I. Project Context

Country Context

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

In the post-war period, Mozambique succeeded to attract a number of mega-projects including: the Mozal aluminum complex by BHP-Billion, gas development by Sasol South Africa, and Moma mineral sands by Kenmare Resources. These projects received substantial concessions from Government in order to demonstrate that “doors were open for business”. The approach started to pay off by establishing a visible track record of a stable investment environment for large investors. Mozambique has continued to attract large scale investors including Vale, Rio Tinto, Tata, Coal India, Jindal, Beacon Hill, Anadarko, ENI, Statoil, Petronas, and others. It is noted that Mozambique successfully raised financing for the first toll road in Sub-Saharan Africa outside of South Africa (Maputo – Pretoria toll road) and has an experience with a Private Public Partnership (PPP) and International Bank for Reconstruction and Development (IBRD) enclave financing (Sasol gas pipe-line). This experience coupled with its long coastline and rich resources continues to position Mozambique as a promising mining investment destination of choice in SSA for complex mega-projects, in addition to its position as a natural transit point able to serve adjacent land-locked countries that currently use less direct, more costly options.

However, despite these mining developments, the healthy growth rates of the Mozambican economy paradoxically did not translate into any significant poverty reduction and the impact of mega-projects has been disappointingly low. The communities resident near and around mega-mining projects (such as those located in Tete and Nampula Provinces) are, in fact, experiencing more of the negative impacts of these mine development operations, including inflation, as the disparity in incomes amongst local populations and migrant workers keeps growing. It seems that the most positive economic growth at the local level is only evident in the Maputo and Matola areas which both benefited from a multitude of projects, improved trade connectivity through the Matola and Maputo ports, and functioning rail and road links into and out of South Africa. Up until 2008, Mozambique largely avoided the impacts of the “resource curse”, attributed to the low level of integration of existing mega-projects into the economy as well as the expatriation of revenues. However, with increased development, the risk of resource curse impacts will grow.

The risks to be considered include: foreign exchange and inflation at the country level which to date have not yet been affected by the development of mega-projects; an influx of large revenues in the form of taxes and royalties is anticipated but systems are not in place to adequately collect, manage or allocate them; and the macro effects of commodity price fluctuations are also not yet a visible factor on the economy but pose considerable risk in the current regional and global market. In 2008, a joint International Monetary Fund - World Bank – Norway – Department for International Development of the United Kingdom (DfID) mission took place to discuss options to improve the impacts of mega-project developments for the economy which informed a number of reforms that were put in place and continue today.

To improve the impact of mega-project development on the overall Mozambican economy and to tangibly reduce poverty, Government’s strategy is evolving towards better integration of large investments into the overall socio-economic and environmental development targets. This is being achieved through a series of actions to improve cross-sectoral coordination toward maximizing local employment and procurement, and targeting pro-poor growth. In view of decreased country risks, Government was able leverage more balanced mining investment agreements after 2006-7; these are the years during which a new Mining Law and new fiscal laws for the mining and petroleum sectors were adopted. A new PPP and Mega-projects Law was adopted in 2011 with an objective to improve economic linkages and revenues from PPPs and Mega-projects. While the new law has some unintended consequences for the extractive industries sector, it strives to improve transparency and accountability as well as economic planning by Government– all of which are required for further sound economic growth. The reform process requires strong and sustainable support and coordination amongst Government, development partners, private sector and local communities.
II. Sectoral and Institutional Context

The majority of current and forecasted mega-projects in Mozambique are in the natural resources sector dominated, investment size-wise, by natural gas production and transmission (pipeline), mining, and mineral processing. With its vast mineral and hydrocarbon resources potential, Mozambique may be able to not only achieve higher economic growth rates than ever before, but to also graduate to middle-income country status much sooner than originally forecasted, enabling it to take on a key role in regional economic development. For Government, it has now become critical to ensure that (i) the natural gas and mining sectors (which will continue to dominate investments for decades to come) and, if discoveries are made oil, are developed in a sustainable way, (ii) the revenues from the sectors are efficiently collected and transparently managed to achieve desired growth across all productive sectors, (iii) the resource curse is avoided through fiscal management and planning and diversification of the economy, and (iv) that natural gas production and mining contribute to the overall economic growth and development agenda of Mozambique including infrastructure and power, and mobilization of midstream, downstream and ancillary industry and businesses. It must be underscored that based on the experience of Mozambique and other resource rich countries, where economic growth has not translated into poverty reduction, there is a need for specific and targeted “pro-poor” and inclusive economic growth strategies to posit the sector to be sustainable - and that it is essential that such strategies have clear and strong Government support.

The extractive industries sector in Mozambique currently accounts for about 5 percent of the country’s Gross Domestic Product (GDP), primarily from natural gas development. Expectations are that in as little as 5 years (i) coal and new natural gas projects alone could double their sector contribution to GDP; and (ii) with more than 1000 active prospecting and exploration licenses, based on globally comparative indicators, the metals and minerals sectors have the potential to contribute an additional 5-8% to GDP.

Natural Gas Sector: Mozambique is on the brink of a major expansion of its natural gas sector to a world-class scale. Exploration in the offshore Rovuma Basin between 2010 and 2012 confirmed the natural gas volumes in excess of 100 Tcf (comparable with Norway—a country with one of the world’s largest gas reserves). Initial projected investments, announced by two private sector concession holders (Anadarko and ENI), both seeking to process natural gas as Liquefied Natural Gas (LNG) for export markets, amount to US$70 billion. Gas production could start as early as 2018. The estimated export revenues from these two projects by could be in excess of US$300 billion over the life of the projects. The size of the discoveries presents an historic opportunity for Mozambique to develop its domestic gas market in addition to developing new export schemes that subsequently create value from its mineral and hydrocarbon resources that go beyond solely generation of revenues, from export.

Mining Sector: Mozambique is growing into a world-class mining destination with (i) massive anthracite and other high quality coal reserves that would eventually place Mozambique on par with the world’s largest coal exporters; (ii) massive titanium minerals’ resources/heavy mineral sands (limestone, rutile, zircon); (iii) other minerals such as tantalum, limestone, and; (iv) high prospectivity for gold, platinum group, uranium, iron ore, and bauxites. Current coal production of about 3 million tons per year is expected to increase to 11 million tons per year within the next few years, reaching upwards of 20 to 50 million tons per mine, per year, depending on infrastructure development, presently a major bottleneck to production. Current production of heavy mineral sands (primarily Moma mine) is modest at about 400,000 tons of ilmenite, half a million tons of zircon and 14,000 tons of rutile per year. Moma project is expanding and will be doubling when the next phase construction is complete. The tantalum project in the Zambezia Province (Noventa, with current production of about 300,000 tons of tantalum) is also expanding and more exploration is taking place for high value minerals and rare earths in the area.

According to Government statistics, as of 2012 mining accounts for more than 15,000 direct jobs, of which more than 10,000 are based at the Tele Province coal mines. While direct employment in mining is not as high as in other productive sectors such as agriculture or forestry, the level of income in the mining industry is substantial. In addition, mining can generate four to five times the number of direct jobs through indirect employment across Mozambique, particularly in affected mine communities. However, absent clear Government strategic development, private sector investment and local capacity, the extent of indirect employment opportunities will be considerably reduced.

Artisanal and Small-Scale Mining (ASM): The ASM sector in Mozambique (mainly gold, gemstones, tantalum, and small-scale quarrying for construction) is large with a rough estimate that upwards of 150,000 artisanal miners are engaged in the sector. In addition, that over half a million people directly depend on ASM activities, dispersed throughout the country, notably providing livelihoods in rural areas. In 2012, based on data provided by MIREM, there are 73 designated ASM areas across the Mozambique’s ten provinces. Based on a survey carried out in 2006, artisanal gold miners were earning between $75-$1,500 per month which was (and continues to be) sufficiently above other sources of incomes in rural areas. With the increase of gold prices since 2006, the incomes should have become substantially higher today, but according to some data provided by MIREM, there are 73 designated ASM areas across the Mozambique’s ten provinces. Based on a survey carried out in 2006, artisanal gold miners were earning between $75-$1,500 per month, the incomes should have become substantially higher today, but according to some sources the traders were not sharing the increased profits and despite gold prices growth the miners’ income did not grow much (but still remain higher than in other sectors). Most artisanal operations are unlicensed, poorly supervised, and very often environmentally and socially unsustainable (in particular, in regards to water pollution, including in the Lake Niassa watershed as well as the Zambezi River Basin). The sector is challenged by critical issues: use of mercury in gold production is common; smuggling of gold and gemstones is common; operations are conflict prone – i.e., between the miners in the same area, between miners and communities, between ASM and formal mining operations competing for the same area. Nevertheless, ASM will remain an important income source for many rural communities and has the potential to develop into a more formal and more economically important sub-sector. With Government providing targeted support to ASM since 2002, including setting up the Mining Development Fund (Fundo de Fomento Mineiro) (the FFM is to be restructured but no decision was made yet on its new mandate and affiliation), some progress has been achieved but substantial reforms are required to continue this positive trend.

Sustainable development of ASM and communities is further discussed in sub-section (v) of this section below.

Cross-Sectoral Dimensions and Poverty Indicators: Extractive industries affect multiple layers of the economy, impact the livelihoods of future generations, and impact environment and local demographics; therefore related policy and investment decisions must be taken by Government in a consistent and sufficiently strategic way, contemplating near and future development. A well-managed sector can bring huge positive and sustainable impacts to Mozambique, including the development of domestic downstream markets and service industries, improved structure and scale of regional and local transport infrastructure, expanded power grids, township developments, socio-economic growth, and positive economic externalities through forward looking management of the revenues generated. If left unmanaged, the impact of extractive industry development can be economically, environmentally, socially and otherwise disastrous and crippling for the country—globally referred to as a “resource curse”. Historically, the development of mineral resources (or other natural resources such as forestry) in developing countries in parts of Africa and Asia had little correlation with reducing poverty. However, based in experience in such countries as Australia, Canada, United States, South Africa, Gulf countries, Finland (and others) it is important to recognize that positive impacts on overall poverty levels are achievable with sound governance and resource management policies and targeted programs to implement them. These countries triggered growth as resource based economies, but ultimately succeeded to achieve growth, diversification and poverty reduction through targeted interventions and policies.
Extractive Industries Value Chain Framework:

A review of the extractive industries sector value chain in Mozambique was carried out in 2008 and updated for the purposes of MAGTAP during project preparation. The earlier analysis provided a sound framework of support for the reforms needed in order to ensure optimized sustainable development of the extractive industries sector. Findings of the analysis remain largely valid:

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

As a result of Mozambique’s early experience with focused mega-project developments, combined with regulatory development (through support from the World Bank, AfDB and Norway), its extractive industries policy and institutional frameworks are relatively well developed when compared to its peers. Today, emphasis must be placed on establishing a more integrated model of extractive industries development that will unify Government’s handling of revenue, environment, infrastructure, and community development linkages. This emphasis must include a huge scaling-up and deepening of core regulatory capacity; in addition to exploration oversight skills, regulators quickly need to have capacity to manage the development phase issues of mining.

III. Project Development Objectives

The proposed project development objective is to strengthen the capacity and governance systems of key institutions for managing the mining and gas sectors in Mozambique.

IV. Project Description

Component Name
Component E: Project Management
Component A: Mining Capacity Building and Governance Reform
Component B: Natural Gas Capacity Building and Governance reform
Component C: Cross-cutting Mining/ Gas Capacity Building and Reforms
Component D: Cross-Sectoral Reforms

V. Financing (in USD Million)

<table>
<thead>
<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>0.00</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>50.00</td>
</tr>
<tr>
<td>Total</td>
<td>50.00</td>
</tr>
</tbody>
</table>

VI. Implementation

The Ministry of Mineral Resources (MIREM) will be the core implementing agency for MAGTAP among other Beneficiary Agencies responsible for various aspects of the Project. The MIREM will house the Project Management Unit that will be responsible for day-to-day project management, including coordination between the Beneficiary Agencies on the technical level, fiduciary management, monitoring and evaluation, and reporting to the Project Steering Committee. The Project Steering Committee under the MIREM’s leadership will oversee Project implementation and be responsible for timely decision making and cross-sectoral coordination.

Project Steering Committee (PSC). A Project Steering Committee will (i) provide strategic guidance for project implementation, (ii) ensure synergies in policy level interventions, and (iii) promote effective coordination and communication across the various sectors on a macro level and across the Project on a micro level. The Project Steering Committee will be chaired by the National Director for Planning of the Ministry of Mineral Resources and will include representatives of the core Beneficiary Ministries and Agencies on a permanent basis, complemented with the representatives from other sectoral Ministries and Agencies on an as-needed basis.

Project Management Unit (PMU). The PMU within MIREM will carry out day-to-day project management and coordination, including procurement, disbursement, financial management, and monitoring and evaluation for the entire Project. The technical aspects of the project implementation, including the signing of contracts with consultants and suppliers of goods, supervision of contracts, and acceptance of goods, services and consultants’ recommendations, will be the responsibility of the Beneficiary Agencies, who will assign focal points for MAGTAP purposes. The Project Management Unit will also serve as a secretariat for the Project Steering Committee and coordinate among the project beneficiaries and financiers as appropriate. The PMU will comprise the Project Coordinator, responsible for the overall management of the project activities, the Project Accountant/Financial Manager, responsible for accounting, financial management and reporting, and the Procurement Specialist, responsible for carrying out procurement activities in compliance with the IDA procurement procedures. The PMU core team which will be hired as consultants to MIREM, will be supplemented with staff assigned by MIREM, including the required technical experts, safeguards specialists, and a monitoring and evaluation specialist, all of whom will be dedicated to MAGTAP for the duration of the Project. On technical cross-sectoral issues, the PMU will draw on focal points in each beneficiary agency.

To facilitate the management and implementation of the Project, a Project Implementation Manual (PIM) will include a detailed description of
arrangements and procedures for the implementation of the project, assignment of responsibilities, establishment of review procedures and thresholds, chart of accounts and formats, and monitoring and evaluation mechanisms. PIM will provide mechanisms and formats for Annual Work Plans and Budgets which will be subject to Bank’s prior review and approval on an annual basis. The Project Implementation Manual, subject to the Bank’s prior review and approval, will be prepared by the Recipient by negotiations. Given complexity of the project and importance of fast-tracking its implementation, the preparation of the PIM will be given priority through the PPA support.

VII. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td>✗</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>✗</td>
</tr>
</tbody>
</table>

VIII. Contact point

**World Bank**

Contact: Ekaterina Mikhaylova  
Title: Sr Mining Spec.  
Tel: 473-4482  
Email: emikhaylova@worldbank.org

**Borrower/Client/Recipient**

Name: Ministry of Planning and Development  
Contact:  
Tel: 258 21 49 22 68  
Email: 

**Implementing Agencies**

Name: Ministry of Mineral Resources  
Contact: Benjamim Chilenge  
Title: National Director for Planning  
Tel: 25821301600  
Email: chilenge@tvcabo.co.mz

IX. For more information contact:

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: http://www.worldbank.org/infoshop