I. Project Context

Country Context

Despite rapid economic growth, more than half of Mozambique's population remains poor and highly vulnerable. While economic growth in the country averaged 7.5 percent per year between 1992 and 2009, progress in reducing poverty, particularly in the last few years, has been substantially slower. Although poverty incidence went down from 70 percent in 1997 to 56 percent in 2003, by 2009 over 50 percent of Mozambicans were still living below the poverty line. Proportionally most of the reduction in poverty rate has occurred in urban areas, while in rural areas, where most of the poor live, poverty has remained stubbornly high, thus exacerbating geographic inequalities. The latest poverty estimates from 2009 indicated that poverty was as high as 58 and 74 percent in the rural north and central regions respectively, compared with 16 percent in the urban areas of the southern part of the country. From 2003 to 2009, the poverty headcount rate declined by 10 percentage points (from 39 to 29 percent) in urban areas compared with a decrease of only 3 percentage points (from 65 to 62 percent) in rural areas.

Rural households are especially vulnerable to seasonal and frequent climate-related shocks. On average, close to 80 percent of Mozambicans’ primary income comes from agricultural work and over 90 percent of employment in rural areas is in the farming sector (with a minor proportion of these engaged in wage work in the agricultural sector). This makes the rural population heavily dependent on agricultural activities, which are highly seasonal and sensitive to climatic shocks. Although there are regional variations, on average, rural households experience food shortages caused by seasonal shocks for about four months each year. It is estimated that affected households consume about 40 percent fewer calories during this “lean season” than in the good months. These covariate shocks can significantly affect poverty levels. A study commissioned by the World Bank estimated the impact of these shocks on poverty in the country and found that flood and cyclones can increase poverty rates by more than 2 percentage points. Drought is estimated to increase the national poverty rate by 2 percentage points, and poorer households are more affected than richer households by agricultural pests, drought, cyclones, floods, and low commodity prices (as poor households are more likely to be net producers of agricultural products than richer households).

At the same time, poor households in urban areas have their own distinct vulnerabilities. Urban residents, about 65 percent of whom obtain their primary income from non-agricultural activities, face other risks such as protracted underemployment, low income, food price increases, and other financial shocks less commonly felt in rural settings. For instance, data from 2009 indicates that in Mozambique, it was urban households who bore the brunt of the food price and financial crises. These shocks were reported to mainly affect households in urban areas, with more than 50 percent of urban residents experiencing their impact. Estimates suggest these shocks led to a more than 11 percent decrease in consumption for the poorest 60 percent of the population in urban areas compared with less than 4 percent in rural areas. The urban poor also rely more heavily on food and fuel subsidies and thus face higher financial burdens when they are reduced or eliminated than the rural poor.

Slow progress in reducing poverty and continuing significant levels of vulnerability point to the need for a social safety net system to protect the poorest during predictable and unpredictable shocks. The current situation of the urban and rural poor and the evidence about how shocks affect these households highlight the need to design and implement counter-cyclical interventions to help poor households to cope with the impact of shocks and avoid permanent human capital losses. As discussed above, this is a particular challenge given the high proportion of poor and vulnerable Mozambican households, the country’s mostly flat consumption distribution in the lower quintiles, and different poverty dynamics in rural and urban areas. The government has already put in place a strategy to support the poorest and most vulnerable through a set of interventions to help them to manage shocks, increase and smooth consumption, branch out into income-generating and productive activities, and access to social services such as education and health. The challenge at present is to put this strategy into operation in a way that enables poor households the opportunity to reap the benefit of the country’s recent economic growth.

II. Sectoral and Institutional Context

Public expenditure on social safety nets in Mozambique is low in relation to the size of the poor and vulnerable population, but there is significant scope to increase the effectiveness of current spending. The national budget expenditure for social protection accounted for 2.8 percent of GDP in 2010, of which about 0.7 percent was spent on social assistance programs (mostly non-contributory transfers) and more than 2 percent was spent on pensions. This figure excludes any programs financed by development partners, and social assistance interventions in the education
Mozambique has numerous social protection programs, especially in the area of social assistance, albeit most of them are fragmented, have low coverage, and are not well targeted. The World Bank’s recent safety net assessment for Mozambique identified about 40 different social protection-related programs implemented by a wide range of central government agencies. The Ministries of Education and Health implement several initiatives to increase the use of education and health services, including fee waivers, school feeding interventions, and nutrition programs for HIV/AIDS-affected groups. Multilateral and bilateral donors also finance social protection programs both through government agencies and NGOs. According to the assessment, however, these social protection programs have low coverage in relation to the number of individuals at risk, and there are major gaps in the groups reached by the interventions. Furthermore, there is segmentation and duplication of programs, the generosity of benefits is inconsistent, and there is weak institutional capacity to implement and monitor the programs. One area where there is significant scope for improvement is targeting. Although a few programs are progressively implemented, such as the PSSB, as are primary education and health posts, most social insurance programs and subsidies are generally not pro-poor and do not use accurate and consistent methods to identify and select beneficiaries. Program monitoring is also weak and, along with the failure to implement a proper registry of beneficiaries, creates gaps and overlaps because of the limited coordination between programs. As new resources become available for social protection in the country, it is becoming increasingly imperative to properly identify and keep track of beneficiaries to increase the cost-efficiency and effectiveness of safety net programs.

The government has made significant progress in putting institutional and implementation arrangements for social protection in place, but additional efforts are still needed. Recent legislation and policies have set out a framework for putting the social protection strategy into operation and have clarified institutional responsibilities both at the central and sub-national levels. However, limitations in institutional and operational capacity at all levels are a common challenge. Several studies over the past few years have suggested that MMAS and INAS will require extensive help to set up, implement, and monitor an effective social protection strategy. Although there has been considerable improvement recently, coordination between MMAS and other central agencies responsible for social assistance programs needs to be further strengthened. There is a need to develop instruments to identify the poorest and most vulnerable, to track interventions, and to measure outcomes to inform subsequent decision-making in order to enhance government capacity in the area of social protection.

The Government of Mozambique aims to support extremely poor and vulnerable households through a comprehensive social safety net that is at the core of the National Social Security Strategy. The government strategy is based on the principle that different vulnerabilities require different safety net interventions but that all of these interventions can use a common targeting system to identify and register beneficiaries in a single database. In 2011, the Council of Ministers approved by decree the creation of two main programs aimed at providing support to about 800,000 extremely poor vulnerable households in rural and urban areas once fully expanded. The Basic Social Subsidy Program (PSSB) was designed to target extremely poor and vulnerable households that contain no adults able to work. The Productive Social Action Program (PASP) was designed to target extremely poor households with adults able to work to increase the family’s consumption. The PSSB and the PASP are complemented by the Direct Social Action Program (PASD), which temporarily supports households that are transitorily vulnerable or have been affected by an idiosyncratic shock. Therefore, in the long term, it is expected that, once the PSSB and PASP are fully expanded and an adequate referral system has been developed for the PASD, the government will be able to cover all vulnerable households in Mozambique. However, given the magnitude of poverty and vulnerability in Mozambique and the availability of funds, the government will have to implement this strategy gradually.

As an integral part of these efforts, the Government of Mozambique has requested the World Bank’s support for the design and implementation of the Productive Social Action Program (PASP). The core element of the PASP, a labor-intensive public works intervention, will be supported by the proposed operation. This will constitute a new program within the social protection strategy aimed at: (i) providing a timely and predictable annual (seasonal) source of income to poor and vulnerable households in rural areas affected by the lean season; (ii) temporarily supporting extremely poor households affected by unemployment and low income in urban areas; and (iii) strengthening the government’s capacity to put the ENSSB into operation. The public works activities will be complemented by capacity building, training, and financial literacy activities aimed at helping beneficiaries to increase their income-generating potential.

III. Project Development Objectives

19. The project development objective is to provide temporary income support to extremely poor households and to put in place the building blocks of a social safety net system.

IV. Project Description

Component Name

Institutional strengthening and capacity building to support the consolidation of the National Basic Social Security Strategy

Labor-intensive Public Works

V. Financing (in USD Million)

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<th>Amount</th>
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VI. Implementation

The proposed project supports the government’s efforts to put the Productive Social Action Program (PASP) into operation by implementing and
scaling up a labor-intensive public works intervention. INAS is responsible for the implementation of the PASP under the overall stewardship of MMAS. The proposed project emphasizes strengthening the government’s existing systems and enhancing its capacity to implement and monitor a social safety net. Therefore, the project will be implemented within the existing social protection framework as established by recent laws and regulations, and the institutional and implementation arrangements will follow the current decentralized government administrative structure. From the operational perspective, the proposed project will support the implementation of the PASP while building capacity for making the ENSSB operational. Therefore, the PASP will be scaled up to ensure that it can be coordinated with the revamped PSSB and PASD, with all three programs using common operational tools to select and register beneficiaries and monitor progress.

The project will be implemented over five years. The emphasis in the first year after effectiveness will be on enhancing government capacity and consolidating the institutional building blocks of a social safety net system through Component 1. Although there may be some modest expansion of the labor-intensive public works during the first year of project implementation, full expansion will start during the second year after the project has reached the following key milestones:

(a) INAS has adopted an adequate administrative structure at the central level, has hired enough staff with relevant expertise and skills, and has developed and put into operation the main tools needed to implement the program (the single beneficiary registry, the MIS and necessary IT equipment, and the targeting mechanism and process).

(b) An assessment of feasible payment mechanisms have been carried out and a decision acceptable to the Bank has been made regarding which mechanisms will be adopted in each district/municipality.

(c) The implementation plan and the technical manual for public works have been fully developed and approved by the Bank.

The government will gradually scale up the program according to an agreed plan to cover the 40 districts and five municipalities (see Annex 2 for details). The actual implementation of the public works programs in each district/municipality will be subject to compliance with the following activities at the district level: (i) signing a memorandum of understanding (MoU) between the district/municipality and INAS; (ii) adopting a payment agent and a procedure for delivering cash transfers to participants in the PASP that is acceptable to the Bank; and (iii) hiring an INAS officer for each implementing district who is fully allocated to the public works program.

VII. Safeguard Policies (including public consultation)

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VIII. Contact point

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