Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 19-Oct-2018 | Report No: PIDISDSA25390

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Mozambique	P166107	Mozambique: Financial Inclusion and Stability Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	17-Oct-2018	14-Dec-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Economy and Finance	Ministry of Economy and Finance, Deposit Guarantee Fund, Bank of Mozambique, Instituto de Supervisao de Seguros de Mocambique	

Proposed Development Objective(s)

To increase financial inclusion for underserved groups and MSMEs, while strengthening the overall financial safety net

Components

Increasing access to and usage of transaction accounts and access to finance for MSMEs
Strengthening financial safety nets
Project management, monitoring, and evaluation

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	40.00
Total Financing	40.00
of which IBRD/IDA	40.00
Financing Gap	0.00

DETAILS

World Bank Group Financing	
International Development Association (IDA)	40.00
IDA Grant	40.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Mozambique is a low-income country of 29.6 million people located in the south-east corner of southern Africa.** It has a GDP per capita of USD 417, which is among the lowest in the world. The economy is dominated by the agricultural sector, which accounts for 25 percent of Mozambique's GDP and employs about 75 percent of the population. Mozambique is developing natural gas and mineral resources, which has the potential to transform the economy. It has been the principle driver of recent economic growth and the main recipient of foreign direct investment. Poverty is high at 48.4 percent in 2015 albeit lower than the 58.7 percent rate registered in 2009.

2. **Mozambique has moderated its pace of growth as it continues to confront the downturn that followed the sovereign debt crisis of 2016.**[1]**.** Economic growth fell to an average of 3.8 for 2016 and 2017, down from 8 percent on average over the preceding decade, and is expected to be 3.2 percent in 2018. The loss of confidence following the sovereign debt default and volatility in prices have contributed to a fall in private demand, especially for services, which was the largest driver of growth in the years prior to the economic downturn. The extractive sector is not expected to generate enough income opportunities for the net annual inflow of job seekers.

3. **Mozambique is emerging from a period of acute macroeconomic volatility and continues to face a constrained fiscal environment with reduced scope for financing expenditures.** Monetary policy helped to stabilize the Metical and bring inflation down to 5 percent in July 2018 from a peak of 26 percent in November 2016. The shift away from external financing and the stronger Metical helped to reduce the public debt stock from 128 percent at its peak in 2016 to 112 percent by end 2017. External debt fell to 85 percent of GDP by end 2017, down from 104 percent of GDP in 2016.[2] Domestic debt (including from state

[1] World Bank. Mozambique Economic Update, October 2018.
[2] In April 2016, previously undisclosed public debt of USD1.4 billion (equivalent to 10%of GDP) was made public.

owned enterprises [SOEs]) increased over this period by 2 percentage points of GDP to 27 percent and has continued to grow in 2018.[3] Although it represents a relatively small share of the total public debt stock, domestic debt issued since 2016 comes at a higher cost and with shorter maturity profiles. Fiscal pressures are acute with the Government in arrears with value-added tax rebates of USD2 billion (12 percent of GDP).

4. **Developments since 2016 have been challenging to the banking system, as lower growth and an increase in lending rates reduced borrowers' capacity to repay debt.** In 2017 credit to the private sector contracted by 9 percentage points to 26 percent of GDP, down from about 35 percent in 2015 and 2016. Banks have allocated more assets to government securities and to cash and reserves at the central bank.

Sectoral and Institutional Context

5. **The financial sector in Mozambique is predominantly comprised of banks that control most financial sector assets and are primarily funded by deposits.** The three largest banks dominate the market and include two subsidiaries of Portuguese banking groups and one subsidiary of a South African banking group. Measures to develop a more inclusive and competitive sector that provides diverse services tailored to the needs of the poor have been limited. A more include model involves a framework to increase access to the financial system in a safe, sound and efficient manner. Transaction accounts are a core building block for financial inclusion and can facilitate access to many basic services including electricity and water on a pay-as-you-go basis. Transaction accounts increase efficiency and reduce costs both for the sender and the recipient. The capability to send and receive transfers, pay for basic services, and store money on digital platforms, contributes directly to poverty reduction.[4]

Account ownership and usage

6. **Access to electronic transaction accounts is limited in Mozambique, particularly for women and for the poorest.** Despite improvements, 58 percent of adults do not have a transaction account. There is a significant gender disparity with only 33 percent of women owning an account relative to 51 percent for men, which is a wider gap than neighboring countries or the region. Only 27 percent of the poorest 40 percent of the adult population have a transaction account. Households that have access to an account are concentrated in urban and peri-urban centers. Outreach in rural areas has improved with the Government's "One District, One Branch" program, albeit from a low base and at high cost.

7. **People still have a strong preference for cash when settling transactions, particularly in rural areas, although the use of electronic payments is increasing fast.** The FINDEX survey found that in 2017 only 30 percent of adults in rural areas made or received digital payments in the past year. About 52 percent of adults indicate they do not have an account in a financial institution because they believe they lack sufficient funds, 24 percent because they believe it is too far away, 19 percent because they believe it is too expensive, 19 percent because they do not have documentation, and 8 percent because they do not trust financial institutions.

8. **Mobile money account ownership is growing rapidly due to increased mobile phone penetration.[5]** The

[3] World Bank. Mozambique Economic Update, October 2018.
[4] World Bank. Payment Aspects of Financial Inclusion, September 2017.
[5] There are 13 million active (90-days) mobile phone subscriptions in Mozambique. Mobile coverage reaches 70% of districts.

Bank of Mozambique (BOM) reports 6.6 million mobile money accounts registered in Mozambique. Ownership exhibits a gender disparity with only 17 percent of women owning accounts relative to 27 percent of men. In 2017, there were more individuals with mobile money accounts (405 accounts per 1,000 adults) than bank account (297 accounts per 1,000 adults). Ownership does not necessarily translate into usage as only 22 percent of adults use a mobile phone or the Internet to access an account. Most mobile money transactions were *cash-in* and *cash-out* operations (54 percent), while payments for goods and services and other transfers represented 46 percent.

9. **Regulatory measures to encourage growth of financial services in underserved areas include e-money issuance and mobile and banking agents .**[6] In May 2018 there were more than 32,000 mobile money agents. Still, some legal requirements prevent higher levels of financial inclusion. Only 58 percent of adults in Mozambique have the required national identify card to validate identity when opening accounts. Moreover, people younger than 21 years old are not allowed to open bank accounts, which excludes about 55 percent of the population.

10. **The market for mobile money in Mozambique is expanding but is dominated by one operator.** Since the launch of mobile money in 2011, all three mobile network operators have established subsidiaries for mobile payments (mKesh, eMola, and mPesa) that are licensed and supervised by BOM and restricted to payment services. In mid-2018, mPesa reported 3.5 million active accounts defined as one transaction a month (174,000 for mKesh and 25,000 for eMola). The value of mobile money transactions spiked in 2017 (18.8 percent of GDP vs. 0.24 percent of GDP in 2014). About 115 million mobile money payments and transfers were processed (not including cash-in and cash-out operations). The tariff structure for operations is regressive. A withdrawal of MZN60 (USD 1) incurs a fee of MZN 4 (7 percent fee), whereas larger withdrawals incur a fee of between 1 and 2 percent of its value. Bill and merchant aggregators do not exist, although BOM is considering regulations to allow this type of financial service.

11. **There are many obstacles to increase mobile financial services in Mozambique.** These include the lack of interoperability between mobile money operators and banks; limited penetration of mobile services outside cities; limited awareness and trust, particularly of digital money transfers provided by agents; absence of agents with sufficient liquidity, particularly in rural areas; and identification of account owners is challenging as documentation is often non-existent impeding know-your-customer (KYC) compliance.

12. **Many districts have limited physical access points for financial services despite the use of agents.** Only 55 percent of the 154 districts in Mozambique have at least one bank branch relative to 73 percent of districts with at least one e-money agent. Only 58 percent of districts have at least one ATM relative to 90 percent with at least one point-of-sale (POS) terminal. Maputo City has the highest number of access points followed by the provinces of Maputo and Gaza. The worst served provinces are Cabo Delgado and Niassa.

13. **BOM has been implementing a program of financial education since 2014** that aims to increase (i) awareness of financial services among consumers, (ii) competition among financial service providers, and (iii) protection to consumers, particularly those with limited financial literacy. The program covers topics related to banking services and numeracy, but does not cover aspects related to mobile money.

[6] To increase trust in e-money as means of payment, BOM strengthened its legal and regulatory framework requiring that: (i) non-bank e-money issuers use trust accounts at banks and; (ii) funds be made available for immediate redemption, withdrawal or other use by customers; and (iii) clients to have priority against other creditors of the e-money issuer.

14. **Although electronic transfers have been increasing, a significant share of Government payments is inaccessible to the recipient or still made in cash.**[7] About 94 percent of civil servants receive their salaries directly in their bank accounts, but some live and work far away from a bank branch and incur significant costs to withdraw cash. For example, a large share of the 70,000 teachers working in rural areas lack physical proximity to a bank branch or ATM. They can spend as much as a week and the equivalent of 3-5 days wages to collect their salary, which contributes to teacher absenteeism.[8] An additional 10,000 facilitators of an adult literacy program (DIPLAC) and an early-childhood development program (DICIPE) receive cash stipends at high cost to the Ministry of Education.

15. **Payments to beneficiaries of social safety net programs are almost exclusively made in cash.** The National Institute of Social Action (INAS) is implementing three social safety net programs: (i) a social pension covering about 375,000 individuals; (ii) a productive safety net program for households with able bodied members covering 97,000 households, with a plan to scale up to 120,000 beneficiaries in 2019 and 134,000 in 2020; and (iii) the Direct Social Support Program which has two components, one called multiform devoted timely support in-kind and a second component focused on an Post-Emergency Cash Transfer program covering 18,500 households in selected drought-affected districts. The implementation of the safety net programs has received technical and financial support from development partner and donors. Despite this, social protection coverage is low with current programs covering less than 500,000 poor and vulnerable households or less than 20 percent of poor households in the country.[9]

16. **INAS has been working to gradually outsource payments to beneficiaries, which is expected to increase transparency and accountability**. The program seeks to improve identification of beneficiaries (e.g., using biometrics and photo IDs), while at the same time serve as an initial verification process of current beneficiaries (e.g., whether beneficiary has migrated or died). However, the costs of third-party payments are high (more than 15 percent of the transfer value) relative to commercial transfers on banking or mobile platforms (about 1 percent).

17. **Government financial management systems can only make payments to bank accounts.** Technical challenges sometimes cause delays in payments. By law, all Government payments must be made to a bank account, with the identity of the owner validated by the bank. Payment orders are processed by the central bank, which debits the single treasury account and credits the beneficiary's account. Government payments on mobile accounts would require legal, regulatory and technological changes to the financial management system.

Financial Intermediation and Stability

18. **Financial intermediation as a share of GDP has declined since 2015 and accelerated in 2017**. The trend is particularly pronounced for credit, which has declined in nominal terms since the second half of 2016.

[7] A financial management system (e-SISTAFE) linked to the treasury single account manages all government payments. In 2017, this platform processed 6.7 million payments, an increase of 25 percent from 2015.
[8] In 2015, 12 percent of teachers that reported absence (i.e., 2.7 percent of all teachers surveyed) argued that they missed classes to "collect salaries" (i.e., to withdraw cash from their bank account at the nearest bank branch).
[9] There are 2.46 million poor households in Mozambique. Estimation is based on the IOF 2014/15: 12.3 million people living under the basic needs poverty line in the country, and an average of 5 household members per household.

19. **There has been a sharp increase in credit risk since end 2015, which is reflected in the growth of prudential non-performing loans (NPLs) but not in impaired assets (accounting NPLs)**. Prudential NPLs in the banking sector increased from 4.3 percent of gross loans in 2015 to 12.6 percent in June 2018. Such a trend is however not observed for impaired assets (5.2 percent of gross loans at March 2018). Prudential NPL ratios in the three largest banks range from 3 to 20 percent. The regime does not capture well exposures on state entities. Some banks have started to swap some of their non-performing SOE debt for government bonds with maturities of 10 to 15 years.[10]

20. **Capital buffers increased significantly since 2016 and headline liquidity figures do not indicate signs of stress.** Since January 2014, the industry-wide capital adequacy ratio (CAR) increased 5.5 points to reach 20.1 percent in March 2018 relative to a required minimum of 12 percent. Banks are also liquid, but the volatility of macro-financial environment could rapidly impact liquidity, particularly as a quarter of banks' balance sheet is denominated in foreign exchange and they process large foreign currency flows. The increase in CAR was driven by the rapid increase of capital (+ 97 percent for Tier 1) than that of risk weighted assets (+37 percent) reflecting the shift in portfolio structure (government securities attract a zero percent risk weight), high profitability and retention of profits (including constrains in distributing dividends abroad to parents). Capital buffers tend to be slightly lower for the largest banks. Moreover, headline capital buffers are overestimated as prudential requirements follow a Basel I regime and do not include operational and market risk charges.

21. **The real cost of borrowing is high**. At 25 percent, average commercial bank lending rates in Mozambique are too expensive for most of the private sector and are above peer countries. The lending–deposit spread is high and in 2017 increased to 10.6 percent from an average of 6.2 percent in 2010–2015, which is higher than regional and income group medians. This increase reflects the higher risks in the current macroeconomic environment. The spread also reflects structural issues such as high operating costs, lack of credit information, limited availability of collateral, and limited competition.

22. **Banking supervision is gradually improving but remains constrained.** There is scope for additional tightening in the treatment of rescheduled and reclassified loans as well as a need for the supervisor to improve implementation of IFRS9 provisioning requirements, which have been mandatory in Mozambique since January 2018.[11] The IMF and the central bank of Norway (Norges Bank) are supporting banking supervision strengthening while the World Bank has provided technical assistance on bank resolution and cross border supervision. A separate agency (ISSM) supervises the insurance and pension sector, but it lacks independence and has limited capacity to carry out its functions. The Bank has been providing technical support to improve its supervision capacity, including preparation of a supervision manual and support for on-site inspections of select insurance companies.

23. **Off-site supervision platforms are outdated and rely on manual interventions with limited use of automated financial reporting platforms and tools to support risk-based supervision.** Prudential and

[10] In 2017, the Government issued two bond series for a total of MZN 7.4 billion (USD 116.9 million or 0.9 percent of GDP) directly to commercial banks in exchange of SOE loans that were reaching maturity.
[11] IFRS 9 (financial Instruments) was completed in 2014 and became effective in January 2018. Among other changes, accounting for loan loss provisioning will change from an incurred to an expected loan loss model; expected credit losses will also be recognized from inception and not only when the asset is underperforming.

financial returns from some regulated entities are still transmitted through spreadsheets and processed manually leading to input errors and absorbing scarce supervisory capacity. Off-site supervision is therefore limited and does not adequately reinforce on-site supervision of financial institutions.

Crisis Management

24. **The creation of a new financial stability department within the central bank in early 2018 was an important measure, which needs to be complemented with efforts to improve the capacity to manage and resolve a financial crisis.** This involves measures to assess the adequacy of liquidity management framework (instruments, collateral policies); financial safety nets (deposit insurance, lender-of-last-resort arrangements); crisis preparedness and crisis resolution frameworks (bank resolution); and the possible spillovers from financial sector instability.

25. **The failure of two banks in late 2016 revealed the lack of legal instruments to resolve distressed banks.** The central bank is seeking to address this gap by undertaking a review of the legal and regulatory framework for bank resolution and deposit insurance, with support from the World Bank and IMF. This review resulted in proposed amendments to the Financial Institutions Law (No. 15/99, last amended in 2004), the central bank organic law, the special insolvency regime for financial institutions, and the deposit guarantee fund decree-law. The proposed changes include making the central bank the statutory resolution authority, introducing resolution powers in line with international guidelines, and expanding the mandate of the deposit guarantee fund.[12]

26. **The absence of resolution funding was a key weakness in the authorities' response to the 2016 bank crisis, particularly as the deposit insurance scheme cannot be used to facilitate resolution.** Authorities had to recapitalize a weak bank by drawing on the BOM employee's pension fund, which became the primary shareholder of the bank with 90 percent of its equity. The use of the central bank employees' pension fund resources is unusual and subject to conflicts of interest. The episode also shows the lack of operational capacity at the deposit guarantee fund —the *Fundo de Garantia de Depósitos* (FGD). The staff of the FGD is limited to three administrators nominated by the central bank, government, and bankers' association, respectively.

27. **Deposit insurance coverage is limited.** Only local currency deposits owned by individual residents in Mozambique are covered up to a limit of MZN 20,000 (USD 332). Mobile money issuers are required by regulation to hold custody (trust) accounts with commercial banks, but these accounts are not disaggregated by the deposit insurance agency and are therefore not covered.

28. **The deposit guarantee fund covers less than 1 percent of insured deposits relative to a target of 3 percent.**[13] Banks paid their first annual premiums only in May 2017, but these are unlikely to provide the

[12] The Financial Stability Board established the Key Attributes of Effective Resolution Regimes for Financial Institutions, which are the main international guidelines on bank recovery and resolution.
[13] This target fund size was established by ministerial decree. It is below the average of 8.9% of insured deposits for ex-ante funding schemes of four lower middle income countries surveyed by the IADI in 2015 and that determine their target fund size as a percentage of insured deposits (the average target fund size for all 22 surveyed countries that determine their target fund size as a percentage of insured deposits was 3.5%; however, most of the surveyed countries have more developed financial systems than Mozambique).

necessary funding in the short to medium-term. The fund's initial capital came from the government (MZN 60 million or USD 1 million), the central bank (MZN 30 million or USD 0.5 million) and premiums paid by financial institutions (MZN 15 million or USD 0.25 million). The government is negotiating with KfW grant financing to contribute an additional USD 9.2 million in capital. Even with this grant, the size of the deposit insurance fund is insufficient. There is no fiscal backstop to cover deposit insurance liabilities in a situation where the resources of the fund are insufficient.

Credit Infrastructure

29. **Mozambique has inadequate credit infrastructure, which limits the availability of credit to the private sector**. A weak insolvency regime, the absence of large-scale financial reporting, and an inefficient credit reporting system results in suboptimal credit allocation. This partly explains why banks primarily provide asset-based lending to large firms and offer little cash flow-based lending or start-up financing, and why they provide limited credit to MSMEs.[14]

30. **The legal framework that governs secured transactions in Mozambique is dated, limited and fragmented, and does not support lending based on movable assets**.[15] The process for registering security interests in movable assets is manual and paper-based. The scope of assets over which security interests can be registered is also limited reducing the ability for MSMEs to use many of the assets they have as collateral.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To increase financial inclusion for underserved groups and MSMEs while strengthening the overall financial safety net.

Key Results

31. **To assess progress towards achievement of the PDO, the project will focus on five key indicators:**
    a. To evaluate the increase in usage of transaction accounts, the project will monitor the percentage of targeted beneficiaries that make or receive digital payments (disaggregated by target groups, such as urban/rural, teachers, lifelong learning facilitators, social benefits recipients, gender).
    b. To assess the impact of the project on the market, and contribution to agent network development, enabling regulations, and spillover effects from the teachers' mobile money uptake, the project will measure the percentage of adults that make or receive digital payments, disaggregated by gender.
    c. The number of active (bank and mobile money) agents (disaggregated by geography).
    d. The number of MSMEs that receive loans secured by movable assets.
    e. The percentage of insured deposits covered by resources in the deposit guarantee fund.

[14] MSMEs contribute to 28 percent of GDP and account for 42 percent of formal employment but most (75 percent) are financially excluded. In 2017, agriculture was responsible for 21 percent of GDP but credit to agriculture represented only 4 percent of lending (down from an average of 12 percent in 2000–2010).
[15] IFC is supporting preparation of new legal frameworks for insolvency and secured transactions. The collateral registry law was submitted to Parliament for approval and the related draft regulations have been prepared.

D. Project Description

32. **The proposed Project seeks to promote measures to increase financial inclusion by providing access to electronic transaction accounts to underserved segments of the population and increase the capacity of the deposit insurance scheme to protect individual depositors and support overall financial stability.** Broadly, this will be implemented through (i) technical and advisory measures to increase the usage of transaction accounts by facilitating the digitization of government payments; (ii) development of a program to improve the ecosystem for electronic transactions, particularly in rural areas, and the enabling environment for its adoption, including investments in financial literacy and awareness; (iii) establishment of a new collateral registry to facilitate access to finance for MSMEs; (iv) provision of capital, TA, and institution support to improve the operational capacity of the deposit insurance scheme; and (v) technical and advisory support to improve surveillance of financial sector risks. The project has three components with a total investment of USD 40 million.

Table 1: Description of Project Components

Component	*Scope of Activities*	*Outcomes*	*Allocation (USD m)*
Component 1: Increasing usage of transaction accounts and access to finance for MSMEs			**20**
1.1 Digitization of Government payments	Expansion of payments capability to enable Treasury to interface with e-money providers. Support for review/update of the legal and regulatory framework for government payments. Incentive program to increase the availability and liquidity of e-money agents in rural areas. Technical assistance to facilitate account and identity verification processes for basic/limited financial services (small value) Create a roadmap for digitization of all government payments at the national and local levels	Government payments for targeted groups (teachers, lifelong education facilitators, social protection recipients) paid into transaction accounts, increasing the convenience and access, thus enabling more usage. Improved management, transparency and efficiency of government payments. Increased agent network in the target underserved areas (increased number of financial service access points in rural areas) Expanded digitization of government payments into transaction accounts beyond the initial target groups (scaled up usage)	10
1.2 Financial literacy and awareness	Training on mobile money and account management to targeted groups (e.g., rural teachers, social benefits recipients). Training and outreach to agents in underserved areas.	Increased confidence and readiness for the target groups to use cashless transactions (measured through the uptake in account ownership and usage).	8
1.3 Enabling environment for access to credit for MSMEs	Centralized collateral registry with proper workflows and rules.	Increased willingness by financial institutions to accept movables as collaterals for loans to MSMEs.	2
2. Financial safety net strengthening			**17**
2.1 Deposit insurance capitalization and operationalization	Capitalization of the deposit guarantee fund	Individual small-scale depositors protected.	12

	Institutional capacity building of the deposit insurance agency, including deployment of an integrated management information system	Deposit insurance agency can fulfill its mandate	2
2.2 Supervisory technology	Upgrade the technological platform utilized for supervision System for Treasury to improve public debts management	Improved risk-based supervision of the financial sector Enhanced monitoring of public debt and contingent liabilities	2 1
3. Project Management, Monitoring, and Evaluation			**3**
		Total	**40**

Component 1: Increasing usage of transaction accounts and access to finance for MSMEs (USD 20 million)

33. **The objective of this component is to support increased usage of transaction accounts (bank or mobile money accounts) in remote and underserved areas**. It will support the digitization of government payments by introducing the capability to, in addition to bank accounts, deposit directly in mobile accounts, which does not currently exist. It supports the transition from a cash-based delivery model of social benefits and transfers to a digital approach, which will enhance the transparency, efficiency, and convenience of government to person payments. Individuals residing in underserved areas, particularly rural, will benefit as digital payments will supplement the limited access to physical bank branches, ATMs or other financial service access points (e.g. point of sale devices).

Sub-component 1.1: Digitization of Government payments (USD 10m)

- *Funded intervention*: (i) Payment module that will enable the Treasury to interface with e-money providers; (ii) technical assistance to the Treasury to review and update the legal and regulatory framework for government payments, internal processes, and for implementation of the new payment procedures; (iii) development of an incentives program to increase the availability of and liquidity of payment agents in rural areas; (iv) creation of a roadmap for digitization of all national and local government payments; and (v) technical assistance to facilitate account and identity verification processes for basic/limited financial services (small value).[16]

Sub-component 1.2: Promoting financial education and awareness (USD 8m)

34. **This sub-component aims to support the establishment of a financial education and awareness program that will increase the understanding and capabilities of individuals affected by the move to digital payments (e.g. teachers in rural areas and social protection beneficiaries)**. The program will support beneficiaries of government to person payments on how to use personal identification numbers (PINs), how much money they should receive at each payout period, how fees (if any) are incurred, how to access the payments, and how to redress any grievances including their rights as financial consumers. These initiatives will encourage improved financial decision making, money management, and better utilization of financial products and services for consumption smoothing, risk management, and investment. Financial awareness campaigns will aim to drive behavior changes through channels such as customized text and voice messages during teachable moments. This component will benefit from the Bank's experience with

[16] BOM is considering a tiered KYC approach requiring only basic identification for a limited set of financial services.

financial education and awareness programs.[17] The program will be governed by a committee that will include several stakeholders including the treasury and central bank.

- *Funded intervention*: financial education and awareness programs.

Sub-component 1.3: Enabling environment for access to credit for MSMEs (USD 2m)

35. **This project will finance the establishment of a centralized online registry of security interests in movable property**, which will be regulated by BOM. The project will finance awareness campaigns among potential borrowers on the benefits of movables-based finance and the collateral registry. Developing asset-based lending and increasing confidence in market-based asset valuations support credit provision to those that lack immovable property such as MSMEs and women-led businesses. This complements other ongoing efforts by the Bank and the IFC to improve the ability for creditors to efficiently and cost effectively enforce their rights in the event of debtor default or insolvency, which is also essential to confidence in the provision of credit by financial institutions.

- *Funded intervention*: hardware for a centralized web-based collateral registry; outreach campaign (USD 2m)

Component 2: Financial safety net strengthening (USD 17 million)

36. **The objective of this component is to increase the capacity of the deposit insurance scheme to protect individual small depositors and contribute to overall financial stability**. This includes capital for the deposit guarantee fund with the financing linked to the achievement of agreed disbursement linked indicators (DLIs). It also provides advisory and technical support to strengthen the institutional capacity of the deposit guarantee fund, as well as financing for upgrading the prudential reporting platform and risk management analytical tools employed for off-site supervision of the financial sector.

Sub-component 2.1 Deposit insurance capitalization (USD 12m) and institutional strengthening (USD 2m)

37. **Capitalization of the deposit insurance fund will be based on evidence of achievement of DLIs** (see table below). Disbursement for DLI 1 is expected to take place during the first year of implementation, as the draft legal amendments have already been prepared. Disbursement for DLIs 2 and 3 will require more time and are expected to take place in the second year of implementation.

Table 2. Disbursement Linked Indicators for Capitalization of the FGD

DLI	Summary of Verification Protocol	Amount (USD million)
DLI 1: Strengthen bank recovery resolution framework	Official letter from the Ministry of Economy and Finance confirming that the law and regulation on bank recovery and resolution has been enacted, attaching copy of the relevant decision and regulation issued by Parliament and the Council of Ministers.	4

[17] World Bank Group. 2018. *Toolkit: Integrating Financial Capability into Government Cash Transfer Programs.*

DLI 2: Improve FGD's ability to undertake deposit insurance functions	Official letter from the Deposit Guarantee Fund confirming that the deposit insurer has implemented its staffing strategy and developed the necessary guidelines, manual, and procedures to complete its mandate including payout of deposits, management of the deposit insurance fund, establishment of an appropriate premium structure, and development of a target fund ratio.	4
DLI 3: Expand deposit insurance coverage	Official letter from the Ministry of Economy and Finance confirming that regulations have been issued covering the following: (i) coverage limit per depositor at a financial institution increased; (ii) coverage of deposits held by legal entities and non-residents provided, (iii) coverage of foreign currency deposits provided, and (iv) "pass through" coverage of mobile money accounts provided	4

- *Funded intervention*: deposit insurance fund capitalization (USD 12m), institutional capacity building of the deposit insurance agency and deployment of an integrated management information system (USD 2m).

Sub-component 2.2 Upgrading supervisory technology (USD3m)

38. **To support better risk management and supervision of the insurance and pension sectors, the project will finance the development and implementation of new supervisory technologies.** This will involve the design and deployment of ICT systems to improve the supervision of insurance and pension entities along the following key processes: information standardization, reception, data storage, data processing and workflow; data extraction and reporting; supervision and risk analysis. The Project will support training to supervisory staff in the use of the new supervision technologies. The project will also support Treasury to improve oversight and management of public debts and state guarantees.

- *Funded intervention:* platforms (and related training) for off-site supervision of the financial sector (USD 2m) and public debt management (USD 1m).

Component 3: Project management, monitoring and evaluation (USD 3 million)

39. **Project Management**: The project will establish a dedicated PIU within the Ministry of Economy and Finance comprised of individuals that can work full time on the project's implementation. This will entail a project coordinator, a procurement officer, a financial management officer, and a monitoring and evaluation officer. To ensure proper coordination and supervision of the project, a Project Steering Committee (PSC) will be established, composed of major stakeholders in the project. Section IV expands on implementation arrangements.

- *Funded intervention*: salaries and other operating costs of the PIU.

E. Implementation

Institutional and Implementation Arrangements

40. **The Ministry of Economy and Finance (MEF) will be the responsible Government counterpart for this project**. The Ministry will be responsible for implementing the project with full fiduciary responsibility. To

carry out its responsibilities and effectively implement the project, the Ministry will work with several stakeholders, including the BOM, CEDSIF, the Ministry of Industry and Commerce, the FGD, and the ISSM. Coordination will be supported by the establishment of a Project Steering Committee headed by MEF. Establishment of the PIU will be a condition for project effectiveness.

41. **The MEF will establish a PIU that will be responsible for coordination of responsible persons, procurement, financial management, monitoring, evaluation, and reporting**. The PIU will include at least one project manager, one accountant, one procurement officer, and one monitoring specialist. The PIU will set up financial management systems that meet World Bank requirements and will prepare the project accounts. The PIU will recruit an external auditor to audit the project accounts.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project is not expected to have any environmental impact. The project will not involve physical investments that have relevant implications for environmental and social safeguards. Most investments will be in IT software systems and capitalization of the deposit insurance fund. These investments do not require physical displacement of persons or have negative environmental or social implications for indigenous people.

G. Environmental and Social Safeguards Specialists on the Team

Paulo Jorge Temba Sithoe, Environmental Specialist
Maria Do Socorro Alves Da Cunha, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	Project will not involve physical investments that have relevant implications for environmental safeguards. Most investments will be in IT software systems and capitalization of the deposit insurance fund. These investments do not require physical displacement of persons or have negative social implications for indigenous people nor anticipated to have any environmental impacts.
Performance Standards for Private Sector Activities OP/BP 4.03	No	This policy is not applicable since the project will not involve physical investments or private sector activities

Natural Habitats OP/BP 4.04	No	The policy is not applicable as the project is not involved in physical investments that would affect natural habitats
Forests OP/BP 4.36	No	The policy is not applicable as the project is not involved in physical investments that would affect forests
Pest Management OP 4.09	No	The policy is not applicable as the project will not finance any activities that will use pesticides
Physical Cultural Resources OP/BP 4.11	No	This policy is not applicable since the project will not involve physical investments
Indigenous Peoples OP/BP 4.10	No	These investments do not require physical displacement of persons or have negative social implications for indigenous people nor anticipated to have any environmental impacts.
Involuntary Resettlement OP/BP 4.12	No	These investments do not require physical displacement of persons or have negative social implications for indigenous people nor anticipated to have any environmental impacts.
Safety of Dams OP/BP 4.37	No	Project will not involve physical investments that have relevant implications for environmental safeguards. These investments are not expected to have any environmental impacts.
Projects on International Waterways OP/BP 7.50	No	Project will not involve physical investments that have relevant implications on environment or International Waterways
Projects in Disputed Areas OP/BP 7.60	No	This policy is not applicable

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
The project will not involve physical investments that have relevant implications for environmental and social safeguards. Most investments will be in IT software systems and capitalization of the deposit insurance fund. These investments do not require physical displacement of persons or have negative environmental or social implications for indigenous people.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
Not applicable.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Not applicable.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Not applicable. The project does not trigger environmental or social safeguards.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Not applicable.

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

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APPROVAL

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