1. Country and Sector Background

Mozambique has made notable progress since the 1992 Peace Accords and has sustained real annual growth of more than 7 percent since 2003. The benefits of growth have been broad-based and can be seen in improvements in both monetary and non-monetary poverty measures. There was an unprecedented overall 16 percent decline in poverty between 1997 and 2003, from 70 percent in 1997 to 54 percent in 2003; rural poverty fell slightly more (by 22 percent) than urban poverty (by 16 percent) but more than 50 percent of the population remains in poverty. Despite the country’s economic success, lifting the other half out of poverty will require continued broad-based growth in the economy, together with continued expansion of social and economic services to the poorest.

Mozambique’s classified road network—the national and regional roads—consists of 29,349 kilometers of roads, of which 5,814 kilometers (or 20 percent) are paved. No systematic survey exists on the extent and condition of the non-classified road network, but it is estimated that about 3,000 kilometers of urban roads (about 500 kilometers of which are paved) exist, along with 5,000 kilometers of district roads, all unpaved. The total road network length is estimated at about 37,349 kilometers (see Table 1).

Table 1 the Road Network of Mozambique (in kilometers)

<table>
<thead>
<tr>
<th>Type of road</th>
<th>Paved</th>
<th>Unpaved</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classified roads</td>
<td>5,814</td>
<td>23,535</td>
<td>29,349</td>
</tr>
<tr>
<td>Urban unclassified roads (estimate)</td>
<td>500</td>
<td>2,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Rural unclassified roads (estimate)</td>
<td>-</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,314</td>
<td>31,035</td>
<td>37,349</td>
</tr>
</tbody>
</table>

Road density per land area is low at 46 meters per sq. kilometer due to the large size of Mozambique, but quite average, relative to the population, at 423 meters per 1,000 population. Preliminary estimates suggest that the network provides potential access (measured as those living within two kilometers of any road in the network) to around 41 percent of the nation’s rural population. Because of the poor condition of the network, the percentage of the rural population that has reliable, all-year access is much smaller.
(reliable numbers will be available once the 2007 population census has concluded); currently, the Performance Assessment Framework (PAF) puts it at 11 percent. One of the main objectives of this project is to increase the number of rural residents with reliable access to social and economic facilities. The aforementioned number also suggests that in future an additional, much larger, local road network will be required to connect all residents.

The government’s medium-term development objectives are spelled out in the PARPA II, 2006, the country’s poverty reduction strategy, and are supported by the Country Assistance Strategy (CAS) prepared jointly by the government and the Bank. The 2007–11 Road Sector Strategy (RSS), and the Road Sector Policy, support the country’s poverty reduction strategy. The strategy is also in line with the Bank’s Africa Action Plan, which puts renewed emphasis on adequate infrastructure to support growth and increased access to all-weather roads.

During 2006, in close collaboration with road sector Development Partners (DP), GoM developed PRISE, the 2007–2009 Road Sector Program. PRISE is based on the 2007–11 Road Sector Strategy (RSS) and the Road Sector Policy. It was decided that PRISE would be implemented using a sector-wide approach (SWAp). Road Sector Strategy is an update of the 2001–2011 Roads and Bridges Management and Maintenance Program (RBMMP1), based on which International Development Association’s Adaptable Program Loan (APL) was first developed. A mid-term review of RBMMP1 held in May 2005 resulted in a decision to embark on the update.

Road sector expenditures between 2001 and 2006 were about $700 million equivalent or $140 million on average per annum. It has been recognized that past road sector investments were insufficient to support the country’s poverty reduction goals. PRISE therefore plans to substantially increase expenditures for both maintenance and investment. Total published sector expenditures planned in PRISE for 2007–09 is $1,043 million, which with a recently confirmed increase in IDA funding will rise to $1,056 million, or about $352 million per annum (about 4.3 percent of GDP).

RBMMP2 supports PRISE. It focuses on the continued rehabilitation and upgrade of the main national road N1, and contributes to PRISE through pooled financing. This support will enable the Government of Mozambique (GoM) to carry out a sustainable road maintenance program with particular emphasis on periodic maintenance of paved roads, while at the same time increasing the capacity of the implementing agencies. The third phase of the APL will be contingent on successful implementation of Phase II and on satisfaction of agreed triggers.

2. Objectives

The GoM’s Action Plan for the Reduction of Absolute Poverty for 2006?09 (PARPA II) focuses on reducing the incidence of poverty (from 54 percent in 2003 to 45 percent in 2009) through improvements in governance, human capital, and economic development. The proposed second phase of the road sector support program continues its strong support to the government’s development objectives, and addresses the focus areas identified in the CAS. These are (i) improving the investment climate; (ii) expanding service delivery; and (iii) building public sector capacity and accountable structures.

The roads program addresses the development of infrastructure, a priority area under PARPA I (2001?2005) and retained as a priority area under PARPA II (2006?2009). Phase II of the program focuses on improvements in management of the sector as well as physical
infrastructure, with the objective of improving connectivity across the country. Improving access opportunities for agroproducers and rural communities to ports and rail heads, as well as social infrastructure, is also included.

The indicators to assess the achievement of the PDO are (i) the percentage of classified roads in good and fair condition, and (ii) the percentage of the rural population within 2 kilometers of an all-season road.

Intermediate outcomes have been defined as follows: (A) improved road sector management capacity; (B) enhanced execution of the road maintenance program; and (C) timely and cost-effective implementation of the IDA financed rehabilitation and upgrading of sections of the N1.

3. Rationale for Bank Involvement

An important source of value added by Bank support is its comparative worldwide experience in facilitating preparation and implementation of major roads and transport sector development programs. The Bank has also gained considerable experience in the region from its management of the Sub-Saharan Africa Transport Policy program (SSATP). Within the country, the Bank has experience in the transport sector gained through past and ongoing projects in the roads, rail, and port subsectors (ROCS 1 and 2, RBMMP, Railways and Ports Restructuring, and the Beira Railway Project).

There is strong commitment by all road sector Development Partners (DP) to harmonize their approaches in line with the Paris Protocol. Hence it was decided that PRISE would be implemented in a SWAp mode. The World Bank team has been instrumental in the preparation of PRISE and the furthering of donor harmonization.

The use of a programmatic approach has been validated by the success of this instrument in many other countries and sectors. Adaptable Program Loans provide greater flexibility in adapting project design and financing in response to evolving client needs. The Bank’s participation thus provides continuity for the implementation of the long-term national plan in the roads sector.

4. Description

Phase II of RBMMP supports PRISE, the 2007?09 road sector program of GoM. PRISE is being implemented in a sector wide approach (SWAp) mode. PRISE incorporates a coherent GoM-owned-and-led roads program in a comprehensive and coordinated manner, with emphasis on planning, finance, implementation monitoring, and evaluation. The SWAp mode will foster stronger country ownership and leadership in the road sector. It will also facilitate a coordinated and open policy dialogue for the entire sector, involving the key GoM agents MoPWH, ANE, Road Fund, and other local stakeholders) and the road sector development partners (DP). PRISE is developed consistent with the priorities and objectives of the GoM road sector policy, the action plan for the reduction of absolute poverty (PARPA), the Medium Term Expenditure Framework (MTEF), and the Road Sector Strategy (RSS).

The cost estimate of the three years? PRISE 2007-09 is $1.043 billion comprising $69.6 million (7 percent) for overheads, $263.9 million (25 percent) for maintenance and $709.8 million (68
percent) for investments. Total DP contribution to PRISE is $709 million or 68 percent of the total. Out of this, $114 million will be provided as pooled funding and the balance of $595 million through traditionally dedicated funding. The IDA support of $100 million to PRISE, is planned to be appropriated as follows: (a) $35 million contribution to the pooled fund for overhead and maintenance expenditures; and (b) $65 million dedicated funding for the rehabilitation and upgrading of three sections of the N1.

5. Financing

<table>
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<th>Source:</th>
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<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
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<td>International Development Association (IDA)</td>
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<tr>
<td><strong>Total</strong></td>
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6. Implementation

As mentioned previously, this project is a partnership between GoM and 19 DPs. It is to be implemented in SWAp mode. It entails a jointly developed and agreed sector policy, strategy, and investment plan, common financing arrangements (for the overhead and maintenance component only), common financial management and procurement procedures, as well as a common reporting and monitoring system. It will also include joint supervision missions by the DPs and joint audit arrangements.

(a) **Program Coordination and Oversight.** The overall program coordination and oversight will be the responsibility of the Road Fund Board, the legally autonomous entity for managing the collection and disbursement of road sector funds. Policy guidance and oversight will be provided by the Ministry of Public Works and Housing (MoPWH) and its advisory unit (GAS);

(b) **Executing Agency.** Implementation of the program will be the responsibility of ANE, the National Roads Administration responsible for the management of national (classified) roads in Mozambique. ANE headquarters will manage large contracts while the management of smaller contracts will be delegated to the provincial offices of ANE (the threshold for such delegation is defined in the procurement manual for PRISE);

(c) **Procurement Arrangements.** Responsibility for procurement of most of the contracts financed under PRISE will be with ANE. Those contracts financed under earmarked funding will have to follow the procurement rules of the various DPs, including IDA. Contracts that are funded under the Pooled Fund will be procured following national procurement procedures as described in the Procurement Manual. The technical and financial audit of all funding under the Common Fund will include a procurement audit;

(d) **Financial Management and Auditing.** The overall responsibility for financial management is with the Road Fund. The RF will manage a pooled fund with funding from road user charges and DP’s contribution (including IDA). In addition, the RF will manage the IDA designated account, a GoM investment account, and will oversee all other funding from DP for PRISE. The RF will procure the services of an external auditor to conduct financial, technical, and procurement audits of PRISE.
The Bank has reviewed the financial management arrangements of the current RBMMP1 project on several occasions as part of the implementation support of ongoing projects in Mozambique. The most recent review was carried out in May 2006. This followed a previous assessment in February 2006 aimed at evaluating the continuing appropriateness of the financial management arrangements in place. The proposed RBMMP2 has shifted the coordination responsibilities to the Road Fund, and has introduced the concept of sector-wide approach (SWAp) as well as pooling arrangements with other cooperating partners. Further due diligence work will therefore need to be carried out during appraisal to ensure that financial management arrangements are robust enough to support such an undertaking. This work, including a review of the agreed MOU, would need to be carried out in collaboration with other development partners expected to subscribe to the SWAp.

The overall conclusion of the financial management assessment is that in order to establish an acceptable control environment and mitigate the financial management risk, measures outlined in the Financial Management Action Plan should be taken.

7. Sustainability

Critical to the sustainability of the road sector program is improvement of maintenance performance. Sufficient increased resources for maintenance have been allocated in PRISE ($88 million on average per annum). Since maintenance works will largely be implemented by the provincial offices of ANE, ensuring their strong performance will be crucial to sustainability of the program. Clearly, the planned overall spending under PRISE (4.4 percent of GDP) will not be sustainable in the long run, but is considered necessary in the short run to cover the huge backlog and achieve the country’s poverty goals. In the medium term, however, overall resource allocation relative to GDP will decrease, and the share of maintenance compared to investments will increase. During this phase a great deal of emphasis has been placed on development of appropriate annual periodic maintenance programs on paved roads, for which a large portion of the pooled funding is intended.

8. Lessons Learned from Past Operations in the Country/Sector

Phase one of the APL experienced serious implementation delays mainly due to bureaucratic approval procedures related to procurement and insufficient project management capacity of ANE. Due to these delays and general inflation, costs for the phase one sub-projects increased and only 778 kilometers of rehabilitation and upgrading could be carried out as against the 1250 kilometers planned. The sections not covered under phase one are now being financed under phase 2. As a consequence, under phase 2, that no approvals for procurement decisions be required outside ANE is proposed as a Board condition. This matter will be taken up with GoM as a priority during the joint appraisal (with the other DP) planned in February 2007.

Cost increases were also experienced due to inappropriate designs not taking into account availability of local materials and experience within phase one (supported by APL1). During phase 2, ANE plans to develop appropriate Road Design Standards and Technical Specifications based on the past experience. The updating of the design for the sections that were meant to be
financed under phase one but have now been moved to phase 2 also takes into account lower cost options using locally available materials and knowledge.

During phase one implementation ANE’s responsibility extended only to the management of large contracts on the primary and secondary road network (about 10,000 km) and technical advice to the provincial road agencies under the provincial governments. In November 2005 GoM decided that ANE will be made responsible for the entire classified road system (29,348 km). As a consequence ANE needs to be restructured both at Headquarters and in the Provinces. An appropriate organogram, in line with modern road management principles, has been agreed for ANE HQ and its provincial offices. The recruitment process for its key staff is currently ongoing. It is proposed that it will be a condition of effectiveness for this credit that the new ANE is in place. This will be discussed as a matter of priority during appraisal.

9. Safeguard Policies (including public consultation)

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<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<td>Environmental Assessment (OP/BP/GP 4.01)</td>
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<td>Projects in Disputed Areas (OP/BP/GP 7.60)*</td>
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<td>Projects on International Waterways (OP/BP/GP 7.50)</td>
<td>[ ]</td>
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</table>

10. List of Factual Technical Documents

11. Contact point
Contact: Dieter E. Schelling
Title: Lead Transport Specialist
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Fax:
Email: Dschelling@worldbank.org
Location: Dar Es Salaam, Tanzania (IBRD)

12. For more information contact:

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas