Document of
The World Bank

Report No: ICR00004340

IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON A SERIES OF DEVELOPMENT POLICY CREDITS

(IDA-52990; IDA-55600; IDA-57570)

IN THE AMOUNT OF SDR 198.2 MILLION (US$ 290 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MOZAMBIQUE

FOR

NINTH POVERTY REDUCTION SUPPORT CREDIT

TENTH POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY FINANCING

AND

ELEVENTH POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY

FINANCING

December 14, 2017

Macroeconomic and Fiscal Management Global Practice
Southern AFR 2
Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective October 10, 2012 (IDA-5195)
Exchange Rate Effective October 30, 2014 (IDA-55650)

Currency Unit
US$1.00

Currency Unit = New Metical (MZN)
IDA-52990
US$1.00 = MZN
US$ 1.00 = SDR

IDA-55600
US$1.00 = MZN
US$ 1.00 = SDR

IDA-57570
US$1.00 = MZN
US$ 1.00 = SDR

MOZAMBIQUE – GOVERNMENT FISCAL YEAR

January 1- December 31

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AT	Administrative Tribunal (*Tribunal Administrativo)*
BdM	Central Bank of Mozambique (*Banco de Moçambique)*
BdPES	Review of the Economic and Social Plan (Balanço do Plano Económico e Social)
CCSPP	Public Project Coordination and Selection Committee (*Comité de Coordenação e Selecção de Projectos Públicos*)
CEM	Country Economic Memorandum
CPS	Country Partnership Strategy
CUT	Treasury Single Account (*Conta Única do Tesouro*)
DSA	Debt Sustainability Analysis
DFID	Department for International Development
e-BAU	Integrated IT platform Automating Business Registration (*Balcão de Atendimento Único electrónico*)
EI	Extractive Industries
ENSSB	National Strategy for Basic Social Security (*Estratégia Nacional de Segurança Social Basica)*
ESF	IMF Exogenous Shock Facility
EU	European Union
FRU	Fiscal Risks Unit
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GBS	General Budget Support
GDP	Gross Domestic Product
GoM	Government of Mozambique
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
IDA	International Development Association
IFC	International Finance Corporation
IGEPE	State-owned Equity Holdings Management Institute (*Instituto de Gestão das Participações do Estado*)
IGF	General Inspectorate of Finance
IMF	International Monetary Fund
INAS	National Institute of Social Action
INE	National Statistics Institute (*Instituto Nacional de Estatística*)
INP	National Petroleum Institute (*Instituto Nacional de Petróleo*)
INSS	National Institute for Social Security (National Pension System)
INTIC	National Information Communication and Technology Institute (*Instituto Nacional de Tecnologias de Informação e Comunicação*)
IOF	Household Budget Survey (*Inquérito ao Orçamento Familiar*)
ISR	Implementation Status and Results
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance (*Ministério de Economia e Finanças)*
MIC	Ministry of Industry and Commerce

MoU	Memorandum of Understanding
MPD	Ministry of Planning and Development (*Ministério de Planificação e Desenvolvimento)*
OCIs	Internal Control Units (*Órgãos de Control Interno)*
PAF	Performance Assessment Framework
PARP	Action Plan for the reduction of Poverty (*Plano de Acção para a Redução da Pobreza)*
PARPA	Action Plan for the Reduction of Absolute Poverty (*Plano de Acção para a Redução da Pobreza Absoluta*)
PASD	Direct Social Action Program (*Programa de Apoio Social Directo*)
PASP	Productive Social Action Program (*Programa de Acção Social Productiva*)
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PEFA PR	PEFA Performance Report
PEFA PI	PEFA Performance Indicator
PER	Public Expenditure Review
PES	Economic and Social Plan (*Plano Económico e Social*)
PFM	Public Finance Management
PIM	Public Investment Management
PPAR	Project Performance Assessment Report (IEG)
PPP	Public Private Partnerships
PQG	Government's 5-year development plan (*Plano Quinquenal do Governo*)
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Plan
PSI IMF	Policy Support Instrument
PSSB	Basic Social Subsidy Program (*Programa de Subsídio Social Básico)*
SESA	Strategic environmental and social assessments
SISTAFE	Integrated Financial Management System
SOE	State Owned Enterprises
SSA	Sub-saharan Africa
UFSA	Central Procurement Supervision Unit (*Unidade Funcional de Supervisão das Aquisições*)
UGE	Unit for Budget Execution (*Unidade Gestora Executora*)
UGEA	Unit for Execution and Management of Acquisition (*Unidade Gestora Executora das Aquisicões*)

Country Director:	Mark R. Lundell
Senior Global Practice Director:	Carlos Felipe Jaramillo
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Task Team Leader:	Shireen Mahdi
ICR Team Leader:	Shireen Mahdi

Mozambique

Poverty Reduction Support Policy Operations

CONTENTS

A. Basic Information			
Country	Mozambique	Program Name	PRSC-9 PRSC-10 PRSC-11
Program ID	PRSC-9: P131212 PRSC-10: P146537 PRSC-11: P154422	L/C/TF Number(s)	PRSC-9: IDA-52990 PRSC-10: IDA-55600 & IDA-D0050 PRSC-11: IDA -57570 & IDA-D0990
ICR Date	12/14/2017	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	GOVERNMENT OF MOZAMBIQUE
Original Total Commitment	PRSC-9: XDR73.4M PRSC-10: XDR74.6M PRSC-11: XDR50.2M	Disbursed Amount	PRSC-9: XDR73.4M PRSC-10: XDR74.6 PRSC-11: XDR50.2
Implementing Agencies Ministry of Finance			
Co-financiers and Other External Partners: There were no co-financers to PRSC-9-10-11. Budget support partners: African Development Bank, Austria, Belgium, Canada, Denmark, European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and UK			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review: PRSC-9 PRSC-10 PRSC-11	 11/14/2012 06/10/2014 05/29/2015	**Effectiveness:** PRSC-9 PRSC-10 PRSC-11		10/29/2013 12/09/2014[1] 12/24/2015
Appraisal: PRSC-9 PRSC-10 PRSC-11	 05/28/2013 09/29/2014 10/28/2015	**Closing:** PRSC-9 PRSC-10 PRSC-11	 03/31/2014 03/31/2015 12/31/2016	 03/31/2014 03/31/2015 12/31/2016
Approval: PRSC-9 PRSC-10 PRSC-11	 07/16/2013 12/05/2014 12/22/2015			

[1] This is the "signing" date as no "effectiveness" date is shown in the Portal.

C. Ratings Summary	
C.1 Performance Rating by ICR	
Overall Program Rating	
Outcomes	Moderately Unsatisfactory
Risk to Development Outcome	Substantial
Bank Performance	Moderately Unsatisfactory
Borrower Performance	Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Overall Program Rating			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry	Moderately Satisfactory	Government:	
Quality of Supervision:	Moderately Unsatisfactory	Implementing Agency/Agencies:	Unsatisfactory
Overall Bank Performance	Moderately Unsatisfactory	Overall Borrower Performance	Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Not available		

D. Sector and Theme Codes		
Mozambique Ninth Poverty Reduction Support Credit – P131212		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Central Government (Central Agencies)	39	39
Mining	22	22
Social Projection	17	17
Sub-National Government	11	11
Oil and Gas	11	11

Theme Code (as % of total Bank financing)		
Social Protection	22	22
Public Administration	34	34
Public Finance Management	31	31
Business Enabling Environment	11	11
Fiscal Policy	33	33

Mozambique Tenth Poverty Reduction Support DPF - P146537		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Central Government (Central Agencies)	34	34
Social Protection	22	22
Other Industry, Trade and Service	22	22
Other Public Administration	11	11
Mining	11	11

Theme Code (as % of total Bank financing)		
Social Protection	22	22
Public Administration	28	28
Public Finance Management	12	12
Business Enabling Environment	34	34
Fiscal Policy	6	6

Mozambique Eleventh Poverty Reduction Support DPF - P154422		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Central Government (Central Agencies)	44	44
Mining	22	22
Other Industry, Trade and Service	22	22
Oil and Gas	11	11
Social Protection	11	11

Theme Code (as % of total Bank financing)		
Social Protection	11	11
Public Administration	6	6
Public Finance Management	17	17
Business Enabling Environment	45	45
Macro-financial Policies	6	6
Fiscal Policy	17	17

E. Bank Staff		
Mozambique Ninth Poverty Reduction Support Credit - P131212		
Positions	**At ICR**	**At Approval**
Vice President:	Makhtar Diop	PRSC 9, 10, and 11: Makhtar Diop
Country Director	Mark Lundell	PRSC 9: Laurence Clarke PRSC 10 and 11: Mark Lundell
Practice Manager/Manager:	Mathew A. Verghis	PRSC9: John Panzer PRSC 10: Bernard Funck PRSC 11: Mark Thomas
Task Team Leaders:	Shireen Mahdi	PRSC9: Julio Revilla PRSC 10: Enrique Blanco Armas PRSC 11: Enrique Blanco Armas
ICR Team Leader:	Shireen Mahdi	
ICR Primary Author:	Aziz Bouzaher	

F. Results Framework Analysis

Program Development Objectives (from Program Document)

This PRSC series of three single-tranche operations follows three other series totaling 8 operations and designed to support Mozambique's national development strategy, beginning with its first national development plan (PARPA I) adopted in 2001. The series was delivered over a three-fiscal year period (FY13-16) to assist the Government of Mozambique to: (i) to improve the business climate and to increase transparency in extractive industries; (ii) strengthen social protection; and (iii) strengthen public financial management by enhancing effectiveness of internal audit, developing a public investment management process, and improving public debt management.

Revised Program Development Objectives
The Program Development Objectives were not revised.

Indicator(s)

Mozambique Eleventh Poverty Reduction Support DPF - P154422				
Indicator	**Baseline Value**	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Value Achieved at Completion or Target Years**
Policy area: improve the business climate and increase transparency in management of extractive industries				
Indicator 1:	**Number of days needed to obtain a business license.**			
Value (quantitative or qualitative)	Commercial: 15 days Industrial: 40 days	Commercial: 7 days (PRSC 9 and 10) Industrial: 40 days	Commercial: 8 days (PRSC 11) Industrial: 20 days	Commercial: 3 days (1 for activities without pre-inspection) Industrial: 7 days
Date achieved				2015/2016
Comments (incl. % achievement)	<u>Commercial Licenses:</u> ***Target over-achieved*** (based on the legislation in place) but it must be noted that the number of days may vary for commercial licenses due to different types of licenses or authorizations under the licensing regulations governing commercial activities). Actual figures for 2016 shared by MIC show that it takes an average 5.4 days to obtain a commercial license (figure is 3.9 days if using weighted average based on the number of total requests). Further strides include: automated licensing procedures (through the launch of the e-BAU platform); reduced number of procedures (from 9 to 6); reduced fees for certain commercial licenses; the elimination of pre-inspection for activities that do not involve risk to the environment, safety, hygiene and public health; decentralization of licensing powers; and making most commercial licenses valid indefinitely. <u>Industrial Licenses:</u> ***Target over-achieved*** (based on legislation in place) with an average 59 percent reduction in the number of days to issue industrial licenses was achieved (from a baseline of 32 days to 13 days). Actual figure for 2016 shared by b MIC suggest it takes an average 7 days for small-medium entities to obtain an industrial license, and 1 day for micro-firms. No data is available for large firms. The regulation also served to: eliminate pre-inspection for many industries; simplify requisites and reduce the number of procedures; reduce in 45 percent the costs for medium-sized industries not requiring pre-inspection (from US$1,013 to US$557); and decentralize competencies to provincial and district levels.			

Indicator 2:	**Number of days needed to start a business.**			
Value (quantitative or qualitative)	**13 days**	**8 days**		19 days
Date achieved				12/31/2016
Comments (incl. % achievement)	***Target not achieved.*** IFC Project helped GoM introduce several reforms such as the adoption of a Single Form for simplified business start-up (Decree 80/2013); an internal reorganization of the OSS to allow a single point of contact; automation of the simplified license; and pressured for the online publication of company statutes. Government has established e-BAU (one-stop shop) to streamline business startup procedures (PRSC XI trigger), however reforms aimed at improving Starting a Business have not had the desired impact on Doing Business. Reasons for this include infrastructural problems such as internet and electricity and the existence of parallel company registration procedures (the normal process at the Registrar and the Single Forms at OSS). The e-registry is currently hosted at INTIC awaiting to be launched. Main risk/bottleneck was weak government capacity to maintain the database updated. Doing Business does report an improvement in the number of procedures required to start a business (from 15 in 2004 to 10 in 2017 - having been constant since 2011). Data shared by MIC suggests that target is achieved for some sectors (commerce and tourism) but this is obscured by the delays that take place in other sectors, where opening a business can take between 20 and 50 days.			
Indicator 3:	**Number of applied EITI principles and criteria.**			
Value (quantitative or qualitative)	No compliance.	Mozambique remains EITI compliant and publishes reconciliation reports up to 2014 in line with new guidelines		Compliant
Date achieved				12/1/2015
Comments (incl. % achievement)	***Target achieved.*** Mozambique published 6th EITI annual report for 2013 and 2014 which provides an exhaustive contextual analysis of the extractive industry and reconciliation receipts confirmed by Mozambican government with the payments declared by extractive industry companies in 2013 and 2014, in line with the requirements outlined in the EITI Standard. The report for 2015 and 2016 will be issued in December 2017 (which is within the required timeframe).			

Indicator 4:	**All new mining and petroleum contracts starting 2015 will be negotiated under the revised legislative framework.**			
Value (quantitative or qualitative)	None	2 (one target for mining and gas; PRSC 10)	All	Laws were passed but no new contracts were signed
Date achieved				
Comments (incl. % achievement)	***Target achieved***. No new contracts signed have been signed since the new mining and petroleum laws were passed. The results of the 5th round of Exploration and Production Concession contracts were announced in October 2015 by INP, however none of the investors are willing to sign under the offered terms and conditions. INP is working on introducing a new amendment to fix these issues so that some of these contracts can move forward.			
Indicator 5:	**Percentage of transfers (of royalties) to communities that are executed.**			
Value (quantitative or qualitative)	0%	80%		100%
Date achieved				12/1/2016
Comments (incl. % achievement)	***Target partially achieved.*** Amount transferred to communities was MZN 22.8 million - with 100% execution of communities located in provinces of Cabo Delgado, Nampula, Tete and Inhambane. However, quarterly budget execution reports show very low execution rates within year which suggest significant delays in disbursements (execution in June 2016 was very low, below 5% - some improvement in 2017 as mid-year execution is at 30.4%).			
Policy area: Strengthen social protection				
Indicator 6:	**Share of the benefits of PASP transfers to those above the US$1.25 poverty line.**			
Value (quantitative or Qualitative)	10 percent	2 percent		2 percent
Date achieved				2016
Comments (incl. % achievement)	***Target achieved.*** Targeting of urban beneficiaries below the US$1.25 poverty line is 98%, ensuring that target was achieved.[2]			
Indicator 7:	**Total number of direct public works program (PASP) beneficiaries.**			
Value (quantitative or qualitative)	0	20,000		26,000
Date achieved				11/1/2016
Comments (incl. % achievement)	***Target over-achieved.*** The second cycle of public works started on November 2016 and comprised around 26,000 households (20,000 household in rural areas and 6,000 household in urban areas) in 32 districts and 3 municipalities. GoM			

[2] However, when the assessment is done on the basis of the national poverty line (which is MZN21), targeting of urban beneficiaries below the line is only 23%.

	currently finalizing the registration and enrolment processes for the second wave of public works with around 79,000 households (the current 26,000 beneficiaries, plus additional 32,000 beneficiaries already registered and around 21,000 beneficiaries in districts financed through Government budget).			
Indicator 8:	**Percentage of payments made to beneficiaries from PASP and PSSB within the month they are due.**			
Value (quantitative or qualitative)	**Zero**	50 percent		25 percent
Date achieved				2016
Comments (incl. % achievement)	***Target not achieved***. INAS is still facing challenges to pay in due time to beneficiaries participating in the public works program (PASP). Only one payment was done in the month that was due. Payments to beneficiaries were only complete in June 2017, with more than 6-months delay. The late payments are a combination of (i) lack of planning; (ii) long processes for payments due to the fact of the payment system has not been outsourced yet; and (iii) bureaucratic delays to get the funds for payments from central to delegation level. World Bank is not supporting the PSSB payments (The outsourcing of the payment agency is still undergoing; the GoM is in the process to finalize the procurement process).			
Policy area: Enhance Public Finance Management				
Indicator 9:	**Percentage of recommendations implemented by the entities audited/inspected by the OCI's and IGF.**			
Value (quantitative or qualitative)	**Less than 15 percent**	At least 40 percent		49.2 percent
Date achieved				2013
Comments (incl. % achievement)	***Target over-achieved***. According to IGF data, in 2014 the institution issued a total of 5357 recommendations, of which 2754 were implemented (51.45 percent). This is an increase from 2013 (49.2 percent) when the target had already been reached.			
Indicator 10:	**Percent of public investment projects that has been developed, appraised and evaluated, following the guidelines adopted for project appraisal and evaluation.**			

Value (quantitative or qualitative)	**Zero**	At least 90 percent of all public investment projects included in the Integrated Investment Program have been appraised and evaluated, including analysis of returns to investment that informs fiscal policy.	All public investment projects in the Integrated Investment Program, including an analysis of returns to investment.	Not achieved
Date achieved				2016
Comments (incl. % achievement)	***Target not achieved***. For and up to the 2016 budget year, limited appraisal of projects being carried and no use of methodological guidelines. Exceptions include cases where projects are financed by external resources (such as the roads projects under the National Roads Agency (Agência Nacional de Estradas). All projects to be included in 2018 budget are subject to appraisal, however reduced fiscal envelope and cuts to investment means there will be a small number of new projects being appraised.			
Indicator 11:	**Quarterly and yearly debt reports published.**			
Value (quantitative or qualitative)	**Debt reports only published on an annual basis.**	Quarterly public debt reports are prepared for the 2013 and 2014 fiscal years and published in the government's portal; they include information on costs and risks of debt portfolio. Annual public debt reports for 2013 and 2014 include assessment of progress in implementing public debt borrowing plan.	Quarterly debt reports are prepared for the 2013 and 2014 fiscal years and published. The Government broadly adheres to the annual domestic borrowing plans issued by issuing within 25% higher/lower than planned amount.	Partially achieved: - Q debt reports prepared (and published) - Little adherence to annual domestic borrowing plan for 2016.
Date achieved				2012-2016
Comments (incl. % achievement)	***Target partially achieved***. Annual debt reports published each year - 2016 annual report published with some delay (in July 2017). Only quarterly debt reports published on MEF website are for 2016 and 2017, although DNT debt department has informed that these have been prepared since 2012. (The merger of the ministry of finance with the ministry of planning in 2015 caused a change			

	in the institution's name and website - and therefore loss of previously published information). Publication time lag of minimum 3 months. Unfavorable macroeconomic developments, including reduced access to external financing, resulted in significant diversion from annual borrowing plan for 2016. Noteworthy items include MZN 30 billion advancement (loans) from the Central Bank - which were not part of borrowing plan - putting overall internal borrowing at MZN 87.7 billion, vs planned of MZN 46.6 billion (88% higher). Also, the hidden debts marked a large departure from the annual guarantee limit in the budget.			
Indicator 12:	**Fiscal risks statement in the budget.**			
Value (quantitative or qualitative)	No information on fiscal risks in budget documentation.	Target: Detailed information and quantification on fiscal risks included in the 2016 budget	Target: Detailed information and quantification on fiscal risks included in the 2017 budget	2016 fiscal risk statement published with 2016 budget 2017 fiscal risk statement not published
Date achieved				2016
Comments (incl. % achievement)	***Partially achieved***. Fiscal risks statement published at the end of 2015, along with the 2016 Budget Law. FRS for 2016 not completed (still under discussion at technical level) and therefore not published with the 2017 Budget Law. Information on fiscal risks in 2017 Budget Law does not provide any quantification/evaluation/analysis of current risks. Passive mentioning of fiscal risks with regards to state enterprise sector. "Reforma do Sector Empresarial do Estado, tendo em vista a redução do risco fiscal e a promoção da eficiência económica e financeira da Gestão das Empresas Públicas."			

G. Ratings of Program Performance in ISRs

Mozambique Ninth Poverty Reduction Support Credit– P131212				
No.	**Date ISR Archived**	**DO**	**IP**	**Actual Disbursements (XDR millions)**
1	03/15/2014	Satisfactory	Satisfactory	73.4

Mozambique Tenth Poverty Reduction Support DPF - P146537				
No.	**Date ISR Archived**	**DO**	**IP**	**Actual Disbursements (XDR millions)**
1	05/07/2015	Moderately Satisfactory	Satisfactory	74.6

Mozambique Eleventh Poverty Reduction Support DPF - P154422

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
	An ISR was not prepared as this was the last operation in the series.			

H. Restructuring

NA

1. Program Context, Development Objectives and Design

1.1. Context at Appraisal

1. **This Implementation Completion and Results (ICR) Report covers the fourth Poverty Reduction Support Credit Series, consisting of three annual single-tranche operations delivered over FY13-16.** The series comprised of PRSC 9, 10, and 11, was an important component of the Bank's FY12-15 Country Partnership Strategy (CPS),[3] and built on the progress achieved under the previous three series which supported implementation of Mozambique's First and Second Action Plan for Reduction of Absolute Poverty (PARPA I and PARPA II in Portuguese) approved by Cabinet in 2001 and 2006, respectively, as well as a transition to a new 2011-2014 PRSP (Plano de Acção de Redução da Pobreza).

2. **The PRSC 9-10-11 series follows three previous series, PRSC 1-2, PRSC 3-4-5, and PRSC 6-7-8 whose results were discussed and rated by three ICRs**. PRSC 1-2 supported the implementation of the first PRSP (PARPA I, 2001) in the areas of public finance management and public sector reform, and economic development. For this first series, overall outcome, Bank performance and Borrower performance were rated as satisfactory by the ICR, which was confirmed by IEG. PRSC 3-4-5 supported the implementation of the second PRSP (PARPA II, 2006) in the areas of macroeconomic management, public sector reform, and economic development (focused on growth). While the ICRs for PRSC 3-4-5 rated the overall outcome, Bank performance and Borrower performance as satisfactory,[4] IEG's Project Performance Assessment Report (PPAR) rated outcome as moderately unsatisfactory, Bank performance as moderately satisfactory, and Borrower performance as moderately unsatisfactory.[5] PRSC 6-7-8 continued and deepened support for PARPA II implementation in the areas for macroeconomic management and economic development through a focus on strengthening economic governance systems and a broad-based agenda to accelerate private sector development. Finally, while the ICR for PRSC 6-7-8 rated the overall outcome, Bank performance and Borrower performance as satisfactory, IEG has not yet evaluated the series.

3. **Furthermore, it is important to note at the outset that this ICR reflects the aftermath of significant events which emerged midway through the program, whereby a previously undisclosed debt emerged as a major source of macro-fiscal risk, materially altering the course and results of the reforms.** Revelations of USD 1.4 billion in previously undisclosed borrowing pushed Mozambique's debt position in 2016 to an unsustainable level leading the country to default on its sovereign bond at the start of 2017, and failing to meet interest and principal payments for key loans. The country is likely to remain in debt distress unless authorities can reach an agreement with creditors on restructuring a portion of its debt.

4. **Nevertheless, Mozambique's economic performance over the twenty-years prior to the design of this (fourth) PRSC series had been strong, driven by government-led structural**

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[3] World Bank 2012. Mozambique Country Partnership Strategy FY12-15. Report No. 66813-MZ.

[4] World Bank. *Implementation Completion and Results Report*, Mozambique, Poverty Reduction Support Credits 3-4-5. Report No: ICR00001039, May 28, 2010. And World Bank *Implementation Completion and Results Report*, Mozambique, Poverty Reduction Support Credits 6-7-8. Report No: ICR 2748. June 12, 2013.

[5] IEG World Bank. *Project Performance Assessment Report*, Mozambique, Poverty Reduction Support Credits 3-5. Report No. 106459. June 29, 2016.

reforms focused on private-sector-led growth with macroeconomic stability and fiscal efficiency. Driven by improvements in infrastructure and market-oriented reforms, annual economic growth averaged 7-8 percent between 2001-and 2014. Several factors contributed to this performance, including political stability, sound macroeconomic management, several large-scale foreign investment projects (mega-projects), and substantial donor support.[6] Building on significant physical and human capital accumulation, and with major discoveries of coal and natural gas, the economy was poised to benefit from a growing resource sector and potentially undergo significant structural transformation, which would require the development of government capacity to manage the country's extractive industries to bring about sustainable and broad-based growth.

5. **At PRSC-9 appraisal, while its medium-term macroeconomic outlook was assessed to be positive overall, the Mozambican economy was facing downside risks in terms of worsening current account deficits and increasing external debt.** Real GDP growth was expected to average 8 percent over the period 2013-15, driven by extractive industries, agriculture, construction and transportation and communications, but was revised downward to 7 percent for 2013 because of slower coal mining growth due to bottlenecks in railroads and floods that impacted agricultural production and key infrastructure. And although most of the current account and trade deficits were being financed by FDI growth and related rising imports, and external debt growth was expanding but was mostly private, potential negative developments in natural gas and mining were posing significant risks to the government's infrastructure development plans and overall growth. At the same time, the overall fiscal deficit (after grants) fell to 3.9 percent of GDP in 2012 on the strength of rising tax revenues and a moderate decrease in capital expenditures, and was expected to remain below 7 percent of GDP through 2015. In addition, from double digits in 2010, inflation was reduced to 2.2 at the time of appraisal of PRSC-9, and was projected to stay between 5 and 6 percent through 2017. In light of the above, the Debt Sustainability Analysis (DSA) confirmed that Mozambique's external debt dynamics showed a moderate risk to debt distress.[7]

6. **Over the time span of this PRSC series the Government could not maintain the excellent economic growth record achieved during the previous PRSC series.** By the end of PRSC 10, there were signs that the economy was on a downward trend brought about by low commodity prices and a regional drought, and in the middle of the implementation of PRSC-11, the emergence of previously undisclosed borrowing revealed significant governance weaknesses in public investment management, debt management and the oversight mechanisms for state-owned enterprises (SOEs), leading to a more general crisis of confidence in the government's fiduciary capacity and its ability to responsibly manage natural resource revenues. Having averaged at 7.2 percent since the start of the century, economic growth narrowed to 3.8 percent in 2016 as a result of lower investment, falling confidence and weakened demand. Surging inflation and monetary tightening, as well as the need for a broader range of policy decision to support private sector development, created restrictive conditions for Mozambique's nascent non-extractive private sector.

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[6] World Bank, 2012. Mozambique Country Economic Memorandum: Reshaping Growth and Creating Job through Trade and Regional Integration. Report No. 59356-MZ.

[7] The 2013 IMF-World Bank Mozambique DSA highlighted three important points for debt sustainability: (i) improving debt management and investment planning capacity; (ii) moderating the pace of new borrowing; and (iii) ensuring that LNG production materializes in order to lock in the beneficial effects on GDP and fiscal revenue.

7. **As the IMF maintained its support to the Government's monetary and fiscal policies, and given shared expectations that "robust growth would continue in a stable and supportive policy context," the Bank team concluded that the macroeconomic framework was adequate for budget support under the PRSCs.** The IMF's three-year Policy Support Instrument (PSI) approved in 2013 was concluded in October 2015, and while it remained broadly on track, program performance was mixed, with several quantitative targets missed and some delays incurred in the implementation of structural reforms. Within this context in which "medium-term prospects remained positive despite emerging complex short-term challenges," the IMF's fifth PSI review agreed with the Government on a "strong corrective policy package to put the program back on track," to be supported through a new 18-month Stand-by Credit Facility (SCF) Arrangement through 2017.

8. **From 2013 to 2016, economic growth started strong on par with past performance, but slowed down considerably by the end of the PRSC series because of slower investment, falling exports and decreasing investor confidence.** Growth which in the past had been broad-based across economic sectors, was driven by financial services, agriculture and trade. Extractive industries had been the most dynamic sector in the economy for the past few years but its contribution to growth during the PRSC series remained limited given its relatively small share in the economy. And while the services sector maintained a healthy growth pace, at 23 percent of GDP agriculture continued to be the mainstay of poor.

9. **The country's real GDP growth rate was a robust 7.4 percent in 2013, but slackened in 2014, and was reduced to 6.6 percent in 2015 before precipitously declining to 3.8 percent in 2016** (Table 1 below). While such a significant slowdown in growth was not projected, several factors contributed to the downturn. In 2013 floods in much of the country diminished agricultural production and damaged infrastructure. In 2014 and 2015, the low commodity prices, combined with infrastructure constraints, significantly dented the growth of extractive industries, especially the coal sector. At the same time, the Government's mildly expansionary monetary policy stance at the beginning of the PRSC series, was tightened to contain inflation to below the Mozambican Central Bank (*Banco de Moçambique* – BdM) target of 5-6 percent. Inflation reached its lowest (2.3 percent average) in 2015 (Table 1 below) which then enabled BdM to lower interest rates but with limited impact on market rates and credit growth. But the factors that contributed to the slowdown in growth (lower investment, falling exports, public sector consolidation, monetary tightening, investor confidence, increased debt levels) also contributed to the sharp pace of currency depreciation and accelerated the pace of inflation which averaged 20 percent in 2016, with food price inflation reaching 32 percent[8] with disproportionate impact on the poor. On the fiscal side, Government policy had become increasingly expansionary during the PRSC series. While domestic revenue performance was relatively flat (decreased from 26.3 percent of GDP in 2013 to 23.8 percent of GDP in 2016), spending had been growing rapidly, reaching 34 percent of GDP in 2013 and peaking at 42.1 percent in 2014, and leading to an increase in budget deficit (after grants) from 2.7% of GDP in 2013 to 4.7% of GDP in 2016.[9] Moreover, the share of aid in the national budget

[8] CPF 2017-2022. *Ibid.*

[9] The deficit reached to 10.3 percent in 2014 because additional costs related to elections and infrastructure.

has been decreasing, and external grants now account for approximately 18 percent of total government spending (with 6 percent from budget support sources) , down from 44 percent in 2009.

Table 1 Basic Macroeconomic Indicators, 2012-2016

	2012 Act. (#)	2013 Act. (#)	2014 Act. (*)	2015 Act. (*)	2016 Act. (*)
Real GDP growth rate (%)	7.2	7.4	7.2	6.6	3.8
CPI inflation (%, annual average)	2.1	4.2	2.3	3.6	19.9
Credit to the economy (% change)	19.9	28.7	28.4	19.3	12.6
Gross domestic savings, excluding grants (% of GDP)	-0.9	12.5	9.5	-1.1	4.6
Gross domestic investment (% of GDP)	47.4	54.5	46.9	32.1	40.6
Government	12.7	14.8	18.0	14.0	13.9
Other sectors	34.7	39.6	28.9	18.1	26.7
Total Government Revenues (% of GDP)	21.9	26.3	27.5	25.2	24.0
Total Government spending (% of GDP)	30.7	34.0	42.1	34.7	29.7
Overall Balance (after grants)	-3.9	-2.7	-10.3	-6.3	-3.5
Terms of trade (% change)	-5.7	-0.7	-1.7	0.0	0.7
Current-account balance, including grants (% of GDP)	-44.7	-39.1	-34.1	-30.2	-36.1
Real exchange-rate change (% change)	7.1	-1.2	-1.4	--	--

Source: GoM, Banco de Moçambique (BdM), IMF, and World Bank estimates and projections.
(#) From PRSC-11 Program Document; (*) From Country Partnership Framework (2017-2022).

10. **Moreover, while Mozambique made significant progress on development outcomes after the civil war period, since the early to mid-2000s, progress has slowed down, as rapid growth[10] has not translated into significant poverty reduction and improvements in social indicators remain uneven.**[11] But while poverty fell to 52% between 2003 and 2009, the most recent work on poverty dynamics[12] showed that rather than suffering economic stagnation, Mozambique was continuing to experience a general decrease in poverty, though this has been heavily concentrated in urban areas where only 30 percent of population resides; meanwhile, rural poverty remained largely intractable, with the notable exception of rural areas in the greater Maputo region. In terms of social indicators, Mozambique had made important progress in some areas (e.g., school enrollment rates—and gender parity in enrollment—had increased dramatically over the past decade), and limited progress in others (e.g., water and sanitation), but other key indicators had stagnated or consistently declined (e.g., adult literacy rate, average life expectancy at birth, and

[10] As indicated in the PRSC Program Documents, over the period 2003-2009 growth averaged 7-8% per annum.
[11] World Bank (June 2016). Mozambique Systematic Country Diagnostic. Report No. 103507-MZ
[12] World bank 2012. Poverty in Mozambique: New Evidence from Recent Household Surveys,

infant and maternal mortality). Moreover, with the spread of HIV/AIDS and the incidence and mortality rates for malaria and other diseases, decisive progress towards the Millennium Development Goals (MDGs) remained elusive.

11. **With Frelimo winning every election since the 1992 peace agreement and dominating Mozambique's politics, institutions and economy, the country remained politically stable but its transition to a fully functioning multiparty democracy was still incomplete.** Many key political institutions were weak including the parliament which had limited effectiveness in being a forum for democratic representation, legislative debate, executive oversight, and policy conflicts resolution. Moreover, tensions continue with Renamo, the main opposition party, demanding that it be given the ability to govern the provinces where it gained majority votes. In addition, with the benefits of the rapid post-civil war economic growth, driven by extractive industries, going to the upper end of the income distribution at the expense of the bottom 40 percent of the population, widespread poverty and unemployment at times triggered social unrest and put into focus the challenges of achieving a more inclusive growth pattern.

12. **This three-year PRSC series was an integral part of the Bank's strategy to support the Government of Mozambique (GoM) in strengthening the transition of the country towards a resource-rich economy, by aligning its support with the strategic objectives of the Action Plan for Poverty Reduction (PARP) and the priorities of the Government's new 5-year development plan (*Plano Quinquenal do Governo -PQG*)**. As government policies and budget are the main instruments for implementing the PARP and PQG, the Bank FY12-15 CPS, discussed by the Board in April 2012, committed to continue supporting and aligning with the budget process. The lending scenario of the CPS included programmatic support through a new PRSC series to support the government reforms in strengthening economic management systems and the governance of extractive industries, promoting a broad-based growth agenda to accelerate private sector development, and supporting inclusiveness and reducing vulnerability. Bank support was aligned with the 2012-14 common Performance Assessment Framework (PAF) by the G-19,[13] and closely coordinated with the IMF's 3-year Policy Support Instrument (PSI) approved in 2010.

13. **The Bank continued to be the leading Government partner for the policy dialogue around economic policy and key structural reforms, and its budget support for this PRSC series was an important component of the Government's financing program.** While Mozambique was achieving laudable results in broadening the revenue base and increasing domestic resources, it was still reliant on concessional foreign financing for a large share of its development expenditures. By providing a total of US$ 290 million in concessional funding (US$ 90 million of which were grants), the Bank supported an important reform program to consolidate and deepen the scope of reforms in macroeconomic management, governance, public sector, and economic development. In doing so, it also contributed to financing around 12 percent of the budget deficit or 2 percent of total expenditure in 2013 through 2015.

1.2. Original Program Development Objectives (PDO) and Key Indicators

14. **This PRSC series of three annual single tranche operations, delivered over FY13-16, was designed to assist the Republic of Mozambique to (i) improve business climate and to increase transparency in the management of extractive industries; (ii) strengthen social**

[13] A Memorandum of Understanding (MOU) was signed in March 2009 between the government of Mozambique and 19 donors (G-19), including the Bank, providing general budget support.

protection; and (iii) enhance public finance management. More specifically, the PRSCs focused on helping the GoM in:

(a) **Economic development (objective 1):** to continue to support broad-based growth by: (i) creating an environment favorable to the formation and development of micro, small and medium enterprises (MSMEs); (ii) improving business regulations and investment climate for attracting domestic and foreign investment, and increasing transparency in the management of extractive industries; and (iii) improving the management of natural resources to maximize their value both to the economy as a whole and to local communities in resource-rich areas;

(b) **Social protection (objective 2):** to design and implement a National Productive Social Action Program aimed at: (i) addressing chronic food insecurity and vulnerability to climate shocks, structural price instability, and the seasonal nature of agricultural production; and (ii) increasing the coverage and impact of the Direct Social Action Programs, thereby contributing to the economic and nutritional security of the most vulnerable groups.

(c) **Public finance management (objective 3):** to consolidate and deepen institutional reforms to achieve greater administrative and financial transparency and strengthen the integrity of the public administration through; (i) strengthening audit and oversight mechanisms; (ii) improving public investment management in terms of both the regulatory framework and methodology for appraisal and evaluation; and (iii) improving debt management through the preparation and implementation of a new Medium-Term Debt Management Strategy, and better management of fiscal risks.

15. **At the same time, the series outcomes sought were in line with the following CPS outcomes:** (1) simplified business regulations; (2) improved transparency and management of extractives industries; (3) improved access and allocation of social protection systems; (4) improved management of audits, public investment and public debt. Moreover, several operations of the World Bank Group complemented and broadened the PRSC-supported poverty reduction and economic development agenda.

16. **Moreover, the implementation of the third PRSC series provided important lessons which influenced the design of this series.** These include:

(i) Designing a results framework with clearly specified policy and institutional reforms, and associated outcome indicators which are linked to concrete actions; this was not the case of the Performance Assessment Frameworks (PAFs) agreed upon by the Government and the G-19 and used in the previous PRSC operations in Mozambique;

(ii) Strengthening the monitoring and evaluation (M&E) systems, given the difficulty and the cross-cutting challenge of precisely monitoring key indicators, as well as the limited capacity within the Directorate of M&E at the Ministry of Planning and Development; and

(iii) Given the level of ambition and complexity of the PARP, identifying capacity constraints and using targeted capacity building and technical assistance activities at multiple levels of government, to support the design and implementation of reforms.

17. **The PRSC series comprised a total of 28 prior actions; ten prior actions for PRSC-9, nine prior actions for PRSC-10, and nine prior actions at PRSC-11.** While the reforms

supporting economic development for broad-based growth made up almost half of the prior actions, followed closely by the ones supporting public finance management, only five prior actions focused on social protection.

18. **The following program results and indicators were agreed during appraisal and included in the program document for PRSC-9:**

- 2 indicators on the simplification of business regulations
- 1 indicator on the improvement of the transparency in extractive industries (with a focus on the petroleum sector)
- 2 indicators on the strengthening of social protection
- 1 indicator on improvement in public investment management
- 1 indicator on improvement in public debt management

1.3. Revised PDO and Key Indicators, and Reasons/Justification

19. **The program development objectives remained consistent throughout the PRSC series.** However, at PRSC-10 and PRSC-11, indicative triggers and prior actions were revised, advanced, or dropped to reflect the country's evolving conditions and progress on the ground. In this regard, at PRSC-10 new triggers and prior actions were added to: (i) deepen reforms in the public investment and fiscal risks management areas, taking into account adjustments in Government policy on extractive industries; and (ii) reflect the relatively slower pace of implementation of some social protection reforms by the time PRSC-11 was approved. These changes remained consistent with the Strategic Matrix of the PARP 2011-2014 and the Performance Assessment Framework (PAF), and were reflective of the strength of the policy dialogue between the Bank's team and development partners with the Government.

20. **But the results framework was changed to reflect the adjustments made to the prior actions, expanding from 7 indicators at PRSC-9 to 12 indicators at PRSC-11, and to take into account lessons learned from previous series**. While all three PRSCs focused on the same broad policy areas (economic development through improving business regulations and the investment climate and increasing transparency in the management of extractive industries, social protection, and pubic finance management), there were changes to the program results indicators which can be attributed to two main reasons: emerging fiscal transparency risk, and implementation issues (refer to Table 2 below).

(a) Changes related to emerging fiscal transparency risk

21. **The Implementation Status Report prepared for PRSC-9 found that fiscal transparency issues had had some negative impact on the effectiveness of public investment management and public debt management**. This led to the decision to focus in subsequent operations in the series on strengthening the Public Investment Management and Public Debt Management triggers to provide an overall stronger framework on fiscal transparency issues, especially as Mozambique's access to financial markets was on the rise. For this reason, 5 new indicators were added to the results framework of PRSC-10 and remained largely the same until the end of the series:

- 3 indicators aiming at measuring improvement in the transparency of the management of extractive industries: Indicator 3 (*Number of applied EITI principles and criteria);* Indicator 4 *(New mining contracts negotiated under the revised legislative framework);*

and Indicator 6 *(Percentage of transfers (of royalties) to communities that are executed);* and

- 2 indicators related to strengthening debt management and minimizing fiscal risk: Indicator 10 (*Percentage of recommendations implemented by the entities audited/ inspected by the OCI's and IGF)* and Indicator 13 (*Fiscal risks statement in the budget).*

(b) Changes related to implementation issues

22. **Much progress was made on developing effective and well-coordinated social security policies to serve the poorest and most vulnerable, and the PRSC series supported measures aimed at ensuring efficient and transparent implementation of these policies**. While one indicator was added to PRSC-10-11, Indicator 8 (*Total number of direct public works program (PASP) beneficiaries)*, one key indicator related to the operationalization of the single registry which was introduced in PRSC-10, Indicator 7 (*Percentage of beneficiaries registered in the Single Registry of Beneficiaries)*, designed to measure improvement in the timeliness, predictability and transparency in transfers, was dropped at the end of the PRSC series because government was unable to outsource payments to a private sector provider.

Table 2. Results Indicators for PRSC-9-10-11
(New or dropped indicators are shown in underlined italic)

Government Medium-Term Objectives (from PARP results matrix)	**Indicator for PRSC-9** (from PARP/PAF)	**Indicator for PRSC-10** (from PARP/PAF)	**Indicator for PRSC-11** (from PARP/PAF)
Objective 1: Economic Development / *Improve the business regulations and investment climate and increase transparency in management of extractive industries*			
Creating an environment favorable to the formation and development of MSMEs	1.Number of days needed to obtain a business license	1.Number of days needed to obtain a business license	1.Number of days needed to obtain a business license
	2. Number of days needed to start a business	2. Number of days needed to start a business	2. Number of days needed to start a business
Improving the management of natural resources to maximize their value both to the economy as a whole, and to local communities in resource-rich areas		3. *Number of applied EITI principles and criteria*	3. *Number of applied EITI principles and criteria*
		4. *New mining contracts negotiated under the revised legislative framework*	4. All new mining and petroleum contracts starting 2015 will be negotiated under the revised legislative framework
	3. New legislation and regulations in Petroleum enforced	5. New gas contracts negotiated under the revised legislative framework	
		6. *Percentage of transfers to communities that are executed by communities*	5. *Percentage of transfers (of royalties) to communities that are executed*
Objective 2: Social Protection			
Availability and quality in the access to social services & basic Social Insurance	4. At least 80 percent of total beneficiaries for the PASP and the PSSB are registered in	7. Percentage of beneficiaries registered in the Single Registry of Beneficiaries	6. *Share of the benefits of Programa de Acção Social Productiva (PASP) transfers to those above the US$1.25 poverty line*

and Social Infrastructure	the Single Registry of Beneficiaries		
		8. *Total number of direct public works program (PASP) beneficiaries*	7. *Total number of direct public works program (PASP) beneficiaries*
	5. Percentage of payments made to beneficiaries from PASP and PSSB within the month they are due reaches 50 percent	9. Percentage of payments made to beneficiaries from PASP and PSSB within the month they are due	8. Percentage of payments made to beneficiaries from PASP and *Programa de Subsídio Social Básico* (PSSB) within the month they are due
Objective 3: Public Financial Management			
Promoting greater administrative and financial transparency		10. *Percentage of recommendations implemented by the entities audited/ inspected by the OCI's and IGF*	9. *Percentage of recommendations implemented by the entities audited/inspected by the OCI's and IGF*
Enhancing the coverage, transparency, efficacy and efficiency of public financial management	6. At least 90 percent of all public investment projects included in the Integrated Investment Program have been appraised and evaluated, including an analysis of returns to investment that informs fiscal policy	11. Percentage of public investment that has been developed as projects, appraised and evaluated, following the guidelines adopted for project appraisal and evaluation	10. Percentage of public investment that has been developed as projects, appraised and evaluated, following the guidelines adopted for project appraisal and evaluation
	7. Quarterly public debt reports are prepared for the 2013 and 2014 fiscal years and are published in the government's public portal	12. Quarterly and yearly debt reports published	11. Quarterly and yearly debt reports published
		13. *Fiscal risks statement in the budget*	12. *Fiscal risks statement in the budget.*

1.4. Original Policy Areas Supported by the Program

23. **In line with the PARP's strategic pillars and the objectives defined in the PARP results matrix, the PRSC series under review supported a set of policies actions designed to help Mozambique achieve a more inclusive growth pattern through: (**i) an improved business climate and more effective management of extractive industries; (ii) stronger social protection; and (iii) enhanced public finance management. Under the Leadership of the Government of Mozambique (GoM), policy actions were jointly discussed and agreed with the GoM and

development partners involved in the donor working group,[14] and involved extensive consultations and discussions with relevant sectoral agencies, as well as non-governmental organizations. The PRSC series supported the following objectives/pillars:

Economic development (business climate and management of extractive industries)

24. Under this objective, the PRSC series supported reforms in the following two policy areas:

- *Improving Business Regulations and Investment Climate.* The objectives of these reforms were (i) to simplify commercial and industrial business licensing procedures, and (ii) to develop a more efficient and less burdensome business registration process, including considerably shortening the time required to get a business license and simplifying the paperwork through the adoption of a "single-form" system for registering new business.

- *Improved transparency in extractive industries*. Mozambique achieved compliance status with the EITI standard in 2012 and made good progress in the disclosure of contracts in the Extractive Industry (EI) sector (mining and gas). The objective of this reforms was to: (i) achieve compliance with the revised standards if EITI; (ii) increase transparency in contract disclosure through revised legislation and implementing regulation for the mining and hydrocarbon sectors; (iii) define the fiscal regime for the hydrocarbon sector; and (iv) promote economic development of local communities in the proximity of the areas of EIs through allocating and transferring to them of a share of revenues generated by EIs for investment in public infrastructure.

Social Protection

25. Under this objective, the PRSC series supported reforms in the following policy areas

- *Improve access and allocation of social security systems***.** The objective of these reforms were to: (i) expand the social safety net programs among the poorest and most vulnerable, by approving the Productive Social Action Program (PASP) with a scaled-up budget (starting in 2013); (ii) improve the coordination of all social protection programs through a single registry of beneficiaries, and ensure that 50% of PASP beneficiaries are registered by the National Institute of Social Action (INAS) into the single registry of beneficiaries; and (iii) improve transparency in the provision of benefits of social safety net programs, by designing and outsourcing a new payment distribution system.

Public finance management

26. Under this objective, the PRSC series supported reforms in the following policy areas:

- *Improve the management of audits and public investment.* The focus of these reforms was on: (i) enhancing the quality and effectiveness of audit mechanisms, by having MEF develop a database of recommendations and their status, and ensuring that at least 20% of IGF and OCI audit recommendations are implemented; (ii) developing and institutionalizing a Public

[14] Reforms were harmonized with the joint-donor mechanism for the provision of general budget support and guided by the MoU signed by GoM and budget support donors.

Investment Management (PIM) process which includes the development and adoption of a Manual for appraisal and evaluation of public projects, the revision of the methodology to prepare the Medium Term Fiscal Framework making appraisal of public investment mandatory for all projects over USD 5 million; and (iii) adopting an Integrated Investment Program for 2014-2017 and mandating that all projects above USD 50 million be submitted to MEF with a viability study. By the end of the program, all public investment projects included in the Integrated Investment Program will have been appraised and evaluated.

- *Improve the management of public debt.* The focus of this reform was to ensure debt sustainability by improving debt and fiscal risk management capacity through: (i) basing the implementation of the first annual domestic borrowing plan on a newly approved Medium-Term Debt Management Strategy; and (ii) setting up a new fiscal risks department within the Directorate for Financial and Economic Studies to better manage fiscal risks in anticipation of a significant increase in the influx of resource revenues.

1.5. Revised Policy Areas

NA

1.6. Other significant changes

27. **At the time of PRSC-11 there were signs that Mozambique's macroeconomic conditions were starting to worsen due to the rapid increase in public debt and newly emerging fiscal risks.** While the Bank team concluded that the Mozambique's macroeconomic framework provided an adequate basis for the last operation in the series to go forward, the issuance of a large bond with a Government guarantee by EMATUM (Empresa Moçambicana de Atum) in 2013 raised concerns about lack of transparency in the use of public funds, fiscal risks, and public investment management. This turned out to be a much more significant risk than anticipated, as Mozambique had contracted USD 1.4 billion in previously undisclosed loans, which, as discussed in more detail in section 2.2 below, ended up derailing the implementation of the third pillar of the program (PFM) and sending the economy into a tailspin.

2. Key Factors Affecting Implementation and Outcomes

2.1. Program Performance

28. **Overall, the DPOs being reviewed built on the accomplishments of the previous PRSC series while adapting to the evolving reform program reflected in the PARP, and achieved considerable progress.** In the main, the program was fully delivered, as all prior actions were completed before Board approval. The reform program comprised 28 prior actions, 10 in PRSC-9, and 9 in each of PRSC-10 and PRSC-11. While close to half of the program was devoted to economic development with a focus on improving the business climate and increasing transparency in the management of extractive industries, over a third of the program focused on deepening PFM reforms, and only five prior actions supported strengthening social protection systems.

29. **Overall there was significant continuity in the reforms supported by the three operations, which allowed for an incremental deepening of the reforms.** Table 3 includes a summary of the program performance in terms of the prior actions and triggers. The assessment starts with the prior actions identified in PRSC-9 and the indicative triggers for subsequent

operations, including changes that occurred either because of the need to further strengthen certain reform areas or because of slower implementation progress in other areas.

30. **Moreover, the PRSC series incorporated sufficient flexibility which enabled it to respond to the country's circumstances and progress on the ground.** At PRSC-9, 10 prior actions (5 under economic development, 2 under social protection, and 3 under PFM) were delivered and another 19 indicative triggers were identified, of which 10 for PRSC-10 (5 under economic development, 2 under social protection, and 3 under PFM), and 9 for PRSC-11 (5 under economic development, 2 under social protection, and 2 under PFM). Because of significant continuity of the reforms supported, only 4 indicative triggers were dropped and replaced by new prior actions (three for PRSC-10 and one PRSC-11); one was due to policy reasons (Government approval of the draft fiscal regime in mining was delayed because of reservations about potential fiscal pressures on investors), and one was due to slow implementation (the adoption by INAS of the formal payment system for all Productive Social Action Program and Basic Social Subsidy Program beneficiaries was delayed because the Government was unbale to outsource payments).

Table 3: Status of Prior Actions for DPO Series

PRSC-9: Prior Actions	Status
Foster Economic Development	
Policy area: Simplify business regulations	
• The Council of Ministers has approved the Commercial Licensing Decree.	**Delivered**
Policy area: Improved transparency in extractive industries	
• Mozambique has achieved compliance with the standards of the Extractive Industries Transparency Initiative (EITI).	**Delivered**
• The Council of Ministers has approved the draft Mining Law and has sent it to its National Assembly for approval	**Delivered**
• The Council of Ministers has approved the draft Petroleum Law and has sent it to its National Assembly for approval.	**Delivered**
• The State Budget for 2013 has allocated 2.75 percent of revenues generated by extractive industries to districts for infrastructure development of communities in which the extractive industries operate.	**Delivered**
Strengthen Social Protection	
Policy area: Strengthen social protection	
• The Council of Ministers has approved the PASP which was scaled-up in the 2013 State Budget to increase the number of beneficiaries	**Delivered**
• The Coordinating Council of the System of Basic Social Security has authorized INAS to outsource the payment of cash benefits for its social safety net programs	**Delivered**
Improve Public Finance Management	
Policy area: Improved Public Finance Management	
• The Ministry of Finance has developed a systematized database which contains the recommendations for, and the current status of, its implementation, thus allowing effective follow-up so that 20 percent of IGF and OCI audit recommendations were implemented.	**Delivered**
• The Ministry of Planning and Development (MPD) has adopted the Manual for the Appraisal and Evaluation of Public Projects.	**Delivered**
• The Council of Ministers has approved the Medium-Term Debt Management Strategy (2012-2015)	**Delivered**

PRSC-10: Prior Actions	Status
Improve business climate and increase transparency in the management of extractive industries	
Policy area: Improve business regulations and investment climate	
• The Council of Ministers has approved the Industrial Licensing Decree.	**Delivered**
• The Council of Ministers has adopted a single form for opening a new business and start activities	**Delivered**
Policy area: Improved transparency and management in extractive industries	
• The Council of Ministers has approved the bill defining the fiscal regime for the hydrocarbon sector and has submitted the bill to its National Assembly for approval.	**Delivered**
Strengthen Social Protection	
Policy area: Improve access and allocation of social protection systems	
• The National Institute of Social Action (INAS) has developed and adopted a single registry of beneficiaries for all INAS programs providing cash to beneficiaries.	**Delivered** *Single registry developed and adopted by INAS, and is in process of being populated with beneficiaries (tbc by series end)*
• INAS has designed a new payment distribution system and launched a tender to select an appropriate operator for the payment distribution system.	***Revised slightly*** *to reflect the progress in establishing the payment system* **Delivered**
Improve Public Finance Management	
Policy area: Improve the management of audits, public investment and public debt	
• The Ministry of Planning and Development and the Ministry of Finance have issued a revised methodology for the elaboration of the medium-term fiscal framework making appraisal of public investments mandatory for all projects in excess of US$ 5 million equivalent.	***New prior action at PRSC-10*** *to promote the appraisal and evaluation of public investment projects* **Delivered**
• The Council of Ministers has adopted the *Programa Integrado de Investimentos 2014-2017*.	**Delivered**
• The Ministry of Finance has implemented the first annual domestic borrowing plan, prepared based on the medium-term debt management strategy.	**Delivered**
• The Council of Ministers approved the implementing regulations of the public enterprises law (Law 6/2012).	***New prior action at PRSC-10*** *to support reforms in fiscal risks management* **Delivered**

PRSC-11: Prior Actions	Status
Improve business regulations and investment climate and increase transparency in the management of extractive industries	
Policy area: Improving business regulations and investment climate	
• The Ministry of Trade and Industry has introduced the *e-BAU* to further streamline business start-up procedures.	**Delivered**
Policy area: Improving transparency and management in extractive industries	
• The Recipient has achieved compliance with the new and revised standards of the Extractive Industries Transparency Initiative	**Delivered**
• The Council of Ministers has approved the implementing regulations for Law No. 20/2014 dated August 2014 published in the *Boletim da República* No. 66 Serie I on 18 August 2014 (the Mining Law).	**Delivered**
• The Council of Ministers has approved the implementing regulations for Law No. 21/2014 dated August 2014 published in the *Boletim da República* No. 66 Serie I on 18 August 2014 (the Hydrocarbon Law).	**Delivered**
• The Ministry of Economy and Finance (MEF) has revised the system by which it transfers a share of the production taxes generated by mining and petroleum projects to communities in affected areas by budgeting a share of the royalties collected during calendar year 2014.	**Delivered**
Strengthen Social Protection	
Policy area: Improving access and allocation of social protection systems	
• INAS has registered 50% of PASP beneficiaries in the single registry of beneficiaries.	***Original trigger revised*** *because registration of all beneficiaries was slower that envisioned* **Delivered**
Enhance Public Finance Management	
Policy area: Improving the management of audits, public investment and public debt	
• MEF has mandated that all projects above fifty million Unites States Dollars (50,000,000) be submitted to MEF including a viability study.	*Original trigger achieved early.* ***Revised PA*** *to strengthen MEF project evaluation capacity* **Delivered**
• MEF has prepared the Recipient's medium-term debt management strategy 2015-2018.	**Delivered**
• MEF has created a fiscal risks department within its Directorate for Financial and Economic Studies to better manage fiscal risks.	*Original trigger replaced by* ***new prior action*** *due slow implementation progress* **Delivered**

2.2. Major Factors Affecting Implementation

28. **Several factors contributed to the progress achieved in the implementation and outcomes of this fourth PRSC series**, including: (i) alignment with government poverty reduction strategy and policy instruments; (ii) adequacy of government's ownership; (iii) effectiveness of donor coordination; (iv) soundness of the analytical basis; (v) complementarity with other Bank

operations; (vi) technical assistance; (vii) risks identification and mitigation; and (viii) governance issues.

29. **Alignment with government poverty reduction strategy and policy instruments**. The PRSC series was well aligned with the GoM's broad priorities for poverty reduction and inclusive growth, as well as with the more specific priorities of the Strategic Matrix of the PARP 2011-2014, including: (i) Promoting greater administrative and financial transparency, integrity, and accountability of the public administration; (ii) Enhancing the coverage, transparency, efficacy and efficiency of public financial management; (iii) Creating an environment favorable to the formation and development of micro, small and medium enterprises (MSMEs), and attracting increased domestic and foreign investment in labor-intensive industries; (iv) Improving the management of natural resources to maximize their value both to the economy as a whole and to local communities in resource-rich areas; (v) Designing and implementing a National Productive Social Action Program to address chronic food insecurity and vulnerability to climate shocks, structural price instability, and the seasonal nature of agricultural production; and (vi) Increasing the coverage and impact of the Direct Social Action Programs, thereby contributing to the economic and nutritional security of the most vulnerable groups.

30. **Adequacy of government's ownership.** The government started with strong ownership of the reform program supported by PRSC-9-10-11. These operations were aligned with Mozambique's Poverty Reduction Strategy PARP 2011-2014 and with the joint General Budget Support Program of G-19. The country's economic performance over the past two decades had been strong, and the government had pursued a structural reform program focused on facilitating private sector-led growth in a context of macroeconomic stability and more efficient fiscal policy. The operations were prepared in a participatory manner under strong government leadership including: (i) the identification of the prior actions and results indictors drawn from the PARP Strategic Matric in alignment with the objectives of the budget support donors-agreed PAF; and (ii) the supervision of implementation through the Government-led joint annual reviews and sector coordination meetings. However, by the end of PRSC-10, the emergence of significant fiscal risks cast a shadow on the sustainability of Government ownership, and pointed to a lack of government commitment to transparency and accountability.

31. **Effectiveness of donor coordination**. The design of the proposed PRSC series was aligned with the joint General Budget Support Program of the G-19. To reduce the administrative burden on the government the Bank supervised program implementation jointly with the government's other G-19 development partners. In addition to two joint annual reviews, the implementation of the PARP was monitored through the monthly joint steering committee meetings held by the government and the G-19. Progress in each sector was overseen by sectoral working groups, which also included representatives of the government and its development partners. Bank staff members actively participated in these meetings. In addition, the Bank participated in IMF missions to monitor progress on the implementation of the macroeconomic framework. Measuring progress on indicators in the sector-specific matrices was carried out by line ministries and sectoral agencies, while monitoring national poverty indicators was the responsibility of the National Statistical Institute (INE).

32. **A strong analytical basis helped identify the priority policy areas and reforms.** The analytical basis of this PRSC series was sound, as the design of the program was supported by extensive country analytical work produced by the Bank and Mozambique's other development partners, and the findings of ICR for the third PRSC series (Table 8, Annex 4). The country's macroeconomic performance and policies were assessed in the context of joint IMF-Bank missions undertaken prior to the preparation of each operation. Also, DSAs were carried out jointly with the

IMF in 2012 and 2014, the 2010 and 2015 Public Expenditure and Financial Accountability (PEFA) reports, the findings of the IMF technical assistance missions on progress of PFM reforms in 2013 and 2015, and the 2014 IMF report on refocusing the PFM strategy, a Public Expenditure Review (PER) in 2014, as well as the Bank AAAs on enhancing macroeconomic and fiscal policy during a commodities boom, and a fiscal risk analysis of 2014, informed the PFM reforms. The Mozambique Country Economic Memorandum (CEM) of 2012, the poverty assessment update of 2012, Investment Climate Assessment (ICA) of 2009, and a survey of manufacturing firms in 2012 and 2013 by MPD, as well as a policy notes on natural gas and revenue sharing with communities (in 2012 & 2014), and a Bank technical assistance report on Public Investment Management, informed the economic development reforms. Finally, together with the 2014 PER, a major assessment by the Bank in 2011 of social protection policy, programs, and expenditures, informed the social protection reforms.

33. **Complementarity with other Bank operations.** The PRSC series was part of an integral program to support Mozambique's growth and poverty reduction agenda. It was prepared alongside three other DPO series supporting reforms in climate change, agriculture and the financial sector. In addition, the Mining and Gas Technical Assistance Project (MAGTAP), approved by the Board on March 2013, supported the objectives of the PRSC series by building the administrative and oversight capacity of the Government with respect to the resource sector. The Growth Poles Project and IFC technical assistance complemented the private sector reforms supported the PRSC series, while the Social Protection Project (SPP) directly supported the Government's efforts to operationalize its social protection strategy, thus further strengthening the policies reforms under the second objective of the PRSC series. Moreover, PRSC-supported reforms also fostered the objectives of the Climate Change DPO series, by ensuring that social and environmental due diligence is an integral part of the processes of selection, appraisal, and evaluation of all public investments. Finally, two education projects—the Higher Education, Science and Technology project and the Technical and Vocational Education and Training project—strengthen the proposed operation's private sector growth objectives by strengthening the human capital of the labor force.

34. **Targeted technical assistance was used to support the preparation and implementation of the PRSC series.** Learning from the experience of previous PRSC series, complementary technical assistance was used through a 3-year programmatic technical assistance project to[15] provide policy advice to GoM to enhance macroeconomic and fiscal policy making to harness the opportunities arising from the commodities boom for more inclusive growth. The TA program was structured around three main pillars: (i) natural resources revenue management; (ii) improving public expenditure; and (iii) inclusive growth with natural resources. The project delivered several policy notes and capacity building activities on natural resource revenue management, improving public expenditure, inclusive growth with natural resources, and technical assistance to the National Statistics Institute (INE) for the elaboration of new household survey.

[15] Enhancing macroeconomic and fiscal policy making for inclusive growth in a resource rich setting (P131849) was jointly financed by the World Bank and UK's DFID.

35. **Risks identified at appraisal stage and effectiveness of mitigation measures**. The principal risks to the objectives of this operation at appraisal included macroeconomic shocks, institutional capacity constraints, political uncertainty with the change in administration, and vulnerability to natural disasters. Risks were broadly well identified but their severity was amplified by governance issues which were not anticipated.

- ***Macroeconomic shocks***: While worsening current account deficits, rising external debt, and unpredictable commodity price and demand shocks, were identified at appraisal as potential threats, macroeconomic risks were considered moderate overall. But starting with PRSC-10, fiscal policy had become expansionary and spending levels were considered unsustainable. And whereas this risk was seemingly mitigated by a National Assembly-approved budget for 2015 which significantly reduced public spending and narrowed the deficit, Mozambique's macroeconomic stance was negatively and severely affected by the revelation of previously undisclosed borrowing which lowered confidence and investment and contributed to heightened inflation.

- ***Capacity constraints:*** The risk included not only the lack of institutional resources but also the potential disruptive impact of institutional changes in the new government (which included the merger of MPD and MoF into a single ministry) on the pace of important reforms. The mitigation of this risk by the Bank involved providing technical assistance in all areas supported by this operation to helped fill the gap where institutional resources were lacking. However, in the area of public investment management, capacity constraints may well have been underestimated by the Bank team, leading to the inclusion of a target for the appraisal and evaluation of public investment projects, which turned out to be unachievable because of capacity constraints,

- ***Political uncertainty*****:** This risk stemmed from the potential derailment or reversal of the reform program subsequent to the inauguration of a new Government after the general elections in October 2014, and the ongoing political tensions between the ruling party *Frente de Libertação de Moçambique* and opposition party RENAMO. This risk was adequately mitigated by the anticipation that continued political dialogue between the ruling party and the opposition would result in mutually agreed-upon revisions to election legislation and a cease-fire agreement, which was indeed the case.

- ***Vulnerability to natural disasters and weather-related shocks:*** Given the longstanding support provided by the Bank in this area, and the depth of the policy reforms supported through the Climate Change DPO series, this risk was both adequately assesses and mitigated. The risk of major disruptions due to natural disasters and weather-related shocks was mitigated by the Government's commitment to rapidly implementing many key policies supported by the proposed PRSC, while the ongoing dialogue on enhancing resilience to natural disasters was supported by the concurrent Climate Change DPO series.

- ***Governance and discovery of previously undisclosed borrowing.*** While good governance and macroeconomic stability were two cross-cutting pillars of the PARP which were directly supported by the PRSC series, and knowing full well that the emergence of natural resources and associated economic rents had exacerbated governance challenges, the Bank's focus was mostly related to the implementation of the action plan that resulted from the safeguards assessment by IMF, and which focused on further strengthening the governance structure of the BdM by opening the Central Board and the Audit Board to independent experts from outside the BdM and MEF, and by strengthening the capacity to follow up on audit recommendations and publish fiscal risk reports. However, the emergence of previously undisclosed borrowing (see Box 1 for more details) turned out to be a crucial unmitigated risk which blindsided the Bank, the IMF, and all the Government's development partners, negatively impacted implementation, completely undermining the progress achieved PFM reform progress, and called into question the sustainability of development outcomes.

Box 1: Mozambique's hidden debt

The hidden loans crisis emerged on the heels of a restructuring deal for the already highly controversial *Empresa Moçambicana de Atum* (Mozambique Tuna Company, EMATUM) loan, in April 2016. Mozambique contracted a previously undisclosed sum of USD 1.4 billion in non-concessional debt between 2009 and 2014 by issuing guarantees to state controlled companies and through direct borrowing from bilateral lenders. This debt includes (a) two guarantees for loans contracted by commercial companies formed with state equity participation, amounting to USD 1.16 billion, and (b) four direct loans from bilateral lenders contracted between 2009 and 2014. This debt, equivalent to approximately 10 percent of GDP, had not been previously disclosed to the World Bank and IMF. The debt is additional to the EMATUM company bond, which was originally issued in September 2013 backed by a state guarantee, then restructured as a sovereign bond in April 2016.

The borrowing was intended to tap into the gas industry through two large projects. The first, Proindicus, intended to use a USD 622 million loan from Credit Suisse to provide integrated security services (aerial, maritime and terrestrial) to gas companies, marine vessels and other sea traffic as well as providing search and rescue services. The second company, Mozambique Asset Management (MAM), was created to build / install shipyards in the ports of Pemba and Maputo with finance from a USD 535 million loan facilitated by VTB. Maintenance and logistical services would be provided to Proindicus and other large LNG operators. The final maturity date on each loan are March 2021 and May 2019, respectively. A final set of loans, tallying up to about USD 220 million were contracted during the period 2011 to 2014. Funds were made available by bilateral lenders; however the originating country and terms of the loans remain undisclosed.

The revelation of previously undisclosed borrowing led to the suspension of budget support by the World Bank and the G-19 donors. As a precondition for the resumption of an IMF program and for restoring confidence among other development partners, in November 2016 the GoM initiated an independent audit covering the EMATUM, MAM, and Proindicus loans. The audit was carried out by international forensic auditors, Kroll Inc, with Swedish funding, under the oversight of the Attorney General's Office.

The final audit report was handed to the Attorney General's Office in May 2017, with subsequent publication of the executive summary in June 2017. While incomplete provision of requested information by the various actors involved was cited as a key challenge to the forensic audit, a key finding was that the three companies, controlled by the State Security Services (SISE), were never fully operational and did not generate any significant revenues. The audit report also states that the loan proceeds were never paid directly to the companies, but were instead paid straight into various accounts of the UAE firm Privinvest Group, the main contractor of services and goods rendered to the companies. Amongst others, findings point to an over-invoicing of USD 700 million, inability to trace USD 500 million of the loan proceeds and payment of USD 200 million in arrangement fees to commercial banks.

Source: World Bank Mozambique Country Economist

2.3. Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

36. ***M&E Design:* In 2013 when the program was designed, it was well aligned with Mozambique's poverty reduction strategy goals and the General Budget Support Program of the G-19.** Progress on the PRSC-series indicators was monitored and evaluated through a set of instruments used by the National Planning System as part of its prescribed M&E role under the PARP. This included the annual monitoring of activities and output-indicator targets through the Balance Sheet of the Economic and Social Plan (BdPES) and the Budget Execution Report. M&E mechanisms were participatory, involving not only the government and its development partners but also representatives of civil society and the private sector. Broad stakeholder participation was achieved through several collaborative forums, including the Development Observatories, the annual review process, and the planning meetings based on the strategic matrix of the PARP. In addition, M&E mechanisms for specific indicators related to social protection and private-sector development were part of the World Bank's Mozambique Social Protection Project and the IFC's Investment Climate Program. Despite some challenges in the overall monitoring and evaluation framework, the policy and institutional actions supported by the PRSC series were well monitored and assessed.

37. ***M&E Implementation*: The Bank's supervision of the PRSCs was aligned with the two joint annual reviews conducted by the GoM and the G19 GBS donors.** The first joint review usually took place in April of each year and focused on assessing progress of indicators defined in the PAF, resulting in disbursement commitments for the following year. The 'Planning Meetings' in September formalized the agreement on the performance indicators and targets for the following year. The PRSCs supervision was also carried out on a continuous basis, through the monthly joint government-donor steering committee meetings. Progress in each sector was monitored by joint government-donor sector working group, and was carried out based on the PARP Strategic Matrix. Bank staff actively participated in these meetings through its staff in the field office and Washington D.C. (through missions or by videoconference). Furthermore, the Bank participated in IMF missions to monitor progress on the macroeconomic framework.

38. ***M&E Utilization:* The PRSC program was implemented through Government systems.** There was evidence that data was collected to assist the Government in decision-making, and reported in the Government Economic and Social Plan and the annual State Budget, which are submitted to parliament for approval (PES). However, the system faced considerable difficulty of precisely monitoring key indicators because of the cross-cutting nature of the task and the uneven capacity among responsible agencies. In particular, the Directorate of M&E at the Ministry of Economy and Finance was unable to meet the considerable M&E demands imposed by the numerous interventions and policies included in the PARP. The Bank has provided technical assistance to the M&E directorate and was an active member of the joint GoM-donors working group on monitoring and evaluation. The Bank has also provided technical assistance to INE for the design and implementation of the new household survey to improve the Government's ability to monitor the impact of policies on poverty.

2.4. Expected Next Phase/Follow-up Operation:

39. **The future of budget support for Mozambique is uncertain as a consequence of the previously undisclosed borrowing.** There are no plans for a follow up PRSC series. The new WBG Country Partnership Framework (CPF - 2017-2021) focuses in the near term on helping the country address the macroeconomic consequences of the hidden debt and restore the confidence of donor partners so that full external financial support can resume. Technical assistance on fiscal risks, debt management and public investment management are key focus areas. To help the authorities manage this challenge, in close coordination with the IMF, the CPF program includes advisory support and possible policy-based lending if the authorities make progress in restoring

macroeconomic sustainability and in transparency and governance measures around the hidden debt.

3. Assessment of Outcomes

3.1. Relevance of Objectives, Design and Implementation

Relevance of Objectives: High
Relevance of Design: Substantial
Relevance of Implementation: Substantial

40. **The program was appropriate and timely, and its overall relevance is rated substantial.** The PRSC-9-10-11 series supported a reform program which was and continues to be highly relevant to Mozambique's development priorities and the WBG's twin goals of ending extreme poverty and promoting shared prosperity. This reflects an adequate diagnosis of development priorities which remain very much pertinent at the time of the ICR for the series, despite significant unanticipated fiscal risk that permeated the program over the course its implementation. Moreover, the program was flexible and yet fully consistent with the Bank's country strategy and corporate agenda, enjoyed strong client ownership, and leveraged significant donor support and harmonization.

Objectives

41. **The objectives of the PRSC series were and remain highly relevant to the country's priorities and context.** The three operations were well aligned with the strategic objectives of the Action Plan for Poverty Reduction (PARP 2011-2014) and the priorities of the Government's new 5-year development plan. They continued and deepened support for the Government's poverty reduction strategy implementation in the areas for macroeconomic management and economic development by focusing on strengthening economic governance systems and promoting more inclusive growth through improvements in the business environment and social protection systems.

42. **There was significant continuity with previous reform programs as the PARP was the successor to the government's first two national poverty reduction strategy papers (PARP I and II).** However, in a departure from previous poverty reduction strategy papers, the PARP was designed as a dynamic and flexible document to help the Government adjust priorities and targets to changing economic and social conditions and international developments, and in coherence with the implementation of key sectoral strategies; its objectives and indicators were updated in the annual Economic and Social Plan (PES) and reflected in the Performance Assessment Framework (PAF) agreed with development partners providing budget support. Moreover, Bank and IMF staff collaborated closely to help sharpen the focus of the PRSC series on the management of fiscal risks and public investments and support the government in implementing the PARP.

Design

43. **The design of the PRSC series was consistent with the objectives of the program, and is considered to have substantial relevance.** The policy areas and policy actions included in the series were well aligned with the objectives of the PRSC series, and were sufficient for contributing to the achievement of the results of the PDO. The design of the series was consistent with and formed an important component of the Country Partnership Strategy (CPS) discussed by the Board

in April 2012 which focused on supporting a more inclusive growth pattern, and in which the Bank committed to aligning its support with the national budget process. The reforms supported by the PRSC series contributed directly to the three CPS pillars (Competitiveness and Employment, Vulnerability and Resilience, and Governance and Public Sector Capacity), and to the achievement of its outcomes in terms of improving the business climate, strengthening public finance management, and maximizing the growth impact of the rising resource sector. Moreover, the PRSCs were designed in close alignment with the Performance Assessment Framework (PAF) agreed upon by the government and its external budget-support partners, and which is based on the Strategic Matrix of the PARP.

44. **The design of the PRSC series was also nimble and could adjust to findings and recommendations from the Bank's Implementation Status and Results reports of the first two operations.** While there was significant continuity of the reforms supported and few changes between the triggers identified at the time of PRSC-9 approval and the prior action for PRSC-10 & 11, the implementation of PRSC-9 pointed to the need to deepen reforms in the public investment and fiscal risks management area,[16] which, as noted in Table 3 above, led to strengthening the design by dropping 4 indicative triggers and replacing them by new prior actions (three for PRSC-10 and one PRSC-11); one was due to policy reasons (Government approval of the draft fiscal regime in mining was delayed because of reservations about potential fiscal pressures on investors), and one was due to slow implementation (the adoption by INAS of the formal payment system for all Productive Social Action Program and Basic Social Subsidy Program beneficiaries was delayed because the Government was unbale to outsource payments). In tandem with the adjustments in prior actions the results framework was strengthened through the addition of five indicators linked to concrete actions, three designed to measure improvements in the transparency of the management of extractive industries, and two designed to track improvements in debt management and minimizing fiscal risk.

Implementation

45. **While remaining focused on progress towards achieving the development objectives, flexibility allowed implementation results to inform the design of subsequent operations with no modification to the thematic content of the program**. Changes in indicative triggers, prior actions, and results indicators responded to the pace of implementation, institutional reforms at the Ministry of Economy and Finance, and emerging fiscal risk concerns. The draft Fiscal Regime for Mining as a prior action was dropped to allow time for the evaluation of market reactions to this revised fiscal regime. The scaling up of resources to the General Inspectorate of Finance (IGF) and the Internal Control Units (OCI) for improving follow-up to audits was also dropped to because the reform was being supported and monitored closely by the G19. Moreover, the Bank team worked closely with Government counterparts to support improving public investment management and the institutional set up for the management of fiscal risks. On the other hand, and while the Government remained committed to improving payment systems for all beneficiaries of social assistance programs, the policy action involving the outsourcing of payments to the private sector provider was dropped because of lack of progress on the tendering process.

46. **Implementation progress was assessed yearly and comprehensively**. The assessment was conducted jointly by GoM, the Bank, and budget support partners, based on the PARP

[16] This was consistent with parallel findings and recommendations from the IMF.

performance assessment framework (PAF). Feedback from this process was used by the Bank team to: (i) strengthen the results framework of the PRSC series program by ensuring that the outcome indicators for the selected policy and institutional reforms were linked to concrete actions, and work with the budget support donors and the Government on designing a new PAF that starting in 2016 would better links policy actions with results sought; and (ii) provide technical assistance to strengthen monitoring and evaluation (M&E) systems and the capacity.

3.2. Achievement of Program Development Objectives

Achievement of the Program Development Objectives: Rating: Modest

47. **Overall, this PRSC series achieved modest progress in meeting the objectives of the supported reforms.** During the period covered by the review, FY13-16, the Government delivered all policy actions in the program but fell short in implementation. The most important progress was made in improving the environment for doing business by shortening the time and simplifying procedures for getting commercial and industrial licenses. The legislative and regulatory framework in the mining and hydrocarbon sectors were revised to improve transparency and accountability, and enabled the Government to capture a larger share of the rents to support poverty reduction programs. And the system of transfer of mining and petroleum royalties to producing communities was overhauled to ensure that these communities also benefit from the country's natural resources. But while some enhancement to public finance management was achieved by improving the implementation of audit recommendations and the frequency of publication of public debt reports, the objectives related to the inclusion of fiscal risk statements in the budget, and the appraisal and evaluation of public investment projects per approved guidelines, were not achieved.

<u>Objective 1: Improve the business regulations and investment climate and to increase transparency in the management of extractive industries</u>

Improve Business Regulations and Investment Climate: Modest
Improve the Transparency and Management in Extractive Industries: Substantial
Extractive Industries and Subnational Transfers: Modest

Overall achievement: Modest

48. **Progress on improving business regulations and investment climate was modest.** Building on previous PRSC-supported reforms, the Government adopted and implemented a regulatory reform Strategy for 2013-2017 to Improve the Business Environment. The Simplified Licensing Regime (Decree 5/2012) was adopted to facilitated the revision and consolidation of licensing procedures, and was informed by a World Bank and IFC-supported compilation of a comprehensive inventory of over 700 business licenses. In 2013 the Government: (i) established a set of new Commercial Licensing Regulations (Decree 34/2013) which simplified business licensing in the areas of wholesale and retail commerce, services, imports and exports, and overseas commercial activity; and (ii) approved new Tourism Licensing Regulations, which reduced and simplified licensing procedures and harmonized the classification of different types of tourism business with regional standards. In March 2014, the Government approved the Industrial Licensing decree.

49. **The implementation of these decrees in terms of reduction in the number of days required to obtain a business license, was very successful**. *For Commercial Licenses*, the 8-day target was over-achieved. Ministry of Industry and Commerce (MIC) figures for 2016 show that it takes an average of 5.4 days to obtain a commercial license, with some variations based on the

types of licenses or authorizations under the licensing regulations governing commercial activities. This was accompanied with: (i) the automation of licensing procedures (through the launch of the e-BAU platform); (ii) the reduction of number of procedures (from 9 to 6); the reduced of fees for certain commercial licenses (add); (iii) the elimination of pre-inspection for activities that do not involve risk to the environment, safety, hygiene and public health; (iv) the decentralization of licensing powers (add); and (v) removing time limits on the validity of most commercial licenses valid indefinitely. *For Industrial Licenses*, the 20-day target_was over-achieved as well. MIC figures for 2016b show that it takes an average of 7 days for small-medium entities to obtain an industrial license, and 1 day for micro-firms. No data is available for large firms. The regulation also resulted in: (i) the elimination of pre-inspection for many industries; (ii) the simplification and reduction in the number of procedures; (iii) a 45 percent reduction of the costs for medium-sized industries not requiring pre-inspection (from US$1,013 to US$557); and (iv) decentralization of competencies to provincial and district levels.

50. **And while the Government established the e-BAU platform to streamline business startup procedures, progress regarding reducing the time required to establish a new business was unsatisfactory.** With IFC technical assistance to expedite the business startup process by making sequential procedures concurrent, through Decree 80/2013, the Government established a new Simplified Business Startup Procedures which included the adoption of a "single-form" system for registering new businesses. The single form consolidates several processes that were formerly separate, and private firms can now submit all required information at the Government's "one-stop shop" for business registration using an integrated IT platform (e-BAU), including registration, tax identification number processing, and licensing of economic activities. Furthermore, the related 'Citizen Portal' increases access to information for business regulations by hosting information on valid business licenses, including needed procedures, requirements, and downloadable forms. While preliminary feedback from a pilot in 6 cities (Maputo, Xai-Xai, Inhambane, Beira, Nampula and Pemba) suggests that the system results in lower processing times, reforms aimed at improving starting a business have not had the desired impact on Doing Business for reasons related to infrastructural problems such as internet and electricity and the existence of parallel company registration procedures (the normal process at the Registrar and the Single Forms at OSS). The e-registry is currently hosted at INTIC awaiting to be launched. While Doing Business reports an improvement in the number of procedures required to start a business (from 15 in 2004 to 10 in 2017), a key risk/bottleneck remains the weak government capacity to maintain the database updated. Finally, 2016 MIC data suggests that the 8-day target to start a business is achieved for some sectors (commerce and tourism) but this is obscured by the delays that take place in other sectors, where opening a business can take between 20 and 50 days.

51. **Despite very limited progress regarding reducing the time required to establish a new business, efforts are underway to address infrastructure challenges**, including enabling the functioning of monitoring tools between state systems and management solutions in ministries or other entities which deal with economic activities, and (ii) undertaking an assessment of possible business intelligence tools that could be implemented (discussions currently being held with IBM Watson). Other initiatives are also underway, including: (i) preparation of a dissemination plan to improve service delivery (with DFID support); (ii) establishment of a working group by 2018 to identify measure for improving Mozambique's performance under the *Doing Business Indicators;* and (iii) with support from Ireland and Danida, authorities will extend the current licensing platform (and associated services) to districts, with the aim of covering over 30 districts in 2018.

52. **Progress in compliance with and publication of EITI reports was substantial**. Building on the publication of its fifth report in December 2014, which maintains Mozambique's compliance with the EITI Standard, in 2616 Mozambique published the 6th EITI annual report for 2013 and

2014 which provides an exhaustive contextual analysis of the extractive industry, and a confirmation by GoM of the reconciliation receipts with the payments declared by extractive industry companies in 2013 and 2014. The country is on track to issues the report for 2015 and 2016 within the required timeframe. As the EITI Standard shifted focus on resource management and transparency regarding contracts with private firms, Mozambique made public all major mining and gas contracts, and adopted new Mining and Petroleum legislation.

53. **Progress on negotiating all new mining and petroleum contracts starting 2015 under the revised legislative framework could not be evaluated, since no new contracts have been signed**. While the results of the 5th round of Exploration and Production Concession contracts were announce in October 2015 by INP (National Petroleum Insitute, *Insituto Nacional de Petróleo*), none of the investors were willing to sign under the offered terms and conditions. In order to attract further investment to the sector, in 2014 Parliament passed the fiscal regimes for both mining and the hydrocarbons sector, and the Council of Ministers approved regulations for the implementation of the mining and hydrocarbon laws. But no new contracts have in fact been signed since the new mining and petroleum laws were passed. INP is working on introducing a new amendment to fix these issues so that some of these contracts can move forward, but other factors may be impacting investor confidence including the overall macro-fiscal situation of the country, the weakness in commodity prices, and other constraints related to infrastructure and general business environment.

54. **Progress on ensuring that transfers of royalties to communities are executed, was modest.** This provision had been decided in 2007 to support community development in the areas where the projects are being implemented, and made mandatory in the revised mining and hydrocarbon sector legislation. These transfers were intended to finance local public investment projects, to be decided by local communities. Eligible projects focused on building social and economic infrastructure, including schools, health centers, irrigation and drainage systems, community reforestation projects, public markets, roads and bridges, and water and sanitation systems. Implementation started in 2013 with the Government allocating 2.75 percent of the production taxes generated by extractive industries to seven localities in three resource-rich provinces: Topito in Nampula Province, Cateme, 25 de Setembro, Benga and Chipanda II in Tete Province, and Pande and Maimelane in Inhambane Province. An assessment of the experience with these transfers, conducted jointly by the Government and the World Bank in 2015, found significant benefits but pointed to the need to revise the transfer system to avoid excessive within-year volatility in transfers. To avoid differences between budgeted and transferred amounts, the Government revised its procedure to base budgeting on previous year's royalties collection which is known at the time of budget preparation. The revised transfer system did improve execution rates by communities, and by the end of the PRSC series, the actual amount transferred to communities was MZN 22.8 million with 100% execution by communities located in provinces of Cabo Delgado, Nampula, Tete and Inhambane. However, quarterly budget execution reports show very low execution rates which suggest significant delays in disbursements. As of June 2016, the overall execution rate was very low, below 5%, but improved markedly by mid-2017, reaching 30.4%.

Table 4: PRSC-9-10-11 Indicators for Improving the Business Regulations and Investment Climate and Increase Transparency in the Management of Extractive Industries

Policy Area	Monitoring Indicator	Baseline Value	Target Value	Actual Value

Improve Business Regulations and Investment Climate	Number of days to obtain a Commercial License	15 days	6 days	3 days (1 day for activities without pre-inspection)
	Number of days to obtain an Industrial License	40 days	20 days	7 days
	Number of days needed to start a business	13 days	8 days	19 days
Improve the Transparency and Management in Extractive Industries	Number of applied EITI principles and criteria.	Non-compliance	Mozambique EITI compliant and publishes reconciliation reports up to 2014 in line with new guidelines	Compliant
Extractive Industries and Subnational Transfers	All new mining and petroleum contracts starting 2015 will be negotiated under the revised legislative framework.	None	All contracts	Laws were passed but no new contracts were signed
Extractive Industries and Subnational Transfers	Percentage of transfers (of royalties) to communities that are executed.	0%	80%	100%

<u>Objective 2: Strengthen Social Protection</u>

Improve Access and Allocation of Social Protection Systems: Modest

Overall achievement: Modest

55. **Overall progress on strengthening social protection systems was modest.** Building on its 2009 National Strategy for Basic Social Security (ENSSB), GoM began the process of expanding and funding social protection for the poorest and most vulnerable through three new programs: (i) the Basic Social Subsidy Program (PSSB), a cash transfer program which targeted extremely poor households in which no adult was able to work; (ii) the Productive Social Action Program (PASP) which was designed to boost incomes among its beneficiaries through direct employment in public works projects; and (iii) the Direct Social Action Program (PASD), which provided short-term support to households that were temporarily vulnerable or had been affected by an acute shock.

56. **To improve cost efficiency and effectiveness of the social protection system, the PRSC series supported the development and implementation of a registry of beneficiaries by INAS, together with the implementation of a proper targeting system, including a verification mechanism**. This has led to a reduction in the leakage of the PASP program from an estimated 10 percent of urban beneficiaries with a consumption level above U$1.25 per capita per day to 2 percent by the end of 2016. In addition, the single registry of beneficiaries developed by INAS was populated with beneficiaries of both PSSB and PASP, and by the time PRSC-11 was approved, the Government had registered 50 percent of all PASP beneficiaries.

57. **Moreover, progress on increasing access to the public works program (PASP) was substantial.** The second cycle of public works started on November 2016 and covered some 26,000 households (20,000 household in rural areas and 6,000 household in urban areas) in 32 districts and 3 municipalities, exceeding the program target of 20,000 households. In addition, GoM is currently finalizing the registration and enrolment processes for the second wave of public works, which would add over 50,000 beneficiaries, 40 percent of whom in districts financed through Government budget.

58. **However, progress on ensuring timeliness of payments made to beneficiaries from PASP and PSSB was negligible.** INAS continues to face challenges in providing timely payments to beneficiaries participating in the public works program PASP. By the end of the PRSC series, only a single payment was completed in a timely manner. The preponderance of payments to beneficiaries were only complete in June 2017, with more than 6-months delay. The late payments are due to a combination of factors, including inadequate planning, bureaucratic delays to get the funds for payments from central to delegation level, and long processing time. Most of these issues were supposed to be addressed through the outsourcing of the payment system by INAS to a provide provider. Late 2014, INAS launched a tender process to outsource the payments of all social protection subsidies to a private service provider, but the tender process was cancelled due to a lack of acceptable bids. As a result, PRSC-11 ended up dropping support to a prior action regarding the adoption of a formal payment system. GoM remains fully committed to outsourcing the payments system to a private service provider, and while it is working on re-launching the tender process, INAS is implementing a number of measures in payments system for the beneficiaries of PSSB and PASP, including a rigorous authentication process, improved reconciliation between amounts due and disbursements, enhanced monitoring and evaluation as well as a complaint handling mechanism.

Table 5: PRSC-9-10-11 Indicators for Strengthening Social Protection

Policy Area	Monitoring Indicator	Baseline Value	Target Value	Actual Value
Improve Access and Allocation of Social Protection Systems	Share of the benefits of PASP transfers to those above the US$1.25 poverty line	10 percent	2 percent	2 percent
	Total number of direct public works program (PASP) beneficiaries	0	20,000	26,000
	Percentage of payments made to beneficiaries from PASP and PSSB within the month they are due.	0	50 percent	25 percent

<u>Objective 3: Enhance public finance management</u>

Improving Public Debt Management: Modest
Improving Public Investment Management (PIM): Modest

Overall achievement: Modest

59. **Despite the consolidation of gains achieved during the previous PRSCs in fiscal policy and budget execution, progress on the achievement of PFM reforms continues to be uneven**. Therefore, overall progress under this pillar of PRSC-9-10-11, which was weighed down by

governance issues leading to the emergence of significant fiscal risk, was moderately unsatisfactory. This is consistent with the latest PEFA assessment findings (Box 2 and Table 6).

60. **Progress on strengthening audit and oversight mechanisms to improve internal and external audit follow-ups was substantial.** To improve PFM performance in the area of External Scrutiny and Audit which was flagged by previous Public Expenditure and Financial Accountability (PEFA) reports as lacking (C+), with PRSC and donor support, significant efforts were dedicated to: (i) strengthening the capability of the *Administrative Tribunal* (AT) which resulted in increasing the number of audit reports, a wider audit coverage of public institutions, and a wider range of different types of audits (performance audits, etc.); and (ii) monitoring the number of audit recommendations made by each of the auditing institutions (AT, the General Inspectorate of Finance (IGF), and Internal Control Units (OCIs), and track the implementation of their recommendations. Per IGF data, in 2014 the institutions issued a total of 5357 recommendations, of which 2754 (51.45 percent) received appropriate follow. This is an increase from 2013 (49.2 percent) when the target had already been reached. However, according to the latest PEFA assessment of public finance management on Mozambique (2015) (Table 6 below), "*despite improvements both in the quality and coverage of audits, the effectiveness of external scrutiny and audit (PI-26 to 28) is being held back by shortcomings in the follow-up of audit reports, because the quality of follow-up of audit recommendations is not systematic, relying as it does on repeat audits which are not all frequent or regular.*"

61. **In the area of debt management, progress on the publication of debt reports and adherence to the annual domestic plans issued was negligible**. During this PRSC series, important strides in terms of policy reform were made, as GoM adopted a Medium-Term Debt Management Strategy for 2012-15, and in 2013 formulated and implemented its first annual domestic borrowing plan designed to improve internal planning and communication between the Government and private capital markets. The Government also published quarterly debt reports, which began in late-2011, providing up-to-date information on the new evolution of public and publicly guaranteed debt. The publication and implementation of the first annual domestic borrowing plan resulted in improved adherence to borrowing plans issued, but this early momentum was gradually reversed. While annual debt reports had been prepared and published since 2012, the 2016 report was published almost a year late. In addition, quarterly debt reports were published on the new MEF website for 2016 and 2017, but three months behind schedule. The publication process was hindered by the last institutional reorganization which led to the loss of previously published information. Moreover, there was little adherence to the annual domestic borrowing plan for 2016, as unfavorable macroeconomic developments including reduced access to external financing, resulted in a significant departure from the annual borrowing plan for 2016, exemplified by a MZN 30 billion advance from the Central Bank which was not part of the borrowing plan, leading to an 88 percent increase in overall internal borrowing (over the plan which called for MZN 46.6 billion).

62. **Notwithstanding this unsatisfactory performance by the close of the PRSC series, it is worth noting that efforts are under way to implement the policy reforms and improve the likelihood of eventually meeting the desired target.** In this regard, while the first quarter debt report for 2017 was published in April 2017, the second quarter debt report is yet to be published. Moreover, at the start of 2017, a World Bank Mission carried out a Debt Management Performance Assessment, and a reform plan is under discussion with the Authorities. Key reform areas include: (i) Legal Framework for debt and guarantees' management; (ii) Debt Sustainability and Debt Management Strategy; (iii) Government borrowing and domestic market development; (iv) Quality of debt data and debt reporting; (iv) Contracting, recording, monitoring and management of Loan Guarantees and on-lending; and (v) Coordination of Debt and Cash Management. Moreover,

authorities have made progress in creating the legal framework for managing guarantees and debt – a draft decree has been prepared and deliberation by the Council of Ministers is expected before the end of 2017.

63. **Progress on the inclusion of detailed information and quantification of fiscal risk in the 2016 and 2017 budgets was modest.** In mid-2013 while PRSC-10 was under preparation, a US$850 million government guarantee to EMATUM, a newly established tuna fishing company, together with the anticipated large-scale revenues from extractive industries and limited capacity of government institutions, raised concerns within the Bank and among budget support donors, and put into sharp focus the need to better manage fiscal risks. At the same time, a World Bank Public Expenditure Review (PER)[17] for Mozambique found that having access to new financial instruments and debt financing options including loans to finance the Government's equity stake in extractive industry projects could generate significant fiscal risks which would need to be better assessed and managed. With IMF and World Bank technical assistance, the Government set up a new *fiscal risks unit* in the MEF, with direct reporting to the Minister, to analyze the implications of government guarantees, public enterprises, and public-private partnerships.

64. **Because of reforms in the area, at the end of the program the Government was supposed to include a fiscal risks statement in budget documentation, but this result was partially achieved.** While a fiscal risks statement was published at the end of 2015 along with the 2016 Budget Law, a fiscal risks statement was neither completed nor published with the 2017 Budget Law. The fiscal risk statement for 2017 is still being discussed at technical level, suggesting that the statement for the 2018 budget could also be delayed. Moreover, information on fiscal risks in the 2016 Budget Law does not provide any quantification and analysis of current risks. Despite these issues, in addition to the establishment of a Fiscal Risks Unit (FRU) by MEF, with technical assistance being provided through an IMF resident advisor, important measures have been taken, including: (i) FRU has been fully staffed, but will continue to require significant training; and (ii) FRU is in the initial stages of formulating the work program, which is expected to include analysis of risks from SOEs and other entities. Moreover, in coordination with the World Bank, MEF has undertaken an analysis of fiscal risks from SOEs for four key entities (*Aeroportos de Moçambique*, *Electricidade de Moçambique*, *Linhas Aéreas de Moçambique* and *Petróleos de Moçambique*), and an 8-day long workshop in August 2017 was carried out with MEF and IGEPE staff, to strengthen the monitoring methodology and analysis of fiscal risks from SOEs. Under these circumstances, and given that the hidden debt crisis led to a highly institutionally disruptive economic meltdown, and with the capacity of the MEF focused on managing the arrears crisis, it was arguably very

[17] World Bank, 2014, Mozambique Public Expenditure Review

difficult to estimate fiscal risk under these conditions, which provides mitigating circumstances for not rating the achievement of this result "negligible" but rather "modest."

Box 2. Overall finding of PEFA 2015 assessment of public finance management in Mozambique

"The assessment shows that Mozambique has succeeded in consolidating the major improvements in the PFM system recorded in 2010, while continuing to improve performance – most particularly in the areas of budget execution, accounting, reporting and internal & external audit. The coverage of the e-SISTAFE system has been substantially extended, while the number and range of internal and external audits undertaken has also increased. These improvements, which have been demanding of financial, human and managerial resources, were made possible by the strong political commitment to the PFM reform strategy and the determined implementation of reforms. Unfortunately, they are not, as yet, fully reflected in gains in PEFA scores, although they are a necessary condition for the future gains, which might elevate the quality of the Mozambican PFM system to one fully consistent with international good practice."

Source: PEFA 2015, page 13.

Table 6: PEFA Assessment of PFM in Mozambique: Selected Indicators

PEFA Indicator	2010	2015	Change
Budget variance at disaggregated levels (PI-2)	D	D+	NC (*)
Unreported operations (PI-7)	B	B+	Plus
Oversight of fiscal risks (PI-9)	D+	C+	Plus
Public access to key fiscal information (PI-10)	B	B	NC
Multi-year perspective - planning and budgeting (PI-12)	C+	C+	NC
Procurement (PI-19)	B	D+	NC
Internal auditing (PI-21)	C+	B+	Plus
Information availability at service delivery units (PI-23)	D	D	NC
Predictability of external funding (D-2)	D+	D+	NC
Audit follow-up (PI-26)	C+	C+	NC
Legislative scrutiny of annual budget law (PI-27)	C+	C+	NC
Legislative scrutiny of external audit reports (PI-28)	C+	C+	NC

(*) NC=no change; Plus=indicates some positive movement

65. **Progress in developing, appraising, and evaluating public investment projects following the guidelines adopted for project appraisal and evaluation was modest.** Given that Mozambique had a high rate of public investment (averaging more than 15 percent of GDP during 2010-2015) with planned large increases in investment in infrastructure, and a weak institutional PIM capacity (as measure by the IMF's Public Investment Management Index (WP 11/37)) especially in the areas of project selection, appraisal, and monitoring and evaluation, the Government established the Public Project Coordination and Selection Committee (CCSPP) within MEF to advise on the prioritization and selection of public investment projects. The CCSPP was complemented by a Debt Management Committee to ensure that the public investment program is consistent with debt sustainability. In addition, with Bank technical assistance and support from other partners, the Government developed a series of tools to improve appraisal and evaluation of projects, and adopted a Manual for the Appraisal and Evaluation of Public Projects (*Manual Geral de Identificação, Formulação e Avaliação de Projectos*). At the same time, the Government strengthened the regulatory framework by revising the methodology for preparing the Medium Term Fiscal Framework making project appraisal mandatory, and setting a threshold of US$50

million above which projects would be needed to be submitted to the Ministry of Economy and Finance, together with a viability study.

66. **As a result of reforms in this area, at the end of the program all public investment projects included in the Government's Integrated Investment Program were to have been appraised and evaluated, but the target was not met.** Overall and up to the 2016 budget year, while limited appraisal of projects was carried out, and with the exceptions of projects which are financed by external resources (such as the roads projects under the *Agência Nacional de Estradas*), the target that all public investment projects in the Integrated Investment Program need to be developed, appraised and evaluated, following the methodological guidelines adopted for project appraisal and evaluation, was not achieved. Despite considerable effort and progress, it appears that the target set by the Bank team was overambitious and was not calibrated to Government's implementation capacity. Since then, efforts are underway to remedy the situation, including: provision of investment appraisal training to sector and regional technical staff; convening an international high-level seminar on project formulation and appraisal; and launching the development of an IT-based platform to be used by the sectors when carrying out investment proposals. This effort is being supported by the Bank through a US$ 2 million Technical Assistance program for FY17-18.

Table 7: PRSC-9-10-11 Indicators for Enhancing Public Finance Management

Policy Area	Monitoring Indicator	Baseline Value	Target Value	Actual Value
Improve public debt management	Percentage of recommendations implemented by the entities audited/inspected by the OCI's and IGF	Less than 15%	At least 40%	49.2%
	Quarterly and yearly debt reports published.	Debt reports only published on an annual basis	Quarterly debt reports are prepared for the 2013 and 2014 fiscal years and published. The Government broadly adheres to the annual domestic borrowing plans issued	Partially achieved: - Q debt reports prepared and published - Little adherence to annual domestic borrowing plan for 2016
	Fiscal risks statement in the budget	No information on fiscal risks in budget documentation	Target: Detailed information and quantification on fiscal risks included in the 2017 budget	Not achieved
Improve public investment management	Percent of public investment projects that has been developed, appraised and evaluated, following the guidelines adopted for project appraisal and evaluation	Zero	All public investment projects in the Integrated Investment Program, including an analysis of returns to investment	Not achieved

3.3. Justification of Overall Outcome Rating

67. **Based on the combined assessment of both relevance and efficacy in the achievement of objectives the program, overall outcome is rated moderately unsatisfactory.** The PRSC-9-10-11 series supported a reform program which was and continues to be highly relevant to Mozambique's development priorities and the WBG's twin goals of ending extreme poverty and promoting shared prosperity, as well as the more specific objectives of the Country Partnership Strategy for Mozambique. Moreover, the design of the PRSC series was consistent with the objectives of the program, but may not be fully relevant in the current context. Over the same time period the Government could not maintain the excellent economic growth record achieved during the previous PRSC series, nor could it maintain a sound macro-fiscal framework throughout the program. And while the Government delivered all policy actions in the program, it fell short in implementation leading to significant shortcomings in achieving results. The most important progress was made in improving the business environment and the targeting and registration of social protection beneficiaries. The legislative and regulatory framework in the mining and hydrocarbon sectors were revised to improve transparency and accountability, but limited progress was achieved in the transferring of mining and petroleum royalties to producing communities in time. Moreover, while some enhancement to public finance management was achieved by improving the implementation of audit recommendations, the frequency of publication of public debt reports, the objectives related to the inclusion of fiscal risk statements in the budget, and the appraisal and evaluation of public investment projects per approved guidelines, were not achieved.

3.4. Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

68. **The PRSC series supported the objective of promoting broad based growth for poverty reduction and for strengthening the transition of the country towards a resource-rich economy.** Through the specific policies supported, the PRSC series was expected to have positive or neutral impact on poverty and social indicators. The impressive economic growth since the end of the civil was initially accompanied by significant reduction in poverty, but since 2003 the link between economic growth weakened and poverty fell but not nearly quick enough. Recent World Bank analytical work[18] shows that poverty fell from 69.7% in 1996 to 46.1% in 2015, but the poverty elasticity of growth between 1996 and 2009 was only 0.26 percent, which was nearly half that of Sub-Saharan Africa relative to the same level of growth and time period. Moreover, inequality remains high, and poverty remains much higher in rural areas and continue to be geographically concentrated in some provinces. In the last 20 years, poverty fell by over 70% in the south (Maputo City and Province) but by less than 20% in the north (Nampula and Zambezia). Moreover, most of the population and almost all the rural poor continue to dependent on agriculture and highly vulnerable to climate risk.

69. **In terms of poverty dynamics, the available statistics appear to validate previous findings on poverty reduction rates and regional disparities.** While most of the detailed analysis of poverty trends, structure, and link to economic growth was done based on household survey data pre-dating PRSC-9-10-11, preliminary results of the latest Household Budget Survey (IOF

[18] World Bank, October 2016, "Accelerating Poverty Reduction in Mozambique: Challenges and Opportunities." Poverty GP.

2014/15)[19] suggests that poverty levels have continued to fall, though significant disparities between urban and rural areas and among provinces remain.

70. **In the area of social protection, while important progress has been made in expanding the coverage of social protection policies, significant implementation weaknesses remain.** The PRSC series supported the development of a common targeting system for social protection policies as well as a management information system that will include a single registry of beneficiaries, but cash transfer payments are still executed manually with no reconciliation, leading to high fiduciary risks. Moreover, there are still considerable regional disparities in the distribution of social transfers; the provinces with the largest share of the poor, Nampula and Zambezia, receive the lowest amount of spending per person living below the poverty line.

71. **Moreover, social indicators continue to improve, but progress remains uneven.** While some key social development indicators have improved, such as life expectancy at birth, primary school enrollment and infant mortality rates, in 2014-15, more than half of the people aged 20 to 30 years in the poorest provinces were illiterate. Only 8% and 4% of rural households had access to electricity and sanitation, respectively. Furthermore, with gender, geographic location, and household wealth acting as major determinants of inclusiveness, progress on both economic and social development has been uneven. Women have less access to land, lower literacy rates, are less likely to be formally employed and are paid less than their male counterparts. Meanwhile, wealthier urban households have greater access to public services and are better positioned to benefit from a growing economy. Finally, Mozambique continues to rank extremely low in the United Nations Human Development Index (UNHDI) at 178th out of 187 countries.

(b) Institutional Strengthening

72. **Institutional strengthening and capacity building underlined much of the reforms supported by PRSC-9-10-11.** As Mozambique was (and continues to be) a low capacity environment implementing a large number of reforms, the support provided by the PRSC series, which was accompanied by a three-year program of technical assistance, has led to noteworthy institutional development, and strengthened government capacity in several areas. The environment for doing business was improved through enhanced capacity to deliver commercial and industrial licenses and to register a business more efficiently. In terms of public finance management, the capacity of IGF and OCIs to follow up on audits is on the rise, and the identification and management of fiscal risks, which tend to increase in the medium and long term in line with the development of the Mozambican economy, has been strengthened through the creation of a fiscal management unit within MEF and the preparation and publication of fiscal risk reports. The capacity to manage the country's extractive industries was strengthened by putting in place a framework for ensuring transparency of the resources sector, which contributed to the country maintaining its compliance with the improved EITI requirements. In addition, improvements were made to MEF's systems of tracking and reporting on public debt, as well as improving the quality of evaluation and appraisal of public investments.

(c) Other Unintended Outcomes and Impacts (positive or negative):

Positive impacts

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[19] World Bank, June 2016. Republic od Mozambique Systematic Country Diagnostic.

73. **The PRSC series helped bring into focus the synergies between poverty reduction and sustainable environmental management in three policy areas.** First, the revised legislation for mining and petroleum sectors made environmental and social impact assessments mandatory, However, in the face of approximately 200 potentially controversial Category A projects each year, Government implementation and enforcement capacity remains limited due to financial and technical capacity constraints. Second, the Manual for the Appraisal and Evaluation of Public Projects adopted by MDP/MEF to guide project appraisal and evaluation, includes requirements for social and environmental impact analyses. In addition, the Bank's Mining and Gas Technical Assistance Project (MAGTAP) supported enhancement of environmental and social management of extractive industries. Finally, provisions were made to ensure that **c**ommunities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank PRSC may submit complaints through the World Bank's Grievance Redress Service (GRS).

4. Assessment of Risk to Development Outcome

74. **The risks to development outcomes for PRSC-9-10-11 are rated substantial**. This is based on the assessment that the main factors which are likely to influence whether the development outcomes of the PRSC series will be fully achieved and sustained, are related to the country's economic outlook and the commitment of the Government at the highest level which has both a political and a governance dimension.

75. **Macroeconomic risks are rated high.** While fiscal risks had always been on the radar of the Bank, the IMF, and budget support donors, the breakdown in governance which enabled the undisclosed non-concessional borrowing to happen was never anticipated, and therefore the mitigation measures implemented throughout the program were not commensurate with the scope and the severity of the risk. The Fiscal Transparency Report, published by the IMF in 2014, had already pointed to significant challenges for the identification and management of fiscal risks. The report concluded that such risks were mainly associated with: high dependence on external financing; exogenous shocks (natural disasters); activities of Public Enterprises; obligations under multi-year contracts for the construction of major infrastructure (e.g. concessions and Private Public Partnerships); state guarantees issued for foreign debts of Public Enterprises; contingent liabilities deriving from quasi-fiscal activities (e.g. price subsidies); and participation of the state in private companies (at present managed through the IGEPE). Other medium and long-term risks are associated with the volatility of natural resource prices since the mining industry in the country is expanding, especially for the production and export of liquefied natural gas and coal (reported in PEFA 2015). Moreover, the slowdown triggered by the debt crisis has amplified macroeconomic risk as monetary and fiscal tightening continue and as the business environment becomes increasingly restrictive and private sector expectations weaken. Vulnerabilities in the financial sector have also grown[20] and debt restructuring continues to be urgently needed. A delay in restoring a sustainable macro framework would preclude planned budget support and could disrupt other WBG Country Partnership Framework (CPF 2017-2021) interventions by limiting counterpart funding. The World Bank program is seeking to mitigate these risks in coordination

[20] A combination of slower growth, currency depreciation and tighter monetary policy heightened the exposure to risks. The Central Bank intervened in Mozambique's fourth largest bank, MozaBanco, in September 2017 and ordered the closure of Nosso Banco two months later.

with the IMF through policy dialogue, technical assistance, and potentially policy-based financing to support the resumption of an IMF program and to strengthen economic management.

76. **Political and governance risk and risk of government's commitment are rated substantial.** Three aspects are worth pointing out. *First,* because of the underlying unresolved political conflict with the opposition party, the Mozambican National Resistance (Renamo)—which remains armed, the likely risks are (i) that the political dialogue will continue to absorb government attention at the expense of policy making, unless a lasting agreement is reached, and (ii) that continual and perhaps more frequent episodes of localized unrest and violence—as well as unofficial labor protests—could severely disrupt the economy. *Second*, governance and effective public sector management are also a source of risk, as demonstrated by the country's declining scores on the World Bank's Worldwide Governance Indicators. These risks could undermine the achievement of the policy reform program supported by the PRSC series and delay the continuation of the reform process. *Finally*, the inability to adequately address governance issues related to the debt crisis would delay budget support by the World Bank and other partners. To mitigate these risks, the new WBG CPF (FY17-FY21) will put emphasis on designing operations that take into account or address governance constraints and political economy dynamics which may affect the effective and timely achievement of the development objectives of the operations. Another mitigating factor is the recent commitment of GoM to deal with the "hidden debt" issue both politically and through the legal process.

5. Assessment of Bank and Borrower Performance

5.1. Bank Performance

Rating: Moderately Unsatisfactory

(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Satisfactory

77. **Bank performance in ensuring quality at entry of the operations being reviewed was rated as moderately satisfactory.** The Bank made important contributions to the growth and poverty reduction reform agenda in Mozambique through this PRSC series. The Bank program consolidated and deepened support for the Government's poverty reduction strategy implementation, by focusing on strengthening public finance management, and promoting more inclusive growth through improvements in the business environment and social protection systems. The content and design of the PRSC program benefitted from a long engagement between the Bank and GoM; it was supported by extensive consultations with key government agencies, development partners working in Mozambique through the G19 donor support, and civil society, which helped to ensure its relevance, alignment with the Government's Action Plan for Poverty Reduction (PARP 2011-2014) and the priorities of its 5-year development plan, and coordination with the budget support initiatives by other development partners in Mozambique.

78. **The 3-year PRSC program was strongly aligned with the Bank's country, regional, and corporate strategies.** It was structured with an integrative policy framework across sectors, and was also aligned and complementary to other Development Policy Operations and several Bank projects in Mozambique three of which in particular furthered the goals of the PRSC series: the Mining and Gas technical Assistance Project (MAGTAP) which focused on building the

administrative capacity of the government in the area of natural resources; the Integrated Growth Poles Project (IGPP) which complemented the private sector reforms support by the PRSC program; and the Social Protection Project. The program also built on lessons learned from previous PRSCs in Mozambique and benefitted from a close collaboration with the IMF and technical assistance provided by IFC.

79. **The analytical work and TA, together with continuous World Bank field presence helped ensure the technical soundness, institutional feasibility, and alignment of the DPO program with broader poverty reduction and development agenda of the government (PARP).** Finally, even though the Bank gets very high marks on the strategic relevance of the program and its structural and macroeconomic soundness, as well as on ramping up the focus on resource management and fiscal risk starting with RSC-10, there were important shortcomings on the part of the Bank in the appraisal of government capacity and the severity and impact of the fiscal risk. While a cross-cutting Bank-supported TA program helped the government prioritize policy reforms and strengthen M&E, significant capacity gaps plagued policy implementation, especially in the areas of debt and public investment management. Moreover, while the "hidden debts" were not known until April 2016, midway during the implementation of PRSC-9 a large bond with a Government guarantee by EMATUM in 2013 had already raised concerns about lack of transparency in the use of public funds, fiscal risks, and public investment management. This led to extensive discussions both within the Bank and between the Bank and development partners and the Government, and led ultimately to the continuation of the program. It also influenced the increased focus of the DPO series (from PRSC 10 onwards) on managing fiscal risks by: strengthening debt reporting and sustainability, improving the governance of state-owned enterprises, and the scrutiny of public investment proposals, but unfortunately to no avail.

(b) Quality of Supervision (including M&E arrangements):

Rating: Moderately Unsatisfactory

80. **World Bank quality of supervision is rated moderately unsatisfactory**. Since the design of the PRSC series was aligned with the General Budget Support Program of the budget support donors group in Mozambique, the Bank supervised the program in cooperation with the Government's other development partners, the G-19. In addition to two joint annual reviews, the implementation of the Government's program was monitored through monthly joint steering committee meetings held by the Government and budget support donors. Together with Government and donor representatives, World Bank staff also participated in sector working group meetings designed to assess progress in each sector. Progress on PRSC indicators was primarily monitored and evaluated through a set of instruments used by the National Planning System. This included the annual monitoring of activities and indicator targets through the Economic and Social Plan Evaluation and the Budget Execution Report as well as the joint review mechanism between government and budget support partners. In addition to the Government and its development partners, the review process included the participation of representatives of civil society and the private sector

81. **World Bank field presence enabled the 3-year program to be designed and implemented coherently and relatively smoothly.** The World Bank had a leading role, and with the European Union led a continuous dialogue with the Government on behalf of the budget support group of donors. This intensive interaction enabled the Bank team to be in constant touch with the authorities, and helped resolve issues as they arose, as well as provide continuous feedback and assistance to the Government. Moreover, supervision of other Bank-financed projects supported implementation of selected PRSC-supported reforms, and provided valuable input to tracking

progress on program implementation. Cooperation between the Bank and other development partners and the IMF was excellent. The Bank also participated in the IMF missions which helped closely monitoring the debt sustainability situation and macroeconomic conditions.

82. **However, despite the disclosure of the EMATUM loan midway through the implementation of PRSC-9, and the significant increase in public expenditures in 2014, the Bank did not consider stronger remedial actions such suspending or stopping the program altogether**. Instead, it continued intensive and close interaction with the Government regarding strengthening fiscal risk management, but as it turned out, government commitment to tighten fiscal policy in 2015 to guarantee macroeconomic and fiscal stability did not materialize. Furthermore, while significant challenges related to the public investment and debt management reforms were identified in the ISR for PRSC-9, and given that the Bank was fully aware of shortcomings in processes and systems for monitoring and managing debt when the EMATUM loan was disclosed, little action appears to have been taken to discuss these issues further with management.

83. **Implementation Status and Results (ISR) reports for PRSC-9 and 10 were prepared**. While these reports contributed to the continuous supervision of the program, the ISR for PRSC-9 briefly mentioned that fiscal transparency issues were having some negative impact on the effectiveness of public investment management and public debt management reforms, but did not suggest a plan of action to Bank management to remedy the situation.

(c) Justification of Rating for Overall Bank Performance

84. **Overall Bank performance was moderately unsatisfactory.** This is the result of the combination of moderately satisfactory rating for quality at entry and moderately unsatisfactory rating for supervision.

5.2. Borrower Performance

Government Performance/ Implementing Agency or Agencies Performance/ Overall Borrower Performance

Rating: Unsatisfactory

85. **The performance of the Borrower was unsatisfactory.** In the case of the PRSC series, the Government is the implementing agency, and therefore the rating provided in this section should be considered as overall rating for the Borrower. The Ministry of Finance, which was the leading entity during the third PRSC series, continued to lead and coordinate the reform program through PRSC-9. For the second operation, this role was taken over by the Ministry of Planning and Development (MPD) which was the lead agency in the preparation of the PARP and the implementation monitoring of its Strategic Matrix and Action Plan. After the formation of a new Government in 2015, the two agencies were merged into a new Ministry of Economy and Finance (MEF) which coordinated and led the preparation and implementation of the final PRSC operation.

86. **The government had strong ownership of the reforms initially and its efforts and commitment at preparation are rated moderately satisfactory.** The PRSC operations were aligned with Mozambique's Poverty Reduction Strategy PARP 2011-2014 and with the joint General Budget Support Program of G-19. The country's economic performance over the past two decades had been strong, and the government had pursued a structural reform program focused on facilitating private sector-led growth in a context of macroeconomic stability and more efficient fiscal policy. The Government succeeded in consolidating many of the improvements in the PFM

system and in the management of extractive industries, particularly in the areas of budget execution, accounting, reporting, internal and external audit, and transparency and adherence to EITI standards in the award of mining and petroleum contracts.

87. **But by engaging in illicit and questionable borrowing, the Government failed to maintain a supportive macro-fiscal environment, derailing implementation, and casting serious doubt on its commitment to achieving the development objectives of the program.** While the improvements which were achieved challenged the Government's financial, human and managerial capacity, it was the discovery that Mozambique had contracted previously undisclosed loans in non-concessional debt between 2009 and 2014 which undermined the implementation of the reform program, leading to the interruption of the budget support program by the country's donor partners including IDA. For these reasons, Government overall performance is rated unsatisfactory.

6. Lessons Learned

88. **Three essential lessons emerge from the review of PRSC 9-10-11.** While several lessons from past PRSC series pertaining to government ownership, harmonized donor support, and the importance of having strong results framework and monitoring and evaluation (M&E) systems, are relevant for the present series, and provide useful information to help improve the design of future similar programs, what emerges from this PRSC series compared to previous ones is the need to thoroughly understand the political economy, governance, and institutional capacity context in which reforms take place, and how these might impact the likelihood that reforms will indeed take place, are sustained, and bear results.

89. **Governance issues need to be addressed as part of operational design.** Governance reforms are politically sensitive, more complex, and difficult to implement. The PRSCs of this series and the previous one clearly identified fiscal risk as an issue looming large over the program, but did not consider it through a governance lens, which would have involved going beyond the focus on institutional capacity to produce and disclose debt and fiscal reports, and addressing issues of transparency, accountability, participation, and anticorruption. Clearly the political barriers to achieving full fiscal transparency were underestimated as the Government was engaged in illicit and questionable borrowing while at the same time appearing to champion fiscal restraint and transparency. This means that in Bank operations where reforms such as public finance management and natural resource revenue management are difficult to implement, governance risk needs to be systematically evaluated as part of operational design, and mitigation measures closely monitored during implementation with information made publicly available.

90. **While Development Policy Financing (DPF) continues to be the instrument of choice for supporting broad-based policy reforms, leading to better macroeconomic management and enhancing the business environment, it's effectiveness in dealing with governance and fiscal transparency issues may be limited.** While the DPF instrument relies heavily on Debt Sustainability Analysis (DSA) for tracking a country's capacity to finance its policy objectives, and service the ensuing debt without unduly large adjustments, its capacity to better detect, prevent, and resolve potential debt crises could be complemented by measures aimed at:

(a) *Addressing governance issues*. In order to ensure the sustainability of reforms, especially in the a rea of PFM, as a prerequisite, credible legal and operational frameworks need to be in place. In the case of SOEs, for instance, this would imply introducing a framework for SOEs' borrowing and debt, which can go as far as introducing SOEs' borrowing limits (aligned with the country's DSA and MTDS objectives). This would allow a change in approach, from simple monitoring to a more effective ex ante control of fiscal risks; and

(b) *Addressing debt/transparency issues as they emerge.* In cases where government credibility is weak and transparency issues arise in the middle of an ongoing program of supported reforms (akin to the EMATUM loan), further due diligence needs to take place, and corrective measures such as strengthening institutional procedures or operational restructuring, may be warranted.

91. **Implementation capacity constrains must be meticulously evaluated in order to guide the provision of technical assistance and calibrate the level of ambition of the reform program to be supported.** The need to take capacity constraints into account in the design of reforms and address them through targeted capacity building and technical assistance activities, are also very relevant for the present series. While the Bank did provide technical assistance in all areas supported by this operation to help fill the gap where institutional resources were lacking, in the area of public investment management, capacity constraints may well have been underestimated by the Bank team, leading to the inclusion of a target for the appraisal and evaluation of public investment projects, which turned out to be unachievable because of capacity constraints in an area fraught with political risk and where experience was glaringly lacking. Therefore, the key lesson here pertains not only to the need to methodically assess and calibrate the targets to be achieved to Government's implementation capacity, but also to sequence reforms and technical assistance in such a way as to gradually build and sustain institutional strengthening.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

To be added.

(b) Co-financiers

N/A

(c) Other partners and stakeholders

Annex 1: Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Mozambique PRSC-9 (P131212)			
Names	**Title**	**Unit**	**Responsibility/Specialty**
Lending			
Julio Revilla	Sector Leader and Lead Economist	PREM AFTP1	Team Leader
Enrique Blanco-Armas	Senior Economist	AFTP1	Technical guidance and support
Anne-Lucie Lefebvre	Senior Public Sector Specialist	AFTP1	Technical guidance and support
Dionisio Nombora	Public Sector Specialist	AFTP1	Technical guidance and support
Sean Lothrop	Consultant	AFTP1	Technical guidance and support
Manuel Salazar	Lead Social Protection Specialist	AFTSE	Technical guidance and support
Eric Zapatero	Consultant	AFTSE	Technical guidance and support
Mazen Bouri	Senior Private Sector Development Specialist	AFTFE	Technical guidance and support
Michelle Gomes Souto	Operations Officer	CAFIC	Technical support
Furqan Saleem	Senior Financial Management Specialist	AFTME	Technical guidance and support
Dirk Bronselaer	Senior Procurement Specialist	AFTPE	Technical support
Jose Janeiro	Senior Finance Officer	CTRLA	Technical support
Fernando Blanco	Senior Economist	AFTP4	Peer review
Lars Moller	PREM Sector Leader and Lead Economist	AFTP4	Peer review
Eduardo Ley	Lead Economist	PRMED	Peer review
Luz Meza-Bartrina	Senior Counsel	LEGAM	Legal counsel
Supervision			

Mozambique PRSC-10 (P146537)			
Names	**Title**	**Unit**	**Responsibility/Specialty**
Lending			
Enrique Blanco-Armas	Senior Economist	GMFDR	Team Leader
Julio Revilla	Program Leader	AFCS2	Technical guidance and support
Dionisio Nombora	Public Sector Specialist	GGODR	Technical guidance and support
Poorva Karkare	Consultant	GMFDR	Technical guidance and support
Wael Mansour	Economist	GMFDR	Technical guidance and support
Sean Lothrop	Consultant	AFTP1	Technical guidance and support
Manuel Salazar	Lead Social Protection Specialist	GSPDR	Technical guidance and support
Eric Zapatero	Social Protection Specialist	GSPDR	Technical guidance and support
Ruben Villanueva Rodriguez	Consultant	GSPDR	Technical guidance and support

Ekaterina Mikhaylova	Lead Strategy Officer	GEEDR	Technical guidance and support
Alexander Huurdeman	Senior Gas Specialist	GEEDR	Technical guidance and support
Mazen Bouri	Senior Private Sector Specialist	GFMDR	Technical guidance and support
Steven Dimitriyev	Senior Private Sector Development Specialist	GTCDR	Technical guidance and support
Michelle Gomes Souto	Operations Officer	GTCDR	Technical support
Furqan Saleem	Senior Financial Specialist	GOODR	Technical support
Luis M. Schwarz	Senior Finance Officer	WFALA	Technical support
Marina Mwanga	Team Assistant	AFCS2	Operations and Administrative support
Emerson Siquice	Team Assistant	AFCS2	Operations and Administrative support
Madeleine Chungkong	Team Assistant	GMFDR	Operations and Administrative support
Fernando Blanco	Lead Economist	GFMDR	Peer review
Lars Moller	Program Leader	AFCE3	Peer review
Luz Meza-Bartrina	Senior Counsel	LEGAM	Legal counsel
Supervision			

Mozambique PRSC-11 (P154422)			
Names	**Title**	**Unit**	**Responsibility/Specialty**
Lending			
Enrique Blanco Armas	Lead Country Economist	GMFDR	Team Leader
Julio Revilla	Program Leader	AFCS2	Technical guidance and support
Furqan Ahmad	Senior Financial Management Specialist	GGODR	Technical support
Dionisio Nombora	Public Sector Specialist	GGODR	Technical guidance and support
Poorva Karkare	Consultant		Technical guidance and support
Eric Zapatero	Social Protection Specialist	GSPDR	Technical guidance and support
Ekaterina Mikhaylova	Lead Strategy Officer	GEEDR	Technical guidance and support
Alexander Huurdeman	Senior Gas Specialist	GEEDR	Technical guidance and support
Mazen Bouri	Senior Private Sector Specialist	GFMDR	Technical guidance and support
Steven Dimitriyev	Senior Private Sector Development Specialist	GTCDR	Technical guidance and support
Michelle Gomes Souto	Operations Officer	GTCDR	Technical support
Luis Schwarz	Senior Finance Officer	WFALA	Technical support
Marina Mwanga	Team Assistant	AFCS2	Operations and Administrative support
Adelina Mucavele	Team Assistant	AFCS2	Operations and Administrative support
Madeleine Chungkong	Team Assistant	GMFDR	Operations and Administrative support
Fernando Blanco	Lead Economist	GFMDR	Peer review
Marco Hernandez	Senior Economist	GMFDR	Peer review
Luz Meza-Bartrina	Senior Counsel	LEGAM	Legal counsel
Supervision			

(b) Staff Time and Cost

	LEN (USD)	SPN (USD)	Total (USD)
Mozambique Ninth Poverty Reduction Support Credit - P131212	188,530.53		188,530.53
Mozambique Tenth Poverty Reduction Support DPF – P146537	221,984.76		221,984.76
Mozambique Eleventh Poverty Reduction Support DPF – P154422	192,267.55		192,267.55
Total	602,782.84		602,782.84

Annex 2: Summary of Borrower's ICR and/or Comments on Draft ICR

1. The following notes were translated from the Borrower's ICR, received on January 23rd, 2018:
    - Poverty reduction is a crucial objective of the Government of Mozambique, and the main reason behind the request financing from the World Bank through the PRSC operations;
    - Under the PRSC IX – XI, positive results were obtained in the following areas:
        i. Implementation of auditing recommendations by the Internal Control Organ (OCI) and Finance Inspection (IGF) have exceeded the target of 40%, with data indicating a rate of 56.8%;
        ii. For the improvement in the access to social security systems indicator, the Ministry of Gender, Children and Social Action (MGCAS) indicates that 347,712 people were covered under the PASP, and that over 50% of payments made to beneficiaries were carry out in time;
        iii. The Ministry of Mineral Resources and Energy (MIREME) highlights that Mozambique has taken significant strides to enhance transparency and management of extractive industries through (a) publication of 7 ITIE compliant reports (2008-2014, available on the ITIE website) with 2015/2016 currently under preparation, (b) the publication of the first educational brochure on ITIE in August 2017, (c) the publication of the first information bulletin on ITIE in September 2017 and (d) the institutionalization of ITIE is currently underway. In addition, the new Mining Law and Petroleum Law have been approved;
        iv. With relation to improvements to the business environment, indicators show that the number of days required to obtain a commercial license have fallen from 8 to 3 days and that the number of procedures required to start a business have fallen to 4 days – namely the (a) registration of the entity, (b) allocation of the NUIT, (c) declarations for start of activities for fiscal and labor matters and (d) registration of workers in the national social security system.
    - Given the assessment, the GoM agrees with the contents presented in the World Bank ICR report and recommend that the board approve and proceed with the actions required.

    .
2. The full text of the Borrower's ICR is uploaded in WBDOCS.

Annex 3: List of Supporting Documents

1. Program Document PRSC-9, June 19, 2013
2. Program Document PRSC-10, November 10, 2014
3. Program Document PRSC-11, November 23, 2015
4. The complete list of documents and instruments verifying the implementation of the policy actions under the DPO series is available in WBdocs under P131212, P146537, and P154422 (details below).

Mozambique Ninth Poverty Reduction Support Credit - P131212

(i) The Recipient's Council of Ministers has approved the Commercial Licensing Decree as evidenced by the letter issued by the Director of Cabinet of the Recipient's Prime Minister on June 4, 2013.

(ii) The Recipient has achieved compliance with the standards of the Extractive Industries Transparency Initiative (EITI) as evidenced by the EITI press release dated October 26, 2012, and through www.eiti.org

(iii) The Council of Ministers has approved the draft Mining Law and has sent it to its National Assembly for approval as evidenced in the letter issued by the Director of Cabinet of the Recipient's Prime Minister on May 24, 2013.

(iv) The Council of Ministers has approved the draft Petroleum Law and has sent it to its National Assembly for approval as evidenced in the letter issued by the Director of Cabinet of the Recipient's Prime Minister on May 24, 2013.

(v) The Recipient's State Budget for 2013 has allocated 2.75 percent of revenues generated by the extractives industries for infrastructure development of communities in which the extractive industries operate, as made publicly available in www.dno.mz

(vi) The Council of Ministers has approved the PASP which was scaled-up in the 2013 State Budget to increase the number of beneficiaries, as evidenced by the Decree No. 52/2011 published in the *Boletim da República* Nr 41 dated October 12, 2011, and made publicly available on www.dno.mz

(vii) The Coordinating Council of the System of Basic Social Security has authorized INAS to outsource payment of cash benefits for its social safety nets programs as evidenced by the letter (*ofício* Nr. 40/SP/MMAS/995/2013) issued by the Permanent Secretary of the Ministry of Women and Social Action on May 28, 2013.

(viii) The Recipient's Ministry of Finance has developed a systematic database which contains recommendations for, and the current status of, its implementation, thus allowing effective follow-up so that 20 percent of IGF and OCI audit recommendations were implemented as evidenced by the letter issued by the Permanent Secretary of the Ministry of Finance on May 21, 2013.

(ix) The Recipient's Ministry of Planning and Development (MPD) has adopted the Manual for the Appraisal and Evaluation of Public Projects as evidenced by the letter by the Permanent Secretary of the MPD issued on May 14, 2013.

(x) The Council of Ministers has approved the Medium Term Debt Management Strategy (2012 – 2015), as evidenced by the letter issued by the Director of Cabinet of the Recipient's Prime Minister on May 24, 2013.

Mozambique Tenth Poverty Reduction Support DPF – P146537

(i) The Council of Ministers has approved the Industrial Licensing Decree as evidenced by Decree Nr. 22/2014 published in the Recipient's *Boletim da República* Nr. 40 dated May 16, 2014.

(ii) The Council of Ministers has adopted a single form for opening a new business and start activities as evidenced by Decree Nr. 80/2013 published in the *Boletim da República* Nr. 104 dated December 31, 2013.

(iii) The Council of Ministers has approved the bill defining the fiscal regime for the hydrocarbon sector and has submitted the bill to its National Assembly for approval as evidenced by the letter issued by the Prime Minister on July 17, 2014, (Communication Nr. 68/PM/152/2014).

(iv) INAS has developed and adopted a single registry of beneficiaries for all INAS programs providing cash to beneficiaries as evidenced by the letter issued by the Director of INAS on October 24, 2014, (Communication Nr. 985/031.14/INAS/GAB).

(v) INAS has designed a new payment distribution system and launched a tender to select an appropriate operator for the payment distribution system, as evidenced by issuance of tender in respect of Contract Identification Nr. ICB Nr. 19/INAS/PASP/lA2.1/2014 dated September 5,2014.

(vi) The Ministry of Planning and Development and the Ministry of Finance have issued a revised methodology for the elaboration of the medium-term fiscal framework making appraisal of public investments mandatory for all projects in excess of USD five *(5)* million equivalent as evidenced by the said revised methodology published in www.mpd.gov.mz.

(vii) The Council of Ministers has adopted the *Programa Integrado de Investimentos 2014-2017* as evidenced by the publication of the program on www.mpd.gov.mz. The Ministry of Finance borrowing plan, prepared based on the medium term debt management strategy as evidenced by the letter issued by the Deputy Director of Recipient's Treasury on October 29, 2014, (Communication Nr. 595/DNAT/GAB/2014).

(viii) The Council of Ministers approved the implementing regulations of the public enterprises law (Law 6/2012), as evidenced by Decree Nr. 84/2013 published in the *Boletim da República* Nr. 104 dated December 31, 2013.

Mozambique Eleventh Poverty Reduction Support DPF – P154422

(i) The Ministry of Trade and Industry has introduced the *e-BA U* to further streamline business start-up procedures as evidenced by the letter No. 0204/DASP/MIC/592/2015 from the Ministry of Trade and Industry dated October 29, 2015.
http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b0831b6357&respositoryId=WBDocs&standalone=false

(ii) The Recipient has achieved compliance with the new and revised standards of the Extractive Industries Transparency Initiative as evidenced by the fifth report of the Extractive Industry Transparency Initiative in Mozambique dated December 2014, published in www.eiti.org.

(iii) The Council of Ministers has approved the implementing regulations for Law No. 20/2014 dated August 18, 2014, published in the *Boletim da República* No. 66 Serie I on August 18, 2014, (the Mining Law) as evidenced by the communication of the Secretariat of the Council of Ministers dated October 13, 2015.
http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b0831b6291&respositoryId=WBDocs&standalone=false

(iv) The Council of Ministers has approved the implementing regulations for Law No. 21/2014 dated August 18, 2014, published in the *Boletim da Republica* No. 66 Serie I on August 18, 2014, (the Hydrocarbon Law) as evidenced by the communication of the Secretariat of the Council of Ministers dated November 12, 2015.
http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b0831b621f&respositoryId=WBDocs&standalone=false

(v) The Ministry of Economy and Finance (MEF) has revised the system by which it transfers a share of the production taxes generated by mining and petroleum projects to communities in affected areas by budgeting a share *of* the royalties collected during calendar year 2014 as evidenced by letter No. 106/DNAPO/GAB/15.

(vi) (vi) INAS has registered 50% of PASP beneficiaries in the single registry of beneficiaries, as evidenced by letter No. 10021200/DINAS/2015.

(vii) (vii) MEF has mandated that all projects above fifty million United States Dollars (50,000,000) be submitted to MEF including a viability study as evidenced by Circular No. I /DNO-MEF/2015 dated May 20, 2015.

(viii) MEF has prepared the Recipient's medium-term debt management strategy for 2015-2018 as evidenced by the Medium Term Debt Management Strategy dated September 2015.

(ix) MEF has created a fiscal risks' department within its Directorate for Financial and Economic Studies to better manage fiscal risks as evidenced by the Ministerial Diploma No. 01/2015 from the Ministry of Economy and Finance dated September 23, 2015.
http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b0831b6293&respositoryId=WBDocs&standalone=false

Annex 4: Analytical underpinnings of the PRSC series

Table 8: Key ASA used to support policy actions of the PRSC series

Analytical Reports	Main Findings and Recommendations	Link to the PRSC Series
Mozambique: Country Economic Memorandum: Reshaping Growth and Creating Jobs through Trade and Regional Integration (2012) World Bank	In-depth analysis of the Mozambican economy, assessing recent trends with a focus on the relationship between trade and employment.	Several prior actions and triggers of Objective 1 of the PRSC series reflect some of the constraints to growth which need to be overcome (prior action 1)
Poverty in Mozambique: New Evidence from Recent Household Surveys (2012) World Bank	Provides revised poverty estimates, revealing important trends in interregional and rural/urban poverty dynamics	Relevant to the poverty assessment underpinning the PRSC series and reforms to social assistance (prior action 6)
The Future of Natural Gas in Mozambique: Towards a Gas Master Plan (2012) World Bank	Assesses developments in the gas sector and establishes the basis for a comprehensive sectoral policy framework	Relevant to reforms related to the extractive-industries. Informs objectives 1 of the PRSC series (prior actions 2-5)
Mozambique: Investment Climate Assessment (2009 World Bank (AFTFP)	Assesses obstacles to investment in Mozambique by private-sector and provides options for addressing these challenges	Relevant to the business- and investment-climate reforms supported by the proposed operation (prior action 1)
Enhancing Macroeconomic and Fiscal Policy for Inclusive Growth during a Commodities Boom (Programmatic AAA forthcoming) World Bank	Evaluates the macroeconomic implications of rapid growth of extractive-industries and recommends improvements to fiscal policy and budgetary systems.	Relevant to public finance management reforms supported by the PRSC series (prior actions 7-9)
Mozambique: Social Protection Assessment: Review of Social Assistance Programs and Social Protection Expenditures (2011) World Bank (Social Protection)	Analyzes the current state of social protection policies in Mozambique and identifies key challenges facing the Gvt's social assistance strategy	Relevant to the social assistance agenda encompassed under objective 2 of the PRSC series operation (prior action 6)
Mozambique Public Expenditure Review (2014) World Bank	Macro-fiscal trends and sectoral spending patterns. Fiscal risks and ways to manage them better and the need to improve PIM	Relevant for prior actions in the 3rd objective of the PRSC series (prior actions 7-9)
World Bank, 2013, "Proposta de melhoria do sistema de investimento público em Moçambique"	TA report recommendations on steps to reform Mozambique's public investment management system	Relevant for prior actions on public investment management (prior action 7)
World Bank, 2014, "Sharing Natural Resource Revenues with Affected Communities: Policy Options for Mozambique"	Policy Note on Mozambique's experience with sharing revenues from natural resources with affected communities	Relevant for reforms in natural resources revenue sharing (prior action 5)
World Bank, 2014, "Proposed Fiscal Risks Analysis for Mozambique"	TA report on the scope and mandate of a new Fiscal Risks Unit to be created in MEF	Relevant for reforms in fiscal risks management (prior action 9)
MPD, 2013, "2012 Survey of Mozambican Manufacturing Firms"	Survey of Mozambican manufacturing firms identifying constraints to doing business	Relevant for prior actions in the first objective of the PRSC series (prior action 1)
IMF, 2014, "Republic of Moz - Refocusing the Public Financial Management Strategy"	IMF report on PFM reforms in Mozambique	Relevant for prior actions on public finance management (prior actions 8-9)

Annex 5: Differences between Borrower's ICR and World Bank's ICR

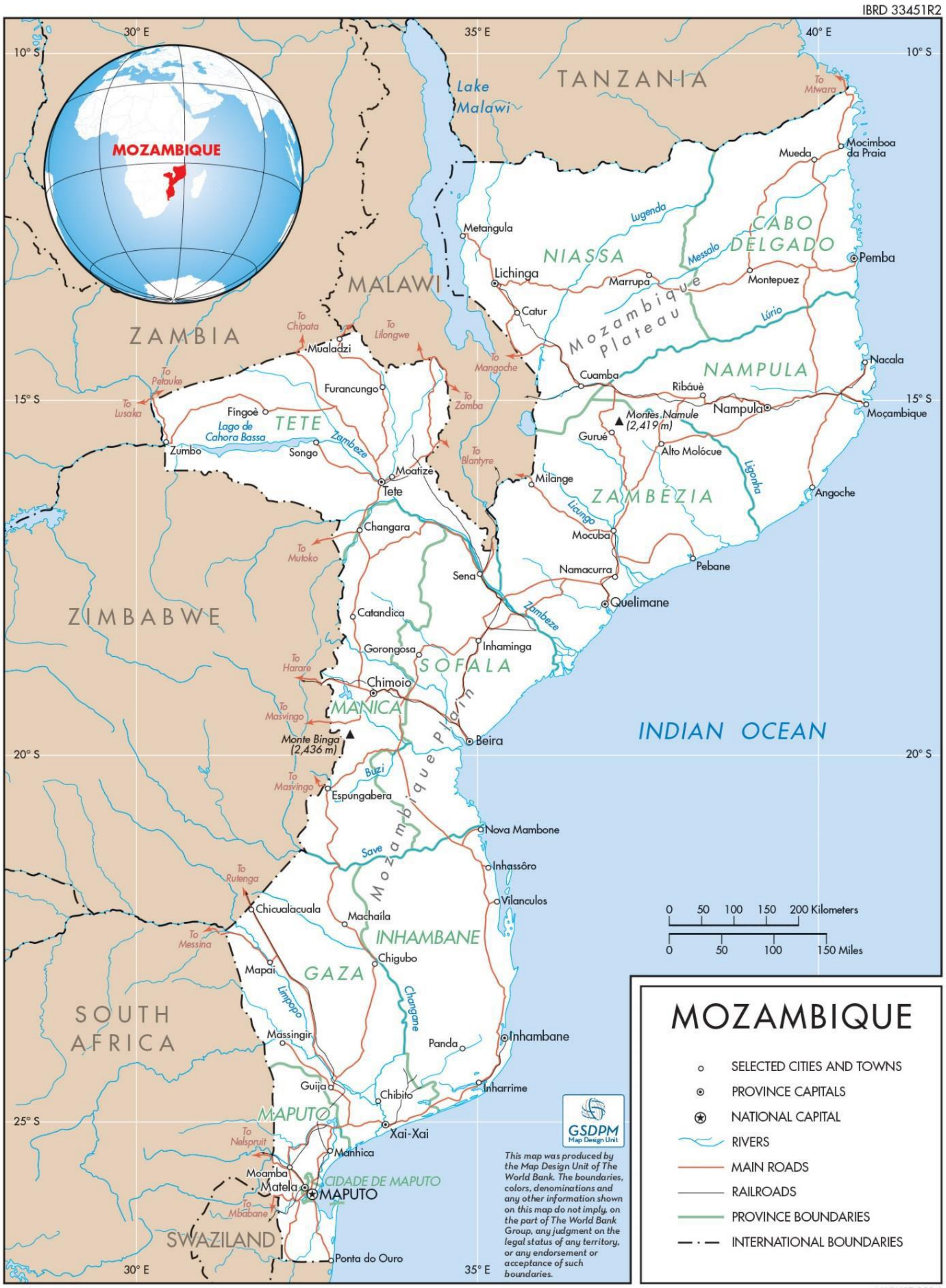
Analysis of the Borrower's ICR highlights some differences in the assessment made in comparison to the World Bank ICR. The table below provides an explanation for the divergence between the two assessments.

Table 9: Divergence between GoM and World Bank assessments

<table>
<tr><th>Indicator</th><th>Target set in PRSC</th><th>GoM assessment</th><th>WB assessment</th></tr>
<tr><td>Number of days needed to start a business</td><td>8</td><td>4</td><td>19</td></tr>
<tr><td colspan="4">Explanation for discrepancy between assessments</td></tr>
<tr><td colspan="4">Both the GoM and World Bank use the same baseline for this indicator - the 2012 Doing Business Report (DBR). The 2012 DBR lists 9 procedures required to start a business, taking a total of 12 days. Since then, the DBR notes that the number of procedures has increased to 10 (and 19 days total), with one, Register the company, request a commercial registry certificate, and publish company statutes in the official gazette (Boletim da República); estimated to take 5 days to implement. GoM assessment only considers four procedures, and assumes each take one day to undertake. Whilst reforms such as the single registration form and reengineering of the one-stop shop have taken place, the level of implementation remains low and therefore the reforms have not translated into efficiencies that be recognized by the private sector and therefore the DB assessment.</td></tr>
<tr><th>Indicator</th><th>Target set in PRSC</th><th>GoM assessment</th><th>WB assessment</th></tr>
<tr><td>Total number of direct public works program (PASP) beneficiaries</td><td>20,000</td><td>347,712</td><td>26,000</td></tr>
<tr><td colspan="4">Explanation for discrepancy between assessments</td></tr>
<tr><td colspan="4">Source data for the World Bank assessment comes from the 2016 Progress Report for the implementation of PASP, prepared by the National Institute of Social Action (Instituto Nacional de Acção Social, INAS). Page 20 of the report reports the total number of PASP beneficiaries in 2016 at 26,703. This figure increased to 38,000 beneficiaries in 2017, but remains below the target set for 2016 (58,275 beneficiaries). The figures presented in the GoM assessment are directly linked to a different program – the PSSB (INAS reported in 2016 PSSB beneficiaries around 372,000).</td></tr>
<tr><th>Indicator</th><th>Target set in PRSC</th><th>GoM assessment</th><th>WB assessment</th></tr>
<tr><td>Percentage of payments made to beneficiaries from PASP and PSSB within the month they are due</td><td>50%</td><td>50%</td><td>25%</td></tr>
<tr><td colspan="4">Explanation for discrepancy between assessments</td></tr>
<tr><td colspan="4">World Bank is not involved in the PSSB program. Payments made to beneficiaries under the PASP within the month they were due, using World Bank funds, were only 25% in 2016. INAS has faced challenges in making payments to beneficiaries participating in the public works program (PASP) in due time – for example, (i) a field visit showed 3-4 month delays in payment, and (ii) INAS reported that several 2016 payments would transition into 2017 and be paid as debt. Figures for 2017 show considerable improvement, with 75% of payments made in time.</td></tr>
<tr><th>Indicator</th><th>Target set in PRSC</th><th>GoM assessment</th><th>WB assessment</th></tr>
</table>

Percentage of recommendations implemented by the entities audited/inspected by the OCIs and IGF	At least 40%	56.8%	49.2%
Explanation for discrepancy between assessments			
Discrepancy results from the year in which the assessment takes place. World Bank notes that the target was surpassed in 2013 (and has exceeded target since then), with a 49.2% rate. More recent data, for 2016, puts this figure at 56.8% in line with GoM assessment.			

MAP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CABO DELGADO
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ZAMBÉZIA
TETE
SOFALA
MANICA
INHAMBANE
GAZA
MAPUTO
CIDADE DE MAPUTO
Mozambique Plateau
Mozambique Plain
Lichinga
Pemba
Nampula
Quelimane
Tete
Chimoio
Beira
Inhambane
Xai-Xai
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SELECTED CITIES AND TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
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AUGUST 2014