability platform. The objective of the platform is to improve governance, develop dialogue and consensus and follow up of the sector performance to minimize potential negative effects of mineral resources exploitation and gas production.

II. Proposed Development Objective(s)

Proposed Development Objective(s)

The proposed project objectives are to (i) improve fiscal and economic benefits of extractive industries sector; (ii) set policy frameworks for participatory economic, environmental and social sustainability of the extractive industries; and (iii) improve transparency and accountability of extractive industries sector through strengthened demand for good governance.

Key Results

Improved fiscal, economic, social and environmental benefits:
- Percentage of new large-scale mining/ gas/ related infrastructure contract negotiations benefiting from new procedures and frameworks developed under the project
- Percentage of operational mining and gas projects subject to regular supervision and technical audit
- Framework for evaluation of financing options and raising financing for the State participation in offshore petroleum license blocks adopted and tested in at least two projects
- A cross-sectoral platform (i) carries out effective assessment of potential economic benefits from large-scale mining and gas concessions and recommends actions to improve and facilitate economic synergies; and (ii) periodically carries out the economic impacts assessments of the existing mining and gas development projects and recommends remedial actions

Improved sector sustainability:
- Percentage of mines and gas production and transmission projects per year subject to formal environmental inspections following good international practices set under the project
- Number of ASM operations formalized and ASM miners benefiting from extension services programs for ASM to be developed under the project
- Number of students enrolled in programs pursuing technical degrees in specializations relevant for local employment in mining and gas development projects

Strengthened accountability and demand for good governance:
- EITI compliant status achieved and maintained
- CSOs and community based organizations actively participating in EITI and contributing to review and reporting on community development projects in affected areas
- Implement participatory budgeting approach in at least one area affected by mining

III. Preliminary Description

Concept Description
The proposed project will support reforms, initiatives, and capacity building to enhance the efficiency and accountability of institutions involved in the management and planning of the mining and hydrocarbon sectors. The project will also assist in the development of a framework that promotes regional and local development of mining and gas producing areas and strengthens demand for good governance. Implementation period is expected to be about 5 years, with effectiveness by the end of calendar year 2012. The proposed project will be supported by an IDA Credit of $50 million through a Technical Assistance Project.

The project follows the Value Chain for Extractive Industries methodology and includes three main components and a project management and monitoring overhead:

Component A. Building Core Capacities and Functions of Ministry of Mineral Resource and Related Government Agencies to Improve Extractive Industries Sector Management:

A1. Institutional Strengthening of Government Institutions, including designing and implementing a capacity building program to strengthen MIREM, ENH, INP core functions related to extractive industries sector supervision and monitoring to ensure regulatory, contractual and fiscal compliance of the operations. The project shall support technical assistance and transaction-level advisory services of MIREM, ENH and INP to plan, evaluate, structure and negotiate natural resource projects and related infrastructure agreements. The project shall also assist with structuring financial needs and enhance ENH's capacity to raise financing for the State participation in oil and gas concessions. Support will also be provided to central and regional offices of MIREM to support artisanal and small scale mining sub-sector with the objective to formalize jobs and create cooperatives, and improve quality, productivity, safety measures of the ASM operations.

A2. Environmental and Social Management. The project shall carry out a Strategic Environmental and Social Sector Assessment (SESA) for the mining sector and for the gas sector and update, as needed, environmental and social framework for extractive industries sector, including norms, standards, requirements, and regulation. The project shall support in coordination with other sectors a national policy/regulation on land acquisition/involuntary resettlement, including grievance redress mechanisms that guide the sustainable implementation of mining investments in Mozambique. Specific support will also be provided to improve environmental and social performance of artisanal and small scale mining sub-sector in Mozambique. The project will finance capacity building and equipment to MIREM and Ministry of Environmental Coordination (MICOA) to implement the new frameworks and carry out effective consultations and outreach with stakeholders.

A3. Geodata Collection Management. The main objective of this support is to strengthen capacity of the Mozambique Geological Survey and other government agencies in managing, storing and interpreting geodata (for mining and gas exploration and production), as well as to improve geological data quality, depth and availability for public use. The project will finance collection of additional geodata and mapping of selected areas with high prospectivity for strategic minerals, update and coverage expansion of metallogenic maps, support seismic and geo-hazard mapping and monitoring, as well as hydro-geological mapping of selected areas.

Component B. Revenue Management and Transparency

B1. Extractive Industries sector transparency, including continued support of the ongoing Extractive Industries Transparency Initiative (EITI) for its full institutionalization. It will include enhancing the capacity of public and CSOs in Mozambique to monitor the extractive industries sector.

B2. Extractive Industries Revenue collection, including improving revenue collection from extractive industries by the revenue authority and improving revenue forecasting and planning both on micro and macro levels. The project will provide technical assistance to strengthen skills related to petroleum specific aspects of tax assessment and financial audit, revenue forecasting, tax policy analysis, investment negotiations and economic planning. It will also strengthen procedures and guidelines, for prepare operational technical / production audits of large-scale mines and gas production projects.

B3. Revenue Management. In collaboration with other projects and donors the project will support, as needed, the update of fiscal regimes for mining and gas, as well as revenue sharing arrangements between the central and regional/local levels. It will assess various options for macro economic revenue management and means to mitigate resource curse and support implementation of the reforms. The project will also support improving transparency of revenue management through various reporting mechanisms (beyond EITI) at local and regional levels.

B4. Demand-side management: capacity building to civil society and community based organizations, and outreach, development and implementation of monitoring tools for extractive industries. The project will also build awareness and capacity to use grievance redress mechanisms that will be developed under the project.

Component C. Facilitate Cross-Sectoral Platform and Integrate Mining, Oil and Gas Projects into Local and Regional Development

C1. Cross-Sectoral Platform for Minerals and Gas (in collaboration with Spatial Development Project and SDI). The project will work with other projects to contribute towards strengthening the existing cross-sectoral ministerial platform to ensure its full effectiveness in regards to cross-sectoral contribution to mining, gas and related infrastructure contracts. Based on lessons learnt from other countries and within Mozambique, various options of advisory boards or tri-partite dialogue arrangements will reviewed
and selected for implementation to improve economic, social and environmental impacts of mining and gas development.

C2. Natural Gas Vision and related Policies, Strategies and Legislation, including an integrated cross-sectoral vision and approach to maximizing the monetary, social and environmental value of natural gas in Mozambique by promoting domestic and (regional) export markets. The project will support the establishment of institutions (e.g. gas mid/downstream regulator) or special purpose vehicles (e.g. gas transport company) necessary to implement the government's vision plan, and will support the development/modernization of gas mid/downstream policies (e.g. pricing) and legislation.

C3. Economic Linkages of Mines and Gas Production. The project will assess and implement models targeted to integrate regional and ancillary infrastructure and regional development objectives into the mining and gas development agreements and assist with designing and implementation of such programs on the ground. This will include assessment and structuring of potential PPPs or similar arrangements driven by mining and gas development. As a learning/testing tool, the project will provide transaction advice for a few (tbd) top priority projects as per the plan that will be developed. The project will carry out studies and assessments to pinpoint the potential for local procurement and services to supply and service mines and gas projects, and will develop an agreeable to the industry, the government and the local population targets for implementation to maximize local procurement and local employment opportunities in a sustainable manner. The project will specifically support preparation of bankable business opportunities related to development of the domestic gas sector. To support local employment opportunities, the project shall provide support to Vocational Training Institutes, Technical Colleges and Universities to develop educational programs on a sustainable basis that meets skills and capacity needs of the public and private extractive industries sector over time to maximize local employment and procurement going forward; both central and regional programs are envisaged that will focus on developing staff, curricula and laboratory equipment only at existing educational institutions.

C4. Improvement of livelihoods in artisanal and small scale mining areas, including assessing and developing value addition opportunities in gemstone, dimension stone and construction minerals sub-sectors in ASM areas; and supporting business opportunities for women in mining and value-addition activities

C5. Pilot Programs: Support 3-4 pilots (pilot selection criteria, desirable pilots size and scope TBD during project preparation) to test the approaches to: (i) community development and participatory budgeting in affecting areas around large-scale operations; (ii) structuring/transaction advice for an infrastructure PPP for downstream gas sector; (iii) community planning and management in mining areas.

Component D. Project Management and M&E. Incremental operating costs and implementation support; develop M&E framework for sector performance (including its direct and indirect benefits and contributions)

IV. Safeguard Policies that might apply

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